

DYNEGY INC.
 Form 10-Q
 November 06, 2008

UNITED STATES
 SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2008

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

DYNEGY INC.
DYNEGY HOLDINGS INC.

(Exact name of registrant as specified in its charter)

<u>Entity</u>	<u>Commission File Number</u>	<u>State of Incorporation</u>	<u>I.R.S. Employer Identification No.</u>
Dynegy Inc.	001-33443	Delaware	20-5653152
Dynegy Holdings Inc.	000-29311	Delaware	94-3248415

1000 Louisiana, Suite 5800
Houston, Texas
 (Address of principal executive offices)

77002
 (Zip Code)

(713) 507-6400
 (Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Dynegy Inc.	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
Dynegy Holdings Inc.	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Edgar Filing: DYNEGY INC. - Form 10-Q

	Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
Dynegy Inc.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Dynegy Holdings Inc.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Edgar Filing: DYNEGY INC. - Form 10-Q

Dynegy Inc.

Yes No

Dynegy Holdings Inc.

Yes No

Indicate the number of shares outstanding of Dynegy Inc.'s classes of common stock, as of the latest practicable date: Class A common stock, \$0.01 par value per share, 502,905,922 shares outstanding as of November 3, 2008; Class B common stock, \$0.01 par value per share, 340,000,000 shares outstanding as of November 3, 2008. All of Dynegy Holdings Inc.'s outstanding common stock is owned indirectly by Dynegy Inc.

This combined Form 10-Q is separately filed by Dynegy Inc. and Dynegy Holdings Inc. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to a registrant other than itself.

DYNEGY INC. and DYNEGY HOLDINGS INC.**TABLE OF CONTENTS**

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. FINANCIAL STATEMENTS—DYNEGY INC. AND DYNEGY HOLDINGS INC.:</u>	
<u>Condensed Consolidated Balance Sheets—Dynergy Inc.:</u>	
<u>September 30, 2008 and December 31, 2007</u>	4
<u>Condensed Consolidated Statements of Operations—Dynergy Inc.:</u>	
<u>For the three and nine months ended September 30, 2008 and 2007</u>	5
<u>Condensed Consolidated Statements of Cash Flows—Dynergy Inc.:</u>	
<u>For the nine months ended September 30, 2008 and 2007</u>	6
<u>Condensed Consolidated Statements of Comprehensive Income—Dynergy Inc.:</u>	
<u>For the three and nine months ended September 30, 2008 and 2007</u>	7
<u>Condensed Consolidated Balance Sheets—Dynergy Holdings Inc.:</u>	
<u>September 30, 2008 and December 31, 2007</u>	8
<u>Condensed Consolidated Statements of Operations—Dynergy Holdings Inc.:</u>	
<u>For the three and nine months ended September 30, 2008 and 2007</u>	9
<u>Condensed Consolidated Statements of Cash Flows—Dynergy Holdings Inc.:</u>	
<u>For the nine months ended September 30, 2008 and 2007</u>	10
<u>Condensed Consolidated Statements of Comprehensive Income—Dynergy Holdings Inc.:</u>	
<u>For the three and nine months ended September 30, 2008 and 2007</u>	11
<u>Notes to Condensed Consolidated Financial Statements</u>	12
<u>Item 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS—DYNEGY INC. AND DYNEGY HOLDINGS INC.</u>	42
<u>Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK—DYNEGY INC. AND DYNEGY HOLDINGS INC.</u>	73
<u>Item 4. CONTROLS AND PROCEDURES—DYNEGY INC. AND DYNEGY HOLDINGS INC.</u>	75
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. LEGAL PROCEEDINGS—DYNEGY INC. AND DYNEGY HOLDINGS INC.</u>	76
<u>Item 1A. RISK FACTORS—DYNEGY INC. AND DYNEGY HOLDINGS INC.</u>	76
<u>Item 2. UNREGISTERED SALES OF SECURITIES AND USE OF PROCEEDS—DYNEGY INC.</u>	76
<u>Item 6. EXHIBITS—DYNEGY INC. AND DYNEGY HOLDINGS INC.</u>	76
<u>EXPLANATORY NOTE</u>	

This report includes the combined filing of Dynergy Inc. (“Dynergy”) and Dynergy Holdings Inc. (“DHI”). DHI is the principal subsidiary of Dynergy, providing approximately 100 percent of Dynergy’s total consolidated revenue for the nine month period ended September 30, 2008 and constituting approximately 100 percent of Dynergy’s total consolidated asset base as of September 30, 2008 except for Dynergy’s 50 percent interests in DLS Power Holdings, LLC and DLS Power Development Company, LLC. Unless the context indicates otherwise, throughout this report, the terms “the Company,” “we,” “us,” “our” and “ours” are used to refer to both Dynergy and DHI and their direct and indirect subsidiaries, including Dynergy Illinois Inc. (“Dynergy Illinois”) before it became a wholly owned subsidiary of Dynergy by way of the merger of Merger Sub Co., then Dynergy’s wholly owned subsidiary, with and into Dynergy Illinois. Discussions or areas of this report that apply only to Dynergy or DHI will clearly be noted in such section.

DEFINITIONS

As used in this Form 10-Q, the abbreviations contained herein have the meanings set forth below.

APB	Accounting Principles Board
ASM	Ancillary Services Market
BTA	Best technology available
CAIR	Clean Air Interstate Rule
CFTC	Commodity Futures Trading Commission
CO2	Carbon Dioxide
CRM	Our former customer risk management business segment
CUSA	Chevron U.S.A. Inc., a wholly owned subsidiary of Chevron Corporation
DHI	Dynegy Holdings Inc., Dynegy's primary financing subsidiary
DMG	Dynegy Midwest Generation, Inc.
DMSLP	Dynegy Midstream Services L.P.
EITF	Emerging Issues Task Force
EPA	Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN	FASB Interpretation
GAAP	Generally Accepted Accounting Principles of the United States of America
GEN	Our power generation business
GEN-MW	Our power generation business - Midwest segment
GEN-NE	Our power generation business - Northeast segment
GEN-WE	Our power generation business - West segment
GHG	Greenhouse gasses
ICC	Illinois Commerce Commission
IMA	In-market asset availability
ISO	Independent System Operator
ISO-NE	Independent System Operator – New England
MAAC-APS	Mid-Atlantic Area Council – Allegheny Power System delivery area
MISO	Midwest Independent Transmission Operator, Inc.
MMBtu	One million British thermal units
MW	Megawatts
MWh	Megawatt hour
NOx	Nitrogen Oxide
NPDES	National Pollutant Discharge Elimination System
NRG	NRG Energy, Inc.
NYSDEC	New York State Department of Environmental Conservation
OTC	Over the Counter
PJM	PJM Interconnection, LLC
PPEA	PPEA Holding Company LLC
RGGI	Regional Greenhouse Gas Initiative
RTO	Regional transmission organization
SCEA	Sandy Creek Energy Associates, LP
SCH	Sandy Creek Holdings LLC
SEC	U.S. Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards

Edgar Filing: DYNEGY INC. - Form 10-Q

SO2	Sulfur Dioxide
SPDES	State Pollutant Discharge Elimination System
VaR	Value at Risk
VIE	Variable Interest Entity

PART I. FINANCIAL INFORMATION

Item 1—FINANCIAL STATEMENTS—DYNEGY INC. AND DYNEGY HOLDINGS INC.

DYNEGY INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited) (in millions, except share data)

	September 30, 2008	December 31, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 750	\$ 328
Restricted cash	141	104
Short-term investments	125	—
Accounts receivable, net of allowance for doubtful accounts of \$24 and \$20, respectively	351	426
Accounts receivable, affiliates	—	1
Inventory	164	199
Assets from risk-management activities	947	358
Deferred income taxes	12	45
Prepayments and other current assets	232	145
Assets held for sale (Note 3)	—	57
Total Current Assets	2,722	1,663
Property, Plant and Equipment		
Accumulated depreciation	(1,798)	(1,672)
Property, Plant and Equipment, Net	8,886	9,017
Other Assets		
Unconsolidated investments	62	79
Restricted cash and investments	1,167	1,221
Assets from risk-management activities	174	55
Goodwill	433	438
Intangible assets	451	497
Deferred income taxes	5	6
Accounts receivable, affiliates	3	—
Other long-term assets	299	245
Total Assets	\$ 14,202	\$ 13,221
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 323	\$ 292
Accrued interest	126	56
Accrued liabilities and other current liabilities	160	201

Edgar Filing: DYNEGY INC. - Form 10-Q

Liabilities from risk-management activities	917	397
Notes payable and current portion of long-term debt	57	51
Liabilities held for sale	—	2
	<u> </u>	<u> </u>
Total Current Liabilities	1,583	999
	<u> </u>	<u> </u>
Long-term debt	5,864	5,739
Long-term debt, affiliates	200	200
	<u> </u>	<u> </u>
Long-Term Debt	6,064	5,939
Other Liabilities		
Liabilities from risk-management activities	190	116
Deferred income taxes	1,319	1,250
Other long-term liabilities	360	388
	<u> </u>	<u> </u>
Total Liabilities	9,516	8,692
	<u> </u>	<u> </u>
Minority Interest	7	23
Commitments and Contingencies (Note 10)		
Stockholders' Equity		
Class A Common Stock, \$0.01 par value, 2,100,000,000 shares authorized at September 30, 2008 and December 31, 2007; 505,336,540 and 502,819,794 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively	5	5
Class B Common Stock, \$0.01 par value, 850,000,000 shares authorized at September 30, 2008 and December 31, 2007; 340,000,000 shares issued and outstanding at September 30, 2008 and December 31, 2007	3	3
Additional paid-in capital	6,480	6,463
Subscriptions receivable	(3)	(5)
Accumulated other comprehensive loss, net of tax	(52)	(25)
Accumulated deficit	(1,683)	(1,864)
Treasury stock, at cost, 2,561,828 and 2,449,259 shares at September 30, 2008 and December 31, 2007, respectively	(71)	(71)
	<u> </u>	<u> </u>
Total Stockholders' Equity	4,679	4,506
	<u> </u>	<u> </u>
Total Liabilities and Stockholders' Equity	\$ 14,202	\$ 13,221
	<u> </u>	<u> </u>

See the notes to condensed consolidated financial statements.

DYNEGY INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited) (in millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues	\$ 1,886	\$ 1,046	\$ 2,754	\$ 2,379
Cost of sales	(558)	(535)	(1,465)	(1,144)
Operating and maintenance expense, exclusive of depreciation shown separately below	(130)	(114)	(367)	(334)
Depreciation and amortization expense	(91)	(92)	(277)	(232)
Gain on sale of assets	57	4	83	4
General and administrative expenses	(48)	(62)	(126)	(163)
Operating income	1,116	247	602	510
Earnings (losses) from unconsolidated investments	(5)	8	(17)	6
Interest expense	(105)	(117)	(322)	(268)
Minority interest income (expense)	1	1	3	(8)
Other income and expense, net	11	16	46	34
Income from continuing operations before income taxes	1,018	155	312	274
Income tax expense (Note 12)	(413)	(59)	(131)	(95)
Income from continuing operations	605	96	181	179
Income from discontinued operations, net of tax expense of \$1, \$93, zero and \$97, respectively (Notes 3 and 12)	—	124	—	131
Net income	\$ 605	\$ 220	\$ 181	\$ 310
Earnings Per Share (Note 9):				
Basic earnings per share:				
Income from continuing operations	\$ 0.72	\$ 0.11	\$ 0.22	\$ 0.25
Income from discontinued operations	—	0.15	—	0.18
Basic earnings per share	\$ 0.72	\$ 0.26	\$ 0.22	\$ 0.43
Diluted earnings per share:				
Income from continuing operations	\$ 0.72	\$ 0.11	\$ 0.22	\$ 0.25
Income from discontinued operations	—	0.15	—	0.18
Diluted earnings per share	\$ 0.72	\$ 0.26	\$ 0.22	\$ 0.43

Edgar Filing: DYNEGY INC. - Form 10-Q

Basic shares outstanding	837	836	837	721
Diluted shares outstanding	839	838	839	723

See the notes to condensed consolidated financial statements.

DYNEGY INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited) (in millions)

	Nine Months Ended September 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 181	\$ 310
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	281	239
Earnings (losses) from unconsolidated investments, net of cash distributions	17	(6)
Risk-management activities	(127)	(137)
Gain on sale of assets	(83)	(214)
Deferred income taxes	116	172
Legal and settlement charges	7	29
Other	34	22
Changes in working capital:		
Accounts receivable	43	(64)
Inventory	27	(5)
Prepayments and other assets	(75)	(43)
Accounts payable and accrued liabilities	75	109
Changes in non-current assets	(84)	(45)
Changes in non-current liabilities	(15)	(1)
	<u>397</u>	<u>366</u>
Net cash provided by operating activities	397	366
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(460)	(236)
Unconsolidated investments	(1)	(7)
Proceeds from asset sales, net	452	466
Business acquisitions, net of cash acquired	—	(128)
Increase in short-term investments	(127)	—
Decrease (increase) in restricted cash and restricted investments	17	(598)
Other investing	11	—
	<u>(108)</u>	<u>(503)</u>
Net cash used in investing activities	(108)	(503)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings, net	153	2,705
Repayments of long-term borrowings	(21)	(2,300)
Proceeds from issuance of capital stock	2	4
Other financing, net	(1)	(5)
	<u>133</u>	<u>404</u>
Net cash provided by financing activities	133	404

Edgar Filing: DYNEGY INC. - Form 10-Q

Net increase in cash and cash equivalents	422	267
Cash and cash equivalents, beginning of period	328	371
Cash and cash equivalents, end of period	\$ 750	\$ 638

Other non-cash investing activity:

Noncash construction expenditures	\$ 3	\$ 13
-----------------------------------	------	-------

See the notes to condensed consolidated financial statements.

DYNEGY INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited) (in millions)

	Three Months Ended September 30,	
	2008	2007
Net income	\$ 605	\$ 220
Cash flow hedging activities, net:		
Unrealized mark-to-market losses arising during period, net	(21)	(15)
Reclassification of mark-to-market losses to earnings, net	3	12
Deferred gains on cash flow hedges, net	2	—
Changes in cash flow hedging activities, net (net of tax benefit of \$4 and \$3, respectively)	(16)	(3)
Allocation to minority interest	10	—
Total cash flow hedging activities	(6)	(3)
Recognized prior service cost and actuarial loss	—	1
Foreign currency translation adjustment	—	2
Unrealized gain on securities, net:		
Unrealized gain on securities	—	6
Less: Reclassification adjustments for gains realized in net income	—	(4)
Net unrealized gains, (net of tax expense of zero and \$1, respectively)	—	2
Unconsolidated investment other comprehensive loss, net (net of tax benefit of \$3)	(4)	—
Other comprehensive income (loss), net of tax	(10)	2
Comprehensive income	\$ 595	\$ 222

	Nine Months Ended September 30,	
	2008	2007
Net income	\$ 181	\$ 310
Cash flow hedging activities, net:		
Unrealized mark-to-market losses arising during period, net	(27)	(74)
Reclassification of mark-to-market gains (losses) to earnings, net	10	(16)
Changes in cash flow hedging activities, net (net of tax benefit of \$4 and \$54, respectively)	(17)	(90)
Allocation to minority interest	12	—

Edgar Filing: DYNEGY INC. - Form 10-Q

Total cash flow hedging activities	(5)	(90)
Recognized prior service cost and actuarial loss	1	3
Foreign currency translation adjustment	—	4
Unrealized loss on securities, net:		
Unrealized gain (loss) on securities	(3)	4
Less: Reclassification adjustments for gains realized in net income	(9)	(4)
	<u> </u>	<u> </u>
Net unrealized losses, (net of tax benefit of \$8 and zero, respectively)	(12)	—
Unconsolidated investment other comprehensive loss, net (net of tax benefit of \$7)	(11)	—
	<u> </u>	<u> </u>
Other comprehensive loss, net of tax	(27)	(83)
	<u> </u>	<u> </u>
Comprehensive income	\$ 154	\$ 227
	<u> </u>	<u> </u>

See the notes to condensed consolidated financial statements.

DYNEGY HOLDINGS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited) (in millions)

	September 30, 2008	December 31, 2007
	<u> </u>	<u> </u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 724	\$ 292
Restricted cash	141	104
Short-term investments	118	—
Accounts receivable, net of allowance for doubtful accounts of \$21 and \$15 respectively	352	428
Accounts receivable, affiliates	—	1
Inventory	164	199
Assets from risk-management activities	947	358
Deferred income taxes	3	30
Prepayments and other current assets	232	145
Assets held for sale	—	57
	<u> </u>	<u> </u>
Total Current Assets	2,681	1,614
	<u> </u>	<u> </u>
Property, Plant and Equipment	10,684	10,689
Accumulated depreciation	(1,798)	(1,672)
	<u> </u>	<u> </u>
Property, Plant and Equipment, Net	8,886	9,017
Other Assets		
Unconsolidated investments	—	18
Restricted cash and investments	1,167	1,221
Assets from risk-management activities	174	55
Goodwill	433	438
Intangible assets	451	497
Deferred income taxes	5	6
Accounts receivable, affiliates	3	—
Other long-term assets	300	241
	<u> </u>	<u> </u>
Total Assets	\$ 14,100	\$ 13,107
	<u> </u>	<u> </u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Current Liabilities		
Accounts payable	\$ 322	\$ 291
Accrued interest	126	56
Accrued liabilities and other current liabilities	161	202
Deferred income taxes	—	—
Liabilities from risk-management activities	917	397
Notes payable and current portion of long-term debt	57	51

Edgar Filing: DYNEGY INC. - Form 10-Q

Liabilities held for sale	—	2
Total Current Liabilities	1,583	999
Long-term debt	5,864	5,739
Long-term debt to affiliates	200	200
Long-Term Debt	6,064	5,939
Other Liabilities		
Liabilities from risk-management activities	190	116
Deferred income taxes	1,132	1,052
Other long-term liabilities	356	381
Total Liabilities	9,325	8,487
Minority Interest	7	23
Commitments and Contingencies (Note 10)		
Stockholder's Equity		
Capital Stock, \$1 par value, 1,000 shares authorized at September 30, 2008 and December 31, 2007, respectively	—	—
Additional paid-in capital	5,684	5,684
Affiliate receivable	(811)	(825)
Accumulated other comprehensive loss, net of tax	(52)	(25)
Accumulated deficit	(53)	(237)
Total Stockholder's Equity	4,768	4,597
Total Liabilities and Stockholder's Equity	\$ 14,100	\$ 13,107

See the notes to condensed consolidated financial statements.

DYNEGY HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited) (in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues	\$ 1,886	\$ 1,046	\$ 2,754	\$ 2,379
Cost of sales	(558)	(535)	(1,465)	(1,144)
Operating and maintenance expense, exclusive of depreciation shown separately below	(130)	(114)	(367)	(334)
Depreciation and amortization expense	(91)	(92)	(277)	(232)
Gain on sale of assets	57	4	83	4
General and administrative expenses	(48)	(62)	(126)	(144)
Operating income	1,116	247	602	529
Earnings (losses) from unconsolidated investments	(5)	12	(7)	12
Interest expense	(105)	(117)	(322)	(268)
Minority interest income (expense)	1	1	3	(8)
Other income and expense, net	11	17	45	33
Income from continuing operations before income taxes	1,018	160	321	298
Income tax expense (Note 12)	(412)	(62)	(137)	(94)
Income from continuing operations	606	98	184	204
Income from discontinued operations, net of tax expense of \$1, \$93, zero and \$98, respectively (Notes 3 and 12)	—	124	—	130
Net income	\$ 606	\$ 222	\$ 184	\$ 334

See the notes to condensed consolidated financial statements.

DYNEGY HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited) (in millions)

	Nine Months Ended September 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 184	\$ 334
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	281	239
Earnings (losses) from unconsolidated investments, net of cash distributions	7	(12)
Risk-management activities	(127)	(137)
Gain on sale of assets, net	(83)	(214)
Deferred income taxes	123	161
Legal and settlement charges	7	29
Other	30	20
Changes in working capital:		
Accounts receivable	43	(64)
Inventory	27	(5)
Prepayments and other assets	(75)	(43)
Accounts payable and accrued liabilities	76	111
Changes in non-current assets	(84)	(43)
Changes in non-current liabilities	(16)	(1)
	<u>393</u>	<u>375</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(460)	(236)
Unconsolidated investments	10	—
Proceeds from asset sales, net	452	466
Business acquisitions, net of cash acquired	—	16
Increase in short-term investments	(120)	—
Decrease (increase) in restricted cash and restricted investments	17	(598)
Affiliate transactions	2	(11)
Other investing	7	—
	<u>(92)</u>	<u>(363)</u>
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings, net	153	2,705
Repayments of long-term borrowings	(21)	(2,025)
Dividend to affiliate	—	(342)
Other financing, net	(1)	1
	<u>(1)</u>	<u>1</u>

Edgar Filing: DYNEGY INC. - Form 10-Q

Net cash provided by financing activities	131	339
	<u> </u>	<u> </u>
Net increase in cash and cash equivalents	432	351
Cash and cash equivalents, beginning of period	292	243
	<u> </u>	<u> </u>
Cash and cash equivalents, end of period	\$ 724	\$ 594
	<u> </u>	<u> </u>
Other non-cash investing activity:		
Noncash construction expenditures	\$ 3	\$ 13

See the notes to condensed consolidated financial statements.

DYNEGY HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited) (in millions)

	Three Months Ended September 30,	
	2008	2007
Net income	\$ 606	\$ 222
Cash flow hedging activities, net:		
Unrealized mark-to-market losses arising during period, net	(21)	(15)
Reclassification of mark-to-market gains to earnings, net	3	12
Deferred gains on cash flow hedges, net	2	—
Changes in cash flow hedging activities, net (net of tax benefit of \$4 and \$3, respectively)	(16)	(3)
Allocation to minority interest	10	—
Total cash flow hedging activities	(6)	(3)
Recognized prior service cost and actuarial loss	—	1
Foreign currency translation adjustment	—	2
Unrealized gain on securities, net:		
Unrealized gain on securities	—	6
Less: Reclassification adjustments for gains realized in net income	—	(4)
Net unrealized gain, (net of tax expense of zero and \$1, respectively)	—	2
Unconsolidated investment other comprehensive loss, net (net of tax benefit of \$3)	(4)	—
Other comprehensive income (loss), net of tax	(10)	2
Comprehensive income	\$ 596	\$ 224

	Nine Months Ended September 30,	
	2008	2007
Net income	\$ 184	\$ 334
Cash flow hedging activities, net:		
Unrealized mark-to-market losses arising during period, net	(27)	(74)
Reclassification of mark-to-market gains (losses) to earnings, net	10	(16)
Changes in cash flow hedging activities, net (net of tax benefit of \$4 and \$54, respectively)	(17)	(90)

Edgar Filing: DYNEGY INC. - Form 10-Q

Allocation to minority interest	12	—
	<u> </u>	<u> </u>
Total cash flow hedging activities	(5)	(90)
Recognized prior service cost and actuarial loss	1	3
Foreign currency translation adjustment	—	4
Unrealized gain (loss) on securities, net:		
Unrealized gain (loss) on securities	(3)	4
Less: Reclassification adjustments for gains realized in net income	(9)	(4)
	<u> </u>	<u> </u>
Net unrealized losses, (net of tax benefit of \$8 and zero, respectively)	(12)	—
Unconsolidated investment other comprehensive loss, net (net of tax benefit of \$7)	(11)	—
	<u> </u>	<u> </u>
Other comprehensive loss, net of tax	(27)	(83)
	<u> </u>	<u> </u>
Comprehensive income	\$ 157	\$ 251
	<u> </u>	<u> </u>

See the notes to condensed consolidated financial statements.

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For the Interim Periods Ended September 30, 2008 and 2007

Note 1—Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to interim financial reporting as prescribed by the SEC. The year-end condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. These interim financial statements should be read together with the consolidated financial statements and notes thereto included in Dynegy's and DHI's Annual Report on Form 10-K for the year ended December 31, 2007 filed on February 28, 2008, which we refer to as each registrant's "Form 10-K".

The unaudited condensed consolidated financial statements contained in this report include all material adjustments of a normal and recurring nature that, in the opinion of management, are necessary for a fair statement of the results for the interim periods. The results of operations for the interim periods presented in this Form 10-Q are not necessarily indicative of the results to be expected for the full year or any other interim period due to seasonal fluctuations in demand for our energy products and services, changes in commodity prices, timing of maintenance and other expenditures and other factors. The preparation of the unaudited condensed consolidated financial statements in conformity with GAAP requires management to make informed estimates and judgments that affect our reported financial position and results of operations. These estimates and judgments also impact the nature and extent of disclosure, if any, of our contingent liabilities based on currently available information. We review significant estimates and judgments affecting our consolidated financial statements on a recurring basis and record the effect of any necessary adjustments. Uncertainties with respect to such estimates and judgments are inherent in the preparation of financial statements. Estimates and judgments are used in, among other things, (i) developing fair value assumptions, including estimates of future cash flows and discount rates, (ii) analyzing tangible and intangible assets, including goodwill, for possible impairment, (iii) estimating the useful lives of our assets, (iv) assessing future tax exposure and the realization of tax assets, (v) determining amounts to accrue for contingencies, guarantees and indemnifications, (vi) estimating various factors used to value our pension assets and liabilities and (vii) determining the primary beneficiary of certain VIEs from a set of related parties. Actual results could differ materially from any such estimates.

Available-for-Sale Securities

For securities classified as available-for-sale that have readily determinable fair values, the change in the unrealized gain or loss, net of deferred income tax, is recorded as a separate component of accumulated other comprehensive income in the unaudited condensed consolidated statements of comprehensive income. Realized gains and losses on investment transactions are determined using the specific identification method.

As of September 30, 2008, Dynegy and DHI had approximately \$127 million and \$120 million, respectively, invested in the Reserve Primary Fund (the "Fund"), which "broke the buck" on September 16, 2008, when the value of its shares fell below \$1.00. On September 22, 2008, the SEC granted the Fund's request to suspend all rights of redemption from the Fund, in order to ensure an orderly disposition of the securities. Since distributions from the Fund were suspended on September 30, 2008, investments in the Fund are no longer readily convertible to cash, and therefore do not meet the definition of "cash and cash equivalents" as set forth in SFAS No. 95, "Statement of Cash Flows". As such, we have reclassified our investment in the Fund from cash and cash equivalents to short-term investments as of September 30, 2008 and recorded a \$2 million impairment, based on management's estimate of the fair value of our proportionate share of the Fund's holdings, which is included in Other income and expense, net, in our unaudited condensed consolidated statements of operations. This investment is classified as a current asset, as

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended September 30, 2008 and 2007

all of the assets held by the Fund will mature by September 30, 2009, and distributions from the Fund will be made as assets reach maturity or are sold.

Goodwill

We follow the guidance set forth in SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), when assessing the carrying value of our goodwill. We evaluate our goodwill for impairment on an annual basis on November 1st, and when events warrant an assessment. Although Dynegy's Class A common stock price significantly decreased in the third quarter 2008, management determined that since the market decline has been recent rather than sustained for a significant period of time, and there has not been a significant change to the underlying fundamentals of the business, it is not more likely than not that the fair value of our reporting units has dropped below their carrying amounts. Therefore, we did not evaluate our goodwill for impairment during the third quarter 2008 except in conjunction with our sale of Rolling Hills, as more fully discussed in Note 3—Dispositions and Discontinued Operations—Dispositions—Rolling Hills. However, with the downturn in the economic environment, if our market capitalization continues to be below our book value for a sustained period of time, we may be required to record a goodwill impairment in the future.

Accounting Principles Adopted

SFAS No. 157. On January 1, 2008, we adopted portions of SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). Please read Note 4—Risk Management Activities, Derivatives and Financial Instruments for further discussion.

SFAS No. 159. On January 1, 2008, we adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. We have not elected the fair value option to measure eligible items. Accordingly, this statement had no impact on our financial statements.

Accounting Principles Not Yet Adopted

SFAS No. 141(R). On December 4, 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS No. 141(R)"). SFAS No. 141(R) requires the acquiring entity in a business combination to recognize the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS No. 141(R) is effective for fiscal years beginning on or after December 15, 2008, except for certain income tax adjustments. We are currently evaluating the impact of this statement on our financial statements.

SFAS No. 160. On December 4, 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51" ("SFAS No. 160"). SFAS No. 160 requires ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently; and any retained

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended September 30, 2008 and 2007

noncontrolling equity investment in the former subsidiary be initially measured at fair value. SFAS No. 160 also requires that noncontrolling interest holders continue to be attributed their share of losses even if these attributions result in a deficit noncontrolling interest balance. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. We are currently evaluating the impact of this statement on our financial statements.

SFAS No. 161. On March 19, 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities” (“SFAS No. 161”). SFAS No. 161 is meant to improve transparency about the location and amounts of derivative instruments in an entity’s financial statements; how derivative instruments and related hedged items are accounted for under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”, as amended; and how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flows. SFAS No. 161 requires disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. It also provides more information about an entity’s liquidity by requiring disclosure of derivative features that are credit risk-related and it requires cross-referencing within footnotes to enable financial statement users to locate important information about derivative instruments. SFAS No. 161 is effective for fiscal years beginning on or after November 15, 2008. We are currently evaluating the impact of this statement on our financial statements.

SFAS No. 162. On May 9, 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles” (“SFAS No. 162”). SFAS No. 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with GAAP for nongovernmental entities. Prior to the issuance of SFAS No. 162, GAAP hierarchy was defined in the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards No. 69, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles” (“SAS No. 69”). SAS No. 69 has been criticized because it is directed to external auditors rather than the entity. SFAS No. 162 addresses these issues by establishing that the GAAP hierarchy should be directed to entities because it is the entity (not its auditor) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. SFAS No. 162 is effective 60 days following the SEC’s approval. This statement will have no impact on our financial statements.

Note 2—Acquisitions and Contributions

LS Power Business Combination. On April 2, 2007, Dynegy acquired through merger (the “Merger”) entities that owned ten power plants and a power plant under construction (collectively, the “Contributed Entities”) and 50 percent interests in DLS Power Holdings, LLC (“DLS Power Holdings”), a development joint venture, and DLS Power Development Company, LLC (“DLS Power Development”) from LSP Gen Investors, L.P., LS Power Partners, L.P., LS Power Equity Partners PIE I, L.P., LS Power Equity Partners, L.P. and LS Power Associates, L.P. (the “LS Contributing Entities”). The aggregate purchase price was comprised of (i) \$100 million cash, (ii) 340 million shares of the Class B common stock of Dynegy, (iii) the issuance of a promissory note in the aggregate principal amount of \$275 million (the “Note”) (which was simultaneously issued and repaid in full without interest or prepayment penalty), (iv) the issuance of an additional \$70 million of project-related debt (the “Griffith Debt”) (which was simultaneously issued and repaid in full without interest or prepayment penalty) via an indirect wholly owned subsidiary, and (v) transaction costs of approximately \$52 million, approximately \$44 million of which were paid in 2007. The Class B common stock issued by Dynegy was valued at \$5.98 per share, which represents the average closing price of Dynegy’s common stock on the New York Stock Exchange for the two days prior to, including, and two days subsequent to the September 15, 2006 public announcement of the Merger, or approximately \$2,033 million. Dynegy funded the cash payment and the repayment of the Note and the Griffith Debt using cash on hand and borrowings by DHI (and subsequent permitted distributions to Dynegy) of (i) an aggregate \$275 million under the revolving portion of our Fifth Amended and Restated Credit Facility, subsequently amended (the “Credit Agreement”) and (ii) an aggregate \$70 million under a senior secured term loan facility.

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended September 30, 2008 and 2007

Please read Note 15—Debt—Fifth Amended and Restated Credit Facility in Dynegy’s and DHI’s Form 10-K for discussion of DHI’s borrowings. We paid a premium over the fair value of the net tangible and identified intangible assets acquired due to the (i) scale and diversity of assets acquired in key regions of the United States; (ii) financial benefits of such assets; and (iii) proven nature of the asset development platform that was subsequently contributed to DLS Power Holdings and DLS Power Development.

In connection with the completion of the Merger, Dynegy contributed to Dynegy Illinois its interest in the Contributed Entities. Following such contribution, Dynegy Illinois contributed to DHI its interest in the Contributed Entities and, as a result, the Contributed Entities are subsidiaries of DHI. Accordingly, all of the entities acquired in the Merger are included within DHI with the exception of Dynegy’s 50 percent interests in DLS Power Holdings and DLS Power Development, which are directly owned by Dynegy.

The application of purchase accounting under SFAS No. 141, “Business Combinations” (“SFAS No. 141”), required that the total purchase price be allocated to the fair value of assets acquired and liabilities assumed based on their fair values at the acquisition date, with amounts exceeding the fair values being recorded as goodwill in accordance with SFAS No. 142). The allocation process included an analysis of acquired fixed assets, contracts, and contingencies to identify and record the fair value of all assets acquired and liabilities assumed. Dynegy’s allocation of the purchase price to specific assets and liabilities was based upon customary valuation procedures and techniques.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition (in millions):

Cash	\$ 16
Restricted cash and investments (including \$37 million current)	91
Accounts receivable	52
Inventory	37
Assets from risk management activities (including \$11 million current)	37
Prepays and other current assets	12
Property, plant and equipment	4,223
Intangible assets (including \$9 million current)	224
Goodwill	486
Unconsolidated investments	83
Other	35
	<hr/>
Total assets acquired	\$ 5,296
	<hr/>
Current liabilities and accrued liabilities	\$ (92)
Liabilities from risk management activities (including \$14 million current)	(75)
Long-term debt (including \$32 million current)	(1,898)
Deferred income taxes	(627)
Other	(96)
Minority interest	22
	<hr/>
Total liabilities and minority interest assumed	\$ (2,766)

Net assets acquired

\$ 2,530

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended September 30, 2008 and 2007

Included in Other liabilities was an intangible liability of \$35 million in GEN-MW primarily related to a contract held by LSP Kendall Holding LLC, one of the entities acquired by Dynegy. LSP Kendall Holding LLC was party to a power tolling agreement with another of our subsidiaries. This power tolling agreement had a fair value of approximately \$31 million as of April 2, 2007, representing an intangible liability from the perspective of LSP Kendall Holding LLC. Upon completion of the Merger, this power tolling agreement was effectively settled, which resulted in a \$31 million second quarter 2007 gain equal to the fair value of this contract, in accordance with EITF Issue 04-1, "Accounting for Pre-existing Contractual Relationships Between the Parties to a Purchase Business Combination". The gain is included in Cost of sales in our unaudited condensed consolidated statements of operations.

Sithe Assets Contribution. On January 31, 2005, Dynegy acquired, and subsequently contributed to DHI in April 2007, 100 percent of the outstanding common shares of ExRes SHC, Inc. ("ExRes"), the parent company of Sithe Energies, Inc. ("Sithe Energies") and Sithe/Independence Power Partners, L.P. ("Independence"). The results of the operations of ExRes have been included in Dynegy's consolidated financial statements since January 31, 2005. Through this acquisition, Dynegy acquired the 1,064 MW Independence power generation facility located near Scriba, New York, as well as natural gas-fired merchant facilities in New York and hydroelectric generation facilities in Pennsylvania (the "Sithe Assets").

In April 2007, Dynegy Illinois contributed to DHI all of its interest in New York Holdings Inc. ("New York Holdings"), together with its indirect interest in the subsidiaries of New York Holdings. New York Holdings, together with its wholly owned subsidiaries, owns the Sithe Assets. The Sithe Assets primarily consist of the Independence power generation facility. This contribution was accounted for as a transaction between entities under common control. As such, the assets and liabilities of New York Holdings were recorded by DHI at Dynegy's historical cost on Dynegy's date of acquisition, January 31, 2005. In addition, DHI's historical financial statements have been adjusted in all periods presented to reflect the contribution as though DHI had owned New York Holdings beginning January 31, 2005.

Note 3—Dispositions and Discontinued Operations

Dispositions

Rolling Hills. On July 31, 2008, we completed the sale of the Rolling Hills power generation facility ("Rolling Hills") to an affiliate of Tenaska Capital Management, LLC for approximately \$368 million, net of transaction costs. We recorded a \$57 million gain in the third quarter 2008 related to the sale, which is included in Gain on sale of assets in our unaudited condensed consolidated statements of operations. The gain includes the impact of allocating approximately \$5 million of goodwill associated with the GEN-MW reporting unit to Rolling Hills. The amount of goodwill allocated to Rolling Hills was based on the relative fair values of Rolling Hills and the portion of the GEN-MW reporting unit being retained.

The sale of Rolling Hills represented the sale of a significant portion of a reporting unit. As such, in accordance with SFAS No. 142, we assessed the goodwill of the GEN-MW reporting unit for impairment during the third quarter 2008. No impairment was indicated as a result of this assessment.

In accordance with SFAS No. 144, we discontinued depreciation and amortization of Rolling Hills' property, plant and equipment during the second quarter 2008. Depreciation and amortization expense related to Rolling Hills totaled zero and approximately \$3 million in the three and nine month periods ended September 30, 2008, respectively, compared to approximately \$2 million and approximately \$6 million in the three and nine month periods ended September 30, 2007, respectively.

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended September 30, 2008 and 2007

NYMEX Securities. In November 2006, the New York Mercantile Exchange (“NYMEX”) completed its initial public offering. At the time, we had two membership seats on the NYMEX, and therefore, we received 90,000 NYMEX shares for each membership seat. During August 2007, we sold 30,000 shares for approximately \$4 million, and we recognized a gain of \$4 million. During the second quarter 2008, we sold our remaining 150,000 shares and both of our membership seats for approximately \$16 million, and we recognized a gain of \$15 million, which is included in Gain on sale of assets in our unaudited condensed consolidated statements of operations partially offset by a reduction of \$8 million, net of tax of \$5 million, in our unaudited condensed consolidated statements of other comprehensive income.

Oyster Creek. In May 2008, we sold the beneficial interest in Oyster Creek Limited to General Electric for approximately \$11 million, which is included in Gain on sale of assets in our unaudited condensed consolidated statements of operations.

Discontinued Operations

CoGen Lyondell. On August 1, 2007, we completed the sale of the CoGen Lyondell power generation facility for approximately \$470 million to EnergyCo, LLC, a joint venture between PNM Resources and a subsidiary of Cascade Investment, LLC.

In accordance with SFAS No. 144, we discontinued depreciation and amortization of CoGen Lyondell’s property, plant and equipment during the second quarter 2007. Depreciation and amortization expense related to CoGen Lyondell totaled zero and \$5 million in the three and nine month periods ended September 30, 2007, respectively. Also pursuant to SFAS No. 144, we are reporting the results of CoGen Lyondell’s operations in discontinued operations for all periods presented.

Calcasieu. On March 31, 2008, we completed the sale of the Calcasieu power generation facility to Entergy Gulf States, Inc. for approximately \$56 million, net of transaction costs.

In accordance with SFAS No. 144, we discontinued depreciation and amortization of Calcasieu’s property, plant and equipment during the first quarter 2007. Depreciation and amortization expense related to Calcasieu totaled less than \$1 million and approximately \$1 million in the three and nine month periods ended September 30, 2007, respectively. Also pursuant to SFAS No. 144, we are reporting the results of Calcasieu’s operations in discontinued operations for all periods presented.

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended September 30, 2008 and 2007

Summary. The following table summarizes information related to Dynegy's discontinued operations:

	<u>GEN-WE</u>	<u>CRM</u>	<u>NGL</u>	<u>Total</u>
(in millions)				
Three Months Ended September 30, 2007				
Revenues	\$ 14	\$ —	\$ —	\$ 14
Income from operations before taxes	3	4	—	7
Income from operations after taxes	7	3	4	14
Gain on sale before taxes	210	—	—	210
Gain on sale after taxes	110	—	—	110
Nine Months Ended September 30, 2007				
Revenues	\$ 81	\$ —	\$ —	\$ 81
Income from operations before taxes	3	15	—	18
Income from operations after taxes	2	11	8	21
Gain on sale before taxes	210	—	—	210
Gain on sale after taxes	110	—	—	110

The following table summarizes information related to DHI's discontinued operations:

	<u>GEN-WE</u>	<u>CRM</u>	<u>NGL</u>	<u>Total</u>
(in millions)				
Three Months Ended September 30, 2007				
Revenues	\$ 14	\$ —	\$ —	\$ 14
Income from operations before taxes	3	4	—	7
Income from operations after taxes	7	3	4	14
Gain on sale before taxes	210	—	—	210
Gain on sale after taxes	110	—	—	110
Nine Months Ended September 30, 2007				
Revenues	\$ 81	\$ —	\$ —	\$ 81
Income from operations before taxes	3	15	—	18
Income from operations after taxes	2	10	8	20
Gain on sale before taxes	210	—	—	210
Gain on sale after taxes	110	—	—	110

Note 4—Risk Management Activities, Derivatives and Financial Instruments

The nature of our business necessarily involves market and financial risks. Specifically, we are exposed to commodity price variability related to our power generation business. Our commercial team manages these commodity price risks with financially settled and other types of

Edgar Filing: DYNEGY INC. - Form 10-Q

contracts. Our treasury team also manages our financial risks and exposures associated with interest expense variability. These risks and our strategy for mitigating them are more fully described in Note 6—Risk Management Activities and Financial Instruments of Dynegy's and DHI's Form 10-K. Consistent with our commodity risk management policy, our commercial team also uses financial instruments in an attempt to capture the benefit of fluctuations in market prices in the geographic regions where our assets operate.

The following table summarizes the carrying value of the derivatives used in our risk management activities. In the table below, commodity-based derivative contracts primarily represent derivative contracts related to our generation business that we have not designated as accounting hedges, that are entered into for purposes of hedging

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended September 30, 2008 and 2007

future fuel requirements and sales commitments and securing commodity prices we consider favorable under the circumstances.

	September 30, 2008	December 31, 2007
	(in millions)	
Net assets (liabilities):		
Interest rate derivatives designated as cash flow and fair value accounting hedges	\$ (67)	\$ (32)
Interest rate derivatives not designated as accounting hedges	—	(2)
Commodity-based derivative contracts not designated as accounting hedges	81	(66)
Net assets (liabilities) from risk management activities (1)	\$ 14	\$ (100)

(1) Included in both current and non-current assets and liabilities on the unaudited condensed consolidated balance sheets.

We do not offset fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting agreement and we did not elect to adopt the netting provisions allowed under FSP FIN 39-1, "Amendment of FASB Interpretation No. 39", which allows an entity to offset the fair value amounts recognized for cash collateral paid or cash collateral received against the fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting agreement. As a result, our consolidated balance sheets present derivative assets and liabilities, as well as cash collateral paid or received, on a gross basis. As of September 30, 2008, included in Prepayments and other current assets on our unaudited condensed consolidated balance sheets, we had approximately \$94 million of cash collateral postings, which represent the effect of net cash outflows arising from the daily settlements of our exchange-traded or brokered commodity futures positions held with our futures clearing manager.

Beginning April 2, 2007, we chose to cease designating derivatives related to our power generation business as cash flow hedges, and thus apply mark-to-market accounting treatment thereafter. Accordingly, as fair values fluctuate from period to period due to market price volatility, fair value changes and unrealized and realized gains and losses are reflected in the unaudited condensed consolidated statements of operations within Revenues pursuant to EITF Issue 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities" ("EITF Issue No. 02-3"). As such, these mark-to-market gains and losses are not reflected in the unaudited condensed consolidated statements of operations in the same period as the underlying power sales from generation activity for which the derivative instruments serve as economic hedges.

For the three and nine months ended September 30, 2008, our revenues included approximately \$889 million and \$124 million, respectively, of mark-to-market gains related to this activity compared to \$20 million and \$54 million, respectively, of mark-to-market gains in the same periods in the prior year.

Cash Flow Hedges. We enter into financial derivative instruments that qualify, and that we may elect to designate, as cash flow hedges. Interest rate swaps have been used to convert floating interest rate obligations to fixed interest rate obligations. Additionally, prior to April 2, 2007, we applied the cash flow hedge accounting model to certain GEN derivatives as discussed above. The balance in Other comprehensive loss at April 2, 2007 related to these instruments will be reclassified to future earnings contemporaneously with the related purchases of fuel and sales of electricity. As of September 30, 2008, there was \$3 million pre-tax income remaining in accumulated other comprehensive loss.

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended September 30, 2008 and 2007

During the three and nine month periods ended September 30, 2008, we recorded \$1 million and \$3 million, respectively, of income related to ineffectiveness from changes in the fair value of cash flow hedge positions and no amounts were excluded from the assessment of hedge effectiveness related to the hedge of future cash flows. During the three and nine month periods ended September 30, 2007, we recorded a \$1 million loss and \$4 million of income, respectively, related to ineffectiveness from changes in fair value of cash flow hedge positions. No amounts were excluded from the assessment of hedge effectiveness related to the hedge of future cash flows. During the three and nine month periods ended September 30, 2008, no amounts were reclassified to earnings in connection with forecasted transactions that were no longer considered probable of occurring. During the three and nine months ended September 30, 2007, zero and \$1 million, respectively, were reclassified to earnings in connection with forecasted transactions that were no longer considered probable of occurring.

The balance in cash flow hedging activities, net at September 30, 2008, is expected to be reclassified to future earnings when the hedged transaction impacts earnings. Of this amount, after-tax gains of approximately \$2 million are currently estimated to be reclassified into earnings over the 12 month period ending September 30, 2009. The actual amounts that will be reclassified into earnings over this period and beyond could vary materially from this estimated amount as a result of changes in market conditions and other factors.

Fair Value Hedges. We also enter into derivative instruments that qualify, and that we designate, as fair value hedges. We use interest rate swaps to convert a portion of our non-prepayable fixed-rate debt into floating-rate debt. During the three and nine month periods ended September 30, 2008 and 2007, there was no ineffectiveness from changes in the fair value of hedge positions and no amounts were excluded from the assessment of hedge effectiveness. During the three and nine month periods ended September 30, 2008 and 2007, no amounts were recognized in relation to firm commitments that no longer qualified as fair value hedges.

Fair Value Measurements. On January 1, 2007, we adopted SFAS No. 157. We did not record a cumulative effect upon the adoption. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure requirements for fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, SFAS No. 157 does not require any new fair value measurements; however, for some entities the application of SFAS No. 157 will change current practice. The provisions of SFAS No. 157 are to be applied prospectively, except for the initial impact on three specific items: (i) changes in fair value measurements of existing derivative financial instruments measured initially using the transaction price under EITF No. 02-3, (ii) existing hybrid financial instruments measured initially at fair value using the transaction price and (iii) blockage factor discounts.

FASB Staff Position No. FAS 157-2 defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, with respect to non-financial assets and non-financial liabilities which are not recognized or disclosed at fair value in the financial statements on a recurring basis. Therefore, we have deferred application of SFAS No. 157 to such non-financial assets and non-financial liabilities until January 1, 2009.

On October 10, 2008, the FASB issued Staff Position No. FAS 157-3 (“FSP SFAS No. 157-3”). FSP SFAS No. 157-3 clarifies the application of SFAS No. 157 to a financial asset when the market for that financial asset is not active. FSP SFAS No. 157-3 was effective upon issuance by the FASB. The issuance of FSP SFAS No. 157-3 had no impact on our financial statements.

Fair value, as defined in SFAS No. 157, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). However, as permitted under SFAS No. 157, we utilize a mid-market pricing convention (the mid-point price between bid and ask prices) as a practical expedient for valuing the majority of our assets and liabilities measured and reported at fair

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended September 30, 2008 and 2007

value. Where appropriate, valuation adjustments are made to account for various factors, including the impact of our credit risk, our counterparties' credit risk and bid-ask spreads. We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. We primarily apply the market approach for recurring fair value measurements and endeavor to utilize the best available information. Accordingly, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. We classify fair value balances based on the observability of those inputs. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy defined by SFAS No. 157 are as follows:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives, listed equities and U.S. government treasury securities.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include non-exchange-traded derivatives such as over the counter forwards, options and repurchase agreements.
- Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to our needs as well as financial transmission rights. At each balance sheet date, we perform an analysis of all instruments subject to SFAS No. 157 and include in Level 3 all of those whose fair value is based on significant unobservable inputs.

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended September 30, 2008 and 2007

The following table sets forth by level within the fair value hierarchy our financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2008. These financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	Fair Value as of September 30, 2008			
	Level 1	Level 2	Level 3	Total
	(in millions)			
Assets:				
Assets from risk management activities	\$ —	\$ 1,080	\$ 41	\$ 1,121
Other—DHI	—	118	—	118
Total—DHI	—	1,198	41	1,239
Other—Dynegy	—	7	—	7
Total—Dynegy	\$ —	\$ 1,205	\$ 41	\$ 1,246
Liabilities:				
Liabilities from risk management activities	\$ —	\$ 1,106	\$ 1	\$ 1,107
Total—Dynegy and DHI	\$ —	\$ 1,106	\$ 1	\$ 1,107

The determination of the fair values above incorporates various factors required under SFAS No. 157. These factors include not only the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits, letters of credit and priority interests), but also the impact of our nonperformance risk on our liabilities. Valuation adjustments are generally based on capital market implied ratings evidence when assessing the credit standing of our counterparties and when applicable, adjusted based on management's estimates of assumptions market participants would use in determining fair value.

Assets and liabilities from risk management activities may include exchange-traded derivative contracts and OTC derivative contracts. Some exchange-traded derivatives are valued using broker or dealer quotations, or market transactions in either the listed or OTC markets. In such cases, these exchange-traded derivatives are classified within Level 2. OTC derivative trading instruments include swaps, forwards, options and complex structures that are valued at fair value. In certain instances, these instruments may utilize models to measure fair value. Generally, we use a similar model to value similar instruments. Valuation models utilize various inputs that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, other observable inputs for the asset or liability, and market-corroborated inputs. Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. Certain OTC derivatives trade in less active markets with a lower availability of pricing information. In addition, complex or structured transactions, such as heat-rate call options, can introduce the need for internally-developed model inputs that might not be observable in or corroborated by the market. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3. Other assets represent available-for-sale securities.

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended September 30, 2008 and 2007

The following table sets forth a reconciliation of changes in the fair value of financial instruments classified as Level 3 in the fair value hierarchy:

	Three Months Ended September 30, 2008
	(in millions)
Balance at June 30, 2008	\$ (119)
Unrealized gains	129
Purchases, issuances and settlements	30
Transfers out of Level 3	—
	<hr/>
Balance at September 30, 2008	\$ 40
	<hr/>
Change in unrealized gains relating to instruments still held as of September 30, 2008	\$ 95
	<hr/>
	Nine Months Ended September 30, 2008
	(in millions)
Balance at December 31, 2007	\$ (16)
Unrealized gains	65
Purchases, issuances and settlements	(8)
Transfers out of Level 3	(1)
	<hr/>
Balance at September 30, 2008	\$ 40
	<hr/>
Change in unrealized gains relating to instruments still held as of September 30, 2008	\$ 71
	<hr/>

Gains and losses (realized and unrealized) for Level 3 recurring items are included in revenues on the unaudited condensed consolidated statements of operations. We believe an analysis of instruments classified as Level 3 should be undertaken with the understanding that these items generally serve as economic hedges of our power generation portfolio.

Transfers in and/or out of Level 3 represent existing assets or liabilities that were either previously categorized as a higher level for which the inputs to the model became unobservable or assets and liabilities that were previously classified as Level 3 for which the lowest significant input became observable during the period.

Note 5—Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss, net of tax, is included in Dynegy's stockholders' equity and DHI's stockholder's equity on our unaudited condensed consolidated balance sheets, respectively, as follows:

Edgar Filing: DYNEGY INC. - Form 10-Q

	September 30, 2008	December 31, 2007
	(in millions)	
Cash flow hedging activities, net	\$ (44)	\$ (39)
Foreign currency translation adjustment	27	27
Unrecognized prior service cost and actuarial loss	(24)	(25)
Available for sale securities	—	12
Accumulated other comprehensive loss — unconsolidated investments	(11)	—
	<u> </u>	<u> </u>
Accumulated other comprehensive loss, net of tax	\$ (52)	\$ (25)
	<u> </u>	<u> </u>

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended September 30, 2008 and 2007

Note 6—Variable Interest Entities

Hydroelectric Generation Facilities. On January 31, 2005, Dynegy completed the acquisition of ExRes, the parent company of Sithe Energies, Inc. and Independence. ExRes also owns through its subsidiaries four hydroelectric generation facilities in Pennsylvania. The entities owning these facilities meet the definition of VIEs. In accordance with the purchase agreement, Exelon Corporation (“Exelon”) has the sole and exclusive right to direct our efforts to decommission, sell, or otherwise dispose of the hydroelectric facilities owned through the VIEs. Exelon is obligated to reimburse ExRes for all costs, liabilities, and obligations of the entities owning these facilities, and to indemnify ExRes with respect to the past and present assets and operations of the entities. As a result, we are not the primary beneficiary of the entities and have not consolidated them in accordance with the provisions of FIN No. 46(R), “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51” (“FIN No. 46(R)”). There was no material change during the three or nine month periods ended September 30, 2008. Please read Note 12—Variable Interest Entities—Hydroelectric Generation Facilities in Dynegy’s and DHI’s Form 10-K for discussion of these entities.

PPEA Holding Company LLC. On April 2, 2007, in connection with the completion of the Merger, we acquired a 70 percent interest in PPEA Holding Company LLC (“PPEA”). On December 13, 2007, we sold a portion of our interest in PPEA, reducing our ownership interest in PPEA to 37 percent. PPEA owns and operates Plum Point Energy Associates, LLC (“Plum Point”). Plum Point is constructing a 665 MW coal fired power generation facility (the “Plum Point Project”), located in Mississippi County, Arkansas, in which it owns an approximate 57 percent undivided interest. Our investment in the net assets of Plum Point at September 30, 2008 was approximately \$20 million. Our condensed consolidated balance sheet included \$471 million of plant construction in progress at September 30, 2008 that is collateral for the Plum Point Project debt. As of September 30, 2008, we have posted a \$15 million letter of credit to support our contingent equity contribution to Plum Point. Please read Note 15—Debt—Plum Point Credit Agreement Facility for discussion of Plum Point’s borrowings in Dynegy’s and DHI’s Form 10-K. PPEA meets the definition of a VIE, and we have determined we are the primary beneficiary of this entity. As such, we have consolidated it in accordance with the provisions of FIN No. 46(R).

DLS Power Holdings and DLS Power Development. On April 2, 2007, in connection with the transactions consummated by the Merger, Dynegy acquired a 50 percent interest in DLS Power Holdings and DLS Power Development. The purpose of DLS Power Development is to provide services to DLS Power Holdings and the project subsidiaries related to power project development and to evaluate and pursue potential new development projects. DLS Power Holdings and DLS Power Development meet the definition of VIEs, as they will require additional subordinated financial support from their owners to conduct normal on-going operations. However, Dynegy is not the primary beneficiary of the entities and, in accordance with the provisions of FIN No. 46(R), has not consolidated them. Dynegy accounts for its investments in DLS Power Holdings and DLS Power Development as equity method investments pursuant to APB No. 18, “The Equity Method of Accounting for Investments in Common Stock”. We believe that Dynegy’s maximum exposure to economic loss from this VIE is limited to \$62 million, which represents its equity investment in these entities at September 30, 2008.

Sandy Creek. Dynegy Sandy Creek Holdings, LLC (the “Dynegy Member”), an indirectly wholly owned subsidiary of Dynegy and DHI, and LSP Sandy Creek Member, LLC (the “LSP Member”) each own a 50 percent interest in Sandy Creek Holdings LLC (“SCH”), which indirectly owns all of SCEA. SCEA owns an undivided interest in the Sandy Creek Energy Station (the “Sandy Creek Project”), which is an 898 MW facility under construction in McLennan County, Texas. In addition, Sandy Creek Services, LLC (“SC Services”) was formed to provide services to SCH. Dynegy Power Services Inc. and LSP Sandy Creek Services LLC each own a 50 percent interest in SC Services.

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended September 30, 2008 and 2007

SCH and SC Services both meet the definition of a VIE, as they will require additional subordinated financial support to conduct their normal on-going operations. However, we are not the primary beneficiary of the entities and, in accordance with FIN No. 46(R), do not consolidate them. We account for our investments in SCH and SC Services as equity method investments pursuant to APB No. 18. We believe that our maximum exposure to economic loss from these VIEs is limited to \$278 million, which represents a note receivable of approximately \$3 million and letters of credit totaling \$275 million supporting our funding commitment.

During the second quarter 2008, SCEA sold an 11 percent undivided interest in the Sandy Creek Project, reducing its undivided interest in the Sandy Creek Project from approximately 75 percent to approximately 64 percent. Earnings (losses) from unconsolidated investments includes income of approximately \$13 million related to the sale. Using cash on hand and the proceeds of the sale, SCEA repaid approximately \$45 million in project-related debt and approximately \$7 million in affiliate debt. In addition, both the Dynegy Member and the LSP Member received a cash distribution of approximately \$7 million during the second quarter 2008.

In connection with the sale, SCH's \$200 million credit agreement commitment was reduced by approximately \$30 million to \$170 million. The Dynegy Member's 50 percent share of SCH's credit agreement funding obligation is supported by a letter of credit in the amount of \$85 million issued under a stand-alone letter of credit facility between the Dynegy Member and ABN Amro Bank, N.V. The Dynegy Member's and the LSP Member's equity funding commitment also decreased from \$223 million each to \$190 million each. The Dynegy Member's equity funding commitment is supported by a letter of credit in the amount of \$190 million issued under a stand-alone letter of credit facility between the Dynegy Member and ABN Amro Bank, N.V.

Note 7—Debt

Contingent LC Facility. On June 17, 2008, DHI entered into a Facility and Security Agreement (the "Contingent LC Facility") with Morgan Stanley Capital Group Inc. ("Morgan Stanley"), as lender, issuing bank, collateral agent and paying agent.

Availability under the Contingent LC Facility is contingent on natural gas prices rising above \$13/MMBtu during 2009. For every dollar increase above \$13/MMBtu in 2009 forward natural gas prices, \$40 million in capacity will initially be available, up to a total of \$300 million. In the event that the Contingent LC Facility is utilized, it will complement existing liquidity instruments as a source of additional letters of credit to meet our collateral requirements. Letter of credit availability will accrue ongoing fees at an annual rate of 3.2 percent. Over the course of 2009, the ratio of availability per dollar increase in natural gas prices will be reduced, on a pro rata monthly basis, to zero by year end.

Such letters of credit will be available for the purpose of supporting certain commercial and trading contracts and related netting agreements described in the Credit Agreement. As of September 30, 2008, no amounts were available under the Contingent LC Facility.

Credit Agreement. In September 2008, Lehman Brothers Holding Inc. filed for protection from creditors under Chapter 11 bankruptcy law. Lehman Commercial Paper Inc. ("Lehman CP"), the Lehman entity acting as one of our lenders for the revolving portion of our Credit Agreement, was not initially part of the bankruptcy estate. However, in early October 2008, Lehman CP also filed for protection from creditors under the bankruptcy law. Lehman CP's lending obligations were not assumed by Barclays, which had acquired most of Lehman's North American banking operations in September 2008. Lehman CP is now formally a defaulting lender under our Credit Agreement, is no longer accruing commitment fees and would not be expected to fund any borrowing requests, thereby reducing our effective availability under the Credit Agreement by \$70 million to \$1.9 billion.

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended September 30, 2008 and 2007

On September 30, 2008, we entered into Amendment No. 2 (“Amendment No. 2”) to our Credit Agreement. Amendment No. 2 serves to amend the definition of “Change of Control” in Section 1.01 of our Credit Agreement such that the reference to “42%” was replaced with “50%”.

Repayments. On June 30, 2008, we made a \$21 million principal payment on the Sithe/Independence Power Partners, L.P. 9.0 percent senior notes due 2013.

Note 8—Related Party Transactions

Equity Investments. We hold four investments in joint ventures in which LS Power or its affiliates are also investors. Dynegy has a 50 percent ownership interest in DLS Power Holdings and DLS Power Development. DHI has 50 percent ownership interests in SCH and SC Services, which were contributed by Dynegy to DHI in August 2007. Please read Note 6—Variable Interest Entities for further discussion.

Other. In March 2007, DHI paid a dividend of \$50 million to Dynegy. In April 2007, DHI made dividend payments of \$275 million and \$17 million to Dynegy.

On April 2, 2007, Dynegy contributed to Dynegy Illinois its interest in the Contributed Entities. Also in April 2007, Dynegy Illinois contributed to DHI all of its interest in New York Holdings, together with its indirect interest in the subsidiaries of New York Holdings. Please read Note 2—Acquisitions and Contributions—LS Power Business Combination and Sithe Assets Contributions for further discussion.

Note 9—Dynegy’s Earnings Per Share

Basic earnings per share represents the amount of earnings for the period available to each share of Dynegy common stock outstanding during the period. Diluted earnings per share represents the amount of earnings for the period available to each share of Dynegy common stock outstanding during the period plus each share that would have been outstanding assuming the issuance of common shares for all dilutive potential common shares outstanding during the period.

The reconciliation of basic earnings per share from continuing operations to diluted earnings per share from continuing operations is shown in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions, except per share amounts)			
Income from continuing operations for basic and diluted earnings per share	\$ 605	\$ 96	\$ 181	\$ 179
Basic weighted-average shares	837	836	837	721
Effect of dilutive securities:				
Stock options and restricted stock	2	2	2	2
Diluted weighted-average shares	839	838	839	723

Edgar Filing: DYNEGY INC. - Form 10-Q

Income per share from continuing operations:

Basic	\$ 0.72	\$ 0.11	\$ 0.22	\$ 0.25
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Diluted	\$ 0.72	\$ 0.11	\$ 0.22	\$ 0.25
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

26

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended September 30, 2008 and 2007

Note 10—Commitments and Contingencies

Legal Proceedings

Set forth below is a summary of our material ongoing legal proceedings. In accordance with SFAS No. 5 “Accounting for Contingencies”, we record reserves for contingencies when information available indicates that a loss is probable and the amount of the loss is reasonably estimable. In addition, we disclose matters for which management believes a material loss is at least reasonably possible. In all instances, management has assessed the matters below based on current information and made a judgment concerning their potential outcome, giving due consideration to the nature of the claim, the amount and nature of damages sought and the probability of success. Management’s judgment may prove materially inaccurate and such judgment is made subject to the known uncertainty of litigation.

Gas Index Pricing Litigation. We, several of our affiliates, our former joint venture affiliate WCP (Generation) Holdings LLC (“West Coast Power”) and other energy companies were named as defendants in twenty-two lawsuits in state and federal court claiming damages resulting from alleged price manipulation and false reporting of natural gas prices to various index publications in the 2000-2002 timeframe. Many of the cases have been resolved and those which remain are pending in Nevada district court and Tennessee State court. Recent developments include:

- In October 2007, we, on behalf of ourselves and our former joint venture affiliate West Coast Power, entered into a confidential memorandum of understanding to settle the fourteen cases comprising the California-based gas index litigation. In February 2008, a formal settlement agreement was executed and funding occurred shortly thereafter. Dismissals with prejudice were entered by the court in March 2008. The settlement is without admission of wrongdoing, and we continue to deny plaintiffs’ allegations.
- In February 2008, the United States District Court in Las Vegas, Nevada granted defendants’ motion for summary judgment in a Colorado class action, which had been transferred to Nevada through the multi-district litigation process, thereby dismissing the case and all of plaintiffs’ claims. Plaintiffs moved for reconsideration and the court ordered additional briefing on plaintiffs’ declaratory judgment claims. Those issues are fully briefed and we await a decision from the court.
- In February 2007, the Tennessee state court dismissed a class action on defendants’ motion. Plaintiffs appealed and in November 2007, the case was argued to the appellate court. In October 2008, the appellate court reversed the dismissal and remanded the case for further proceedings. In February 2008, the United States District Court in Las Vegas, Nevada granted defendants’ motion for summary judgment in a Colorado class action, which had been transferred to Nevada through the multi-district litigation management process, thereby dismissing the case and all of plaintiffs’ claims. Plaintiffs moved for reconsideration and the court ordered additional briefing on plaintiffs’ declaratory judgment claims. Those issues are fully briefed and we await a ruling.
- The remaining six cases, three of which seek class certification, are also pending in Nevada federal court. Five of the cases were transferred through the multi-district litigation management process from other states, including Kansas, Wisconsin, Missouri and Illinois. All of the cases contain similar claims that individually and in conjunction with other energy companies, we engaged in an illegal scheme to inflate natural gas prices by providing false information to natural gas index publications. The complaints rely heavily on prior FERC and CFTC investigations into and reports concerning index manipulation in the energy industry. The lawsuits seek actual and punitive damages, restitution and/or expenses, and are currently in the discovery phase.

We continue to analyze the Gas Index Pricing Litigation and are vigorously defending the remaining individual matters. Due to the uncertainty of litigation, we cannot predict whether we will incur any liability in

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended September 30, 2008 and 2007

connection with these lawsuits. However, given the nature of the claims, an adverse result in these proceedings could have a material adverse effect on our financial condition, results of operations and cash flows.

Nevada Power Arbitration. Through one of our indirect subsidiaries, we hold an ownership interest in Black Mountain, in which our equal partner is a CUSA subsidiary. Black Mountain has a long-term power sale agreement with Nevada Power Company (“Nevada Power”) that extends through April 2023. In October 2007, Nevada Power initiated an arbitration against Black Mountain seeking a declaratory judgment that (i) Nevada Power’s methodology for calculating certain cumulative excess payments in the event of default or early termination by Black Mountain is correct and (ii) Black Mountain is obligated to repay to Nevada Power the full amount of any outstanding excess payments in the event of a default or early termination or upon the expiration of the agreement’s term in 2023. Currently, Nevada Power does not allege an event of default or early termination has occurred. Nonetheless, Nevada Power maintains that as of December 31, 2007, if an event of default occurred, Black Mountain would be required to pay approximately \$136 million in cumulative excess payments, 50 percent of which would be our proportionate share. We previously disclosed that we agreed to guarantee 50 percent of any Black Mountain obligation to pay cumulative excess payments. Nevada Power further alleges that the cumulative excess payments calculation could equal approximately \$365 million in 2023 and would be payable upon the scheduled termination of the power sale agreement, 50 percent of which would be our proportionate share. Management does not believe that Black Mountain has an obligation to pay any amount to Nevada Power upon the scheduled termination of the agreement. In July 2008, the parties presented evidence and arguments in a week-long arbitration proceeding with post-hearing briefing, and closing arguments were completed in October 2008. We are awaiting a final ruling. We believe Nevada Power’s claims are without merit and we continue to defend against them vigorously. However, given the amount in controversy, an adverse ruling could have a material adverse effect on our future financial condition, results of operations and cash flows.

New York Attorney General Subpoena. On September 17, 2007, Dynegy and four other companies received a subpoena from the Office of the New York Attorney General. The subpoena sought information and documents related to the Company’s public disclosures concerning the expected impact of climate change and the regulation of greenhouse gas emissions. In October 2008, the Attorney General closed its inquiry and did not find any weakness or impropriety in the Company’s past disclosures. Under an agreement reached with the Attorney General’s Office, the Company acknowledged that it will continue to provide timely and relevant information to investors about climate change risk in accordance with applicable SEC disclosure requirements.

Illinova Arbitration. In September 2000, Dynegy’s subsidiary, IGC, sold a minority interest it held in a Cleburne, Texas generating plant to Ponderosa Pine Energy (“PPE”). Brazos Electric Cooperative, Inc. (“Brazos”), the party to an offtake agreement from the plant, brought legal action against PPE alleging that PPE’s purchase did not comply with the terms of Brazos’ offtake agreement. Brazos received a favorable arbitration award against PPE, which in turn sought recovery from IGC and the other former owners of the plant for indemnification. In May 2007, the panel in PPE’s arbitration action ruled that IGC and the other former owners of the plant must indemnify PPE for the Brazos arbitration award, with IGC’s portion being defined as approximately \$17 million. Dynegy recognized a legal settlement charge of approximately \$17 million in the first quarter 2007 relating to this adverse ruling. In May 2007, Dynegy paid the judgment under protest. PPE moved to enforce the arbitration award in state district court and the defendants have filed a motion to vacate the arbitration award. A hearing on these motions was held in December 2007 and we await a ruling.

Danskammer State Pollutant Discharge Elimination System Permit. In January 2005, the NYSDEC issued a Draft SPDES Permit renewal for the Danskammer plant, and an adjudicatory hearing was scheduled for the fall of 2005. Three environmental groups sought to impose a permit requirement that the Danskammer plant install a closed cycle cooling system in order to reduce the volume of water withdrawn from the Hudson River, thus reducing aquatic organism mortality. The petitioners claim that only a closed cycle cooling system meets the Clean Water

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended September 30, 2008 and 2007

Act's requirement that the cooling water intake structures reflect BTA for minimizing adverse environmental impacts.

A formal evidentiary hearing was held in November and December 2005. The Deputy Commissioner's decision directing that the NYSDEC staff issue the revised Draft Danskammer SPDES Permit was issued in May 2006. In September 2006, the NYSDEC issued the revised Danskammer SPDES Permit with conditions generally favorable to us. While the revised Danskammer SPDES Permit does not require installation of a closed cycle cooling system, it does require aquatic organism mortality reductions resulting from NYSDEC's determination of BTA requirements under its regulations. The petitioners appealed and briefing was completed before the Third Department Appellate Division (the "Third Department") in April 2008. On September 19, 2008, the Appellate Division issued its Memorandum and Judgment confirming the determination of NYSDEC in issuing the revised Danskammer SPDES Permit and dismissed the appeal.

On October 2, 2008, the Third Department denied Petitioners' motion for permission to appeal to the New York Court of Appeals. We expect that Petitioners will now directly file in the Court of Appeals a motion for leave to appeal the Third Department's decision. Dynegy will oppose such a motion.

The denial of Petitioners' motion essentially confirms the Appellate Division's prior determination upholding NYSDEC's issuance of the revised Danskammer SPDES Permit. The denial of Petitioners' motion does not have any direct legal effect on the draft Roseton SPDES Permit, discussed below. However, once Petitioners' efforts to seek judicial review of the Danskammer SPDES Permit have been exhausted and if such efforts continue to be unsuccessful, the Danskammer decision will serve as favorable precedent for us on certain issues expected to be raised in the Roseton SPDES Permit proceedings.

We believe that the decisions of the Deputy Commissioner and the Appellate Division are well reasoned and will be affirmed if further review is granted. However, in the event the decisions are not affirmed and we ultimately are required to install a closed cycle cooling system, this could have a material adverse effect on our financial condition, results of operations and cash flows.

Roseton State Pollutant Discharge Elimination System Permit. In April 2005, the NYSDEC issued a Draft SPDES Permit renewal for the Roseton plant. The Draft Roseton SPDES Permit requires the facility to actively manage its water intake to substantially reduce mortality of aquatic organisms.

In July 2005, a public hearing was held to receive comments on the Draft Roseton SPDES Permit. Three environmental organizations filed petitions for party status in the permit renewal proceeding. The petitioners are seeking to impose a permit requirement that the Roseton plant install a closed cycle cooling system in order to reduce the volume of water withdrawn from the Hudson River, thus reducing aquatic organism mortality. The petitioners claim that only a closed cycle cooling system meets the Clean Water Act's requirement that the cooling water intake structures reflect the BTA for minimizing adverse environmental impacts. In September 2006, the administrative law judge issued a ruling admitting the petitioners to full party status and setting forth the issues to be adjudicated in the permit renewal hearing. Various holdings in the ruling have been appealed to the Commissioner of NYSDEC by us, NYSDEC staff, and the petitioners. We expect that the adjudicatory hearing on the Draft Roseton SPDES Permit will begin in 2009. We believe that the petitioners' claims are without merit, and we plan to oppose those claims vigorously. Given the high cost of installing a closed cycle cooling system, an adverse result in this proceeding could have a material adverse effect on our financial condition, results of operations and cash flows.

Moss Landing National Pollutant Discharge Elimination System Permit. The California Regional Water Quality Control Board ("Water Board") issued a NPDES permit for the Moss Landing Power Plant in 2000 in connection with modernization of the plant and the California Energy Commission's licensing of that project. A

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended September 30, 2008 and 2007

local environmental group sought review of the permit in Superior Court in Monterey County in July 2001 claiming that the permit was not supported by sufficient analysis of the BTA for cooling water intake structures as required under the Clean Water Act. Petitioner contends that the once-through, seawater-cooling system at Moss Landing should be replaced with a closed cycle cooling system.

The Superior Court concluded that the Water Board's BTA analysis was insufficient and remanded the permit to the Water Board directing a comprehensive analysis and reconsideration of the NPDES permit. Following the hearing on remand, the Water Board affirmed its BTA finding. In July 2004, the Superior Court held that the Water Board had conducted a thorough and comprehensive BTA analysis on remand. This decision was appealed by petitioner to California's Sixth Appellate District. On December 14, 2007, the Court of Appeals issued its opinion affirming the trial court's judgment upholding the permit. The petitioners filed a Petition for Review by the Supreme Court of California, which was granted on March 19, 2008 with further action deferred pending disposition of several petitions for certiorari in the U.S. Supreme Court related to the EPA rule governing existing water intakes. On April 14, 2008, the U.S. Supreme Court granted petitions for certiorari to consider whether cost-benefit comparisons are authorized in determining BTA for cooling water intake structures.

We believe that petitioner's claims lack merit and we plan to oppose those claims vigorously. Given the high cost of installing a closed cycle cooling system, an adverse result in this proceeding could have a material adverse effect on our financial condition, results of operations and cash flows.

Native Village of Kivalina and City of Kivalina v. ExxonMobil Corporation, et al. In February 2008, the Native Village of Kivalina and the City of Kivalina, Alaska initiated an action in federal court in the Northern District of California against DHI and 23 other companies in the energy industry. Plaintiffs claim that defendants' emissions of greenhouse gases including CO2 contribute to climate change and have caused significant damage to a native Alaskan Eskimo village through increased vulnerability to waves, storm surges and erosion. In June 2008, defendants filed multiple motions to dismiss. Plaintiffs responded to the motions in September and defendants' replies are due in November 2008. We believe the plaintiffs' suit lacks merit and we intend to oppose their claims vigorously.

Ordinary Course Litigation. In addition to the matters discussed above, we are party to numerous legal proceedings arising in the ordinary course of business or related to discontinued business operations. In management's judgment, which may prove to be materially inaccurate as indicated above, the disposition of these matters will not materially adversely affect our financial condition, results of operations or cash flows.

Regulatory Matters

FERC Market-Based Rate Authority. FERC's market-based rate authority allows the sale of power at negotiated rates through the bilateral market or within an organized energy market, conditioned on periodic review. In September 2007, FERC finalized a series of fundamental reforms to its market-based rate program intended to strengthen competitive markets and protect consumers from an electric power seller's exercise of market power by reinforcing regulations for just and reasonable wholesale electric power sales. In order to maintain market-based rate authorization, sellers are required to submit periodic market power analyses. The triennial market power update analysis of the Dynegy Northeast assets was filed with FERC on August 29, 2008.

Guarantees and Indemnifications

In the ordinary course of business, we routinely enter into contractual agreements that contain various representations, warranties, indemnifications and guarantees. Examples of such agreements include, but are not limited to, service agreements, equipment purchase agreements, engineering and technical service agreements, asset

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended September 30, 2008 and 2007

sales and procurement and construction contracts. Some agreements contain indemnities that cover the other party's negligence or limit the other party's liability with respect to third party claims, in which event we will effectively be indemnifying the other party. Virtually all such agreements contain representations or warranties that are covered by indemnifications against the losses incurred by the other parties in the event such representations and warranties are false. While there is always the possibility of a loss related to such representations, warranties, indemnifications and guarantees in our contractual agreements, and such loss could be significant, in most cases management considers the probability of loss to be remote.

West Coast Power Indemnities. In connection with the sale of our 50 percent interest in West Coast Power to NRG on March 31, 2006, an agreement was executed to allocate responsibility for managing certain litigation and provide for certain indemnities with respect to such litigation. The agreement states that we will manage the Gas Index Pricing Litigation described above for which NRG could suffer a loss subsequent to the closing and that we would indemnify NRG for all costs or losses resulting from such litigation, as well as from other proceedings based on similar acts or omissions. Upon execution of the California-based Gas Index Pricing Litigation settlement discussed above, West Coast Power is no longer a party to any active Gas Index Pricing Litigation matters subject to this indemnity. The indemnification agreement further provides that NRG assumes responsibility for all defense costs and any risk of loss, subject to certain conditions and limitations, arising from a February 2002 complaint filed at FERC by the California Public Utilities Commission alleging that several parties, including West Coast Power subsidiaries, overcharged the State of California for wholesale power. FERC found the rates charged by wholesale suppliers to be just and reasonable, however, this matter was appealed to the United States Supreme Court, which remanded the case to FERC for further review.

Targa Indemnities. During 2005, as part of our sale of DMSLP, we agreed to indemnify Targa against losses it may incur under indemnifications DMSLP provided to purchasers of certain assets, properties and businesses disposed of by DMSLP prior to our sale of DMSLP. We have incurred no significant expense under these prior indemnities and deem their value to be insignificant. We have recorded an accrual in association with the cleanup of groundwater contamination at the Breckenridge Gas Processing Plant. The indemnification provided by DMSLP to the purchaser of the plant has a limit of \$5 million. We have also indemnified Targa for certain tax matters arising from periods prior to our sale of DMSLP. We have recorded a reserve associated with this indemnification.

Illinois Power Indemnities. As a condition of Dynegy's 2004 sale of Illinois Power and its interest in Electric Energy Inc.'s plant in Joppa, Illinois, Dynegy provided indemnifications to third parties regarding environmental, tax, employee and other representations. These indemnifications are limited to a maximum recourse of \$400 million. Additionally, Dynegy has indemnified third parties against losses resulting from possible adverse regulatory actions taken by the ICC that could prevent Illinois Power from recovering costs incurred in connection with purchased natural gas and investments in specified items. Although there is no limitation on Dynegy's liability under this indemnity, the amount of the indemnity is limited to 50 percent of any such losses. Dynegy has made certain payments in respect of these indemnities following regulatory action by the ICC, and has established reserves for further potential indemnity claims. Further events, which fall within the scope of the indemnity, may still occur; however, Dynegy is not required to accrue a liability in connection with these indemnifications, as management cannot reasonably estimate a range of outcomes or at this time considers the probability of an adverse outcome as only reasonably possible. Dynegy intends to contest any proposed regulatory actions.

Other Indemnities. During 2003, as part of our sales of the Rough and Hornsea natural gas storage facilities and certain natural gas liquids assets, we provided indemnities to third parties regarding tax representations. Maximum recourse under these indemnities is limited to \$857 million and \$28 million, respectively. We also entered into similar indemnifications regarding environmental, tax, employee and other representations when completing other asset sales such as, but not limited to the Rolling Hills, Calcasieu and CoGen Lyondell power generating facilities as well as our investment in the Hartwell generating facility, which we sold in 2004.

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended September 30, 2008 and 2007

Note 11—Employee Compensation, Savings and Pension Plans

We have various defined benefit pension plans and post-retirement benefit plans in which our past and present employees participate, which are more fully described in Note 21—Employee Compensation, Savings and Pension Plans in Dynegey's and DHI's Form 10-K.

Components of Net Periodic Benefit Cost. The components of net periodic benefit cost were:

	Pension Benefits		Other Benefits	
	Three Months Ended September 30,			
	2008	2007	2008	2007
	(in millions)			
Service cost benefits earned during period	\$ 3	\$ 2	\$ 1	\$ 1
Interest cost on projected benefit obligation	3	3	1	1
Expected return on plan assets	(3)	(3)	—	—
Recognized net actuarial loss	—	1	—	—
Total net periodic benefit cost	\$ 3	\$ 3	\$ 2	\$ 2
	Pension Benefits		Other Benefits	
	Nine Months Ended September 30,			
	2008	2007	2008	2007
	(in millions)			
Service cost benefits earned during period	\$ 8	\$ 7	\$ 2	\$ 2
Interest cost on projected benefit obligation	9	8	3	3
Expected return on plan assets	(10)	(9)	—	—
Recognized net actuarial loss	1	2	—	1
Total net periodic benefit cost	\$ 8	\$ 8	\$ 5	\$ 6

Contributions. We made approximately \$29 million and \$14 million in contributions to our pension plans during the nine months ended September 30, 2008 and 2007, respectively.

Edgar Filing: DYNEGY INC. - Form 10-Q

As a result of the recent decline in the overall capital markets, the value of our pension plan assets has decreased as of September 30, 2008. Upon our annual remeasurement of the pension plan assets and related actuarial obligation at December 31, 2008, we will be required pursuant to our accounting policy to decrease the value of our pension plan assets if the fair value of the investments in our pension plan continues to be negatively impacted by the decline in the capital markets. Although we do not currently expect to have material changes in our anticipated fiscal 2009 contributions to the pension plan as a result of this decline, this decline could result in a significant increase to our postretirement benefit liability in our December 31, 2008 consolidated financial statements.

Note 12—Income Taxes

Effective Tax Rate. We generally compute our quarterly taxes under the effective tax rate method based on applying an anticipated annual effective rate to our year-to-date income or loss, except for significant unusual or extraordinary transactions. Income taxes for significant unusual or extraordinary transactions are computed and recorded in the period that the specific transaction occurs.

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended September 30, 2008 and 2007

Dynegy's income taxes included in continuing operations were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions, except rates)			
Income tax expense	\$ (413)	\$ (59)	\$ (131)	\$ (95)
Effective tax rate	41%	38%	42%	35%

For the three and nine months ended September 30, 2008, Dynegy's overall effective tax rate on continuing operations was different than the statutory rate of 35 percent primarily due to state income taxes, changes in valuation allowances, and non-deductible goodwill associated with the sale of Rolling Hills. For the three and nine months ended September 30, 2007, Dynegy's overall effective tax rate on continuing operations was different than the statutory rate of 35 percent due primarily to state income taxes and adjustments to our reserve for uncertain tax positions. During 2007, decreases in the New York state income tax rate and the Texas margin tax credit rate impacted the difference between the effective rate and the statutory rate.

DHI's income taxes included in continuing operations were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions, except rates)			
Income tax expense	\$ (412)	\$ (62)	\$ (137)	\$ (94)
Effective tax rate	40%	39%	43%	32%

For the three and nine months ended September 30, 2008, DHI's overall effective tax rate on continuing operations was different than the statutory rate of 35 percent primarily due to state income taxes, changes in valuation allowances, and non-deductible goodwill associated with the sale of Rolling Hills. For the three and nine months ended September 30, 2007, DHI's overall effective tax rate on continuing operations was different than the statutory rate of 35 percent due primarily to state income taxes and adjustments to our reserve for uncertain tax positions. During 2007, decreases in the New York state income tax rate and the Texas margin tax credit rate impacted the difference between the effective rate and the statutory rate.

Note 13—Segment Information

We report results of our power generation business in the following segments: (i) GEN-MW, (ii) GEN-WE, and (iii) GEN-NE. Beginning in the first quarter 2008, the results of our former CRM segment are included in Other as it did not meet the criteria required to be an operating segment as of January 1, 2008. Accordingly, we have restated the corresponding items of segment information for prior periods. Our unaudited condensed consolidated financial results also reflect corporate-level expenses such as general and administrative, interest and depreciation and amortization.

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended September 30, 2008 and 2007

Reportable segment information for Dynegy, including intercompany transactions accounted for at prevailing market rates, for the three and nine months ended September 30, 2008 and 2007 is presented below:

Dynegy's Segment Data as of and for the Three Months Ended September 30, 2008
(in millions)

	Power Generation				Total
	GEN-MW	GEN-WE	GEN-NE	Other	
Unaffiliated revenues:					
Domestic	\$ 998	\$ 449	\$ 426	\$ (4)	\$ 1,869
Other	—	—	17	—	17
Total revenues	\$ 998	\$ 449	\$ 443	\$ (4)	\$ 1,886
Depreciation and amortization	\$ (49)	\$ (26)	\$ (14)	\$ (2)	\$ (91)
Operating income (loss)	\$ 757	\$ 206	\$ 204	\$ (51)	\$ 1,116
Losses from unconsolidated investments	—	(5)	—	—	(5)
Other items, net	1	1	(1)	11	12
Interest expense					(105)
Income from continuing operations before income taxes					1,018
Income tax expense					(413)
Net income					\$ 605
Identifiable assets:					
Domestic	\$ 6,637	\$ 3,406	\$ 2,458	\$ 1,677	\$ 14,178
Other	—	—	16	8	24
Total	\$ 6,637	\$ 3,406	\$ 2,474	\$ 1,685	\$ 14,202
Unconsolidated investments	\$ —	\$ —	\$ —	\$ 62	\$ 62

Edgar Filing: DYNEGY INC. - Form 10-Q

Capital expenditures	\$	(145)	\$	(5)	\$	(7)	\$	(4)	\$	(161)
----------------------	----	-------	----	-----	----	-----	----	-----	----	-------

34

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended September 30, 2008 and 2007

Dynegy's Segment Data as of and for the Three Months Ended September 30, 2007
(in millions)

	Power Generation				Total
	GEN-MW	GEN-WE	GEN-NE	Other	
Unaffiliated revenues:					
Domestic	\$ 392	\$ 354	\$ 264	\$ 4	\$ 1,014
Other	—	—	32	—	32
Total revenues	\$ 392	\$ 354	\$ 296	\$ 4	\$ 1,046
Depreciation and amortization	\$ (51)	\$ (25)	\$ (12)	\$ (4)	\$ (92)
Operating income (loss)	\$ 139	\$ 119	\$ 52	\$ (63)	\$ 247
Earnings (losses) from unconsolidated investments	—	12	—	(4)	8
Other items, net	1	—	—	16	17
Interest expense					(117)
Income from continuing operations before income taxes					155
Income tax expense					(59)
Income from continuing operations					96
Income from discontinued operations, net of taxes					124
Net income					\$ 220
Identifiable assets:					
Domestic	\$ 6,564	\$ 3,001	\$ 2,442	\$ 1,339	\$ 13,346
Other	—	7	14	37	58
Total	\$ 6,564	\$			