DYNEGY HOLDINGS INC
Form 10-Q
August 10, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

¨ 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)

Entity	Commission File Number	State of Incorporation	I.R.S. Employer Identification No.
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 T No ¨
Dynegy Holdings Inc.	Yes T No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Dynegy Inc.	Yes ¨ No ¨
Dynegy Holdings Inc.	Yes ¨ No ¨

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 definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
Dynegy Inc.	T	¨	¨	¨
Dynegy Holdings Inc.	¨	¨	T	¨

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

Dynegy Inc.	Yes ¨ No T
Dynegy Holdings Inc.	Yes ¨ No T

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, 504,969,128 shares outstanding as of August 3, 2009; Class B common stock, $0.01 par value per share, 340,000,000 shares outstanding as of August 3, 2009. All of Dynegy Holdings Inc.’s outstanding common stock is owned 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.

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EXPLANATORY NOTE

This report includes the combined filing of Dynegy Inc. (“Dynegy”) and Dynegy Holdings Inc. (“DHI”). DHI is the principal subsidiary of Dynegy, providing nearly 100 percent of Dynegy’s total consolidated revenue for the six-month period ended June 30, 2009 and constituting nearly 100 percent of Dynegy’s total consolidated asset base as of June 30, 2009. Unless the context indicates otherwise, throughout this report, the terms “the Company”, “we”, “us”, “our” and “our are used to refer to both Dynegy and DHI and their direct and indirect subsidiaries. Discussions or areas of this report that apply only to Dynegy or DHI are clearly noted in such section.

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DEFINITIONS

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

ACES	The American Clean Energy and Security Act of 2009
APB	Accounting Principles Board
BTA	Best technology available
Cal ISO	The California Independent System Operator
CARB	California Air Resources Board
CCA	Coal combustion ash
CDWR	California Department of Water Resources
CEC	California Energy Commission
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
FSP	FASB Staff Position
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 Gas
ICC	Illinois Commerce Commission
IMA	In-market asset availability
ISO	Independent System Operator
LNG	Liquefied natural gas
MISO	Midwest Independent Transmission Operator, Inc.
MMBtu	One million British thermal units
MW	Megawatts
MWh	Megawatt hour
NPDES	National Pollutant Discharge Elimination System
NRG	NRG Energy, Inc.
NYSDEC	New York State Department of Environmental Conservation
PJM	PJM Interconnection, LLC
PPEA	Plum Point Energy Associates, LLC
PUHCA	Public Utility Holding Company Act of 1935, as amended
RGGI	Regional Greenhouse Gas Initiative
RMR	Reliability Must Run
RSG	Revenue Sufficiency Guarantee
SCEA	Sandy Creek Energy Associates, LP

SCH	Sandy Creek Holdings LLC
SEC	U.S. Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SPDES	State Pollutant Discharge Elimination System
VaR	Value at Risk
VIE	Variable Interest Entity

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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)

	June 30, 2009	December 31, 2008
ASSETS		
Current Assets		
Cash and cash equivalents	$594	$ 693
Restricted cash and investments	121	87
Short-term investments	2	25
Accounts receivable, net of allowance for doubtful accounts of $22 and $22, respectively	252	340
Accounts receivable, affiliates	1	1
Inventory	179	184
Assets from risk-management activities	1,414	1,263
Deferred income taxes	4	6
Prepayments and other current assets	296	204
Total Current Assets	2,863	2,803
Property, Plant and Equipment	10,892	10,869
Accumulated depreciation	(2,347)	(1,935)
Property, Plant and Equipment, Net	8,545	8,934
Other Assets		
Unconsolidated investments	—	15
Restricted cash and investments	1,157	1,158
Assets from risk-management activities	207	114
Goodwill	—	433
Intangible assets	418	437
Accounts receivable, affiliates	7	4
Other long-term assets	343	315
Total Assets	$13,540	$ 14,213
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$191	$ 303
Accrued interest	71	56
Accrued liabilities and other current liabilities	177	160
Liabilities from risk-management activities	1,164	1,119
Notes payable and current portion of long-term debt	93	64
Deferred income taxes	8	—
Total Current Liabilities	1,704	1,702
Long-term debt	5,895	5,872
Long-term debt, affiliates	200	200
Long-Term Debt	6,095	6,072
Other Liabilities		

Liabilities from risk-management activities	291	288
Deferred income taxes	1,052	1,166
Other long-term liabilities	474	500
Total Liabilities	9,616	9,728
Commitments and Contingencies (Note 13)		
Stockholders' Equity		
Class A Common Stock, $0.01 par value, 2,100,000,000 shares authorized at June 30, 2009 and December 31, 2008; 507,423,614 and 505,821,277 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	5	5
Class B Common Stock, $0.01 par value, 850,000,000 shares authorized at June 30, 2009 and December 31, 2008; 340,000,000 shares issued and outstanding at June 30, 2009 and December 31, 2008	3	3
Additional paid-in capital	6,490	6,485
Subscriptions receivable	(2)	(2)
Accumulated other comprehensive loss, net of tax	(183)	(215)
Accumulated deficit	(2,370)	(1,690)
Treasury stock, at cost, 2,777,299 and 2,568,286 shares at June 30, 2009 and December 31, 2008, respectively	(71)	(71)
Total Dynegy Inc. Stockholders' Equity	3,872	4,515
Noncontrolling interests	52	(30)
Total Stockholders' Equity	3,924	4,485
Total Liabilities and Stockholders' Equity	$13,540	$ 14,213

See the notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues	$493	$322	$1,397	$865
Cost of sales	(285)	(456)	(666)	(907)
Operating and maintenance expense, exclusive of depreciation shown separately below	(144)	(125)	(266)	(236)
Depreciation and amortization expense	(94)	(92)	(186)	(184)
Gain on sale of assets	—	26	—	26
Goodwill impairments	—	—	(433)	—
Impairment and other charges, exclusive of goodwill impairments shown separately above	(405)	—	(410)	—
General and administrative expenses	(45)	(39)	(83)	(78)
Operating loss	(480)	(364)	(647)	(514)
Earnings (losses) from unconsolidated investments	13	(3)	21	(12)
Interest expense	(98)	(108)	(196)	(217)
Other income and expense, net	4	15	8	35
Loss from continuing operations before income taxes	(561)	(460)	(814)	(708)
Income tax benefit (Note 15)	209	186	124	282
Loss from continuing operations	(352)	(274)	(690)	(426)
Income from discontinued operations, net of tax (expense) benefit of $(4), zero, $(4) and $1, respectively (Note 2)	6	—	7	—
Net loss	(346)	(274)	(683)	(426)
Less: Net loss attributable to the noncontrolling interests	(1)	(2)	(3)	(2)
Net loss attributable to Dynegy Inc.	$(345)	$(272)	$(680)	$(424)
Loss Per Share (Note 12):				
Basic loss per share:				
Loss from continuing operations attributable to Dynegy Inc.	$(0.42)	$(0.32)	$(0.82)	$(0.51)
Income from discontinued operations attributable to Dynegy Inc.	0.01	—	0.01	—
Basic loss per share attributable to Dynegy Inc.	$(0.41)	$(0.32)	$(0.81)	$(0.51)
Diluted loss per share:				
Loss from continuing operations attributable to Dynegy Inc.	$(0.42)	$(0.32)	$(0.82)	$(0.51)
Income from discontinued operations attributable to Dynegy Inc.	0.01	—	0.01	—
Diluted loss per share attributable to Dynegy Inc.	$(0.41)	$(0.32)	$(0.81)	$(0.51)

Basic shares outstanding	842	840	842	839
Diluted shares outstanding	844	842	843	841

See the notes to condensed consolidated financial statements.

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DYNEGY INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited) (in millions)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(683)	$(426)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	189	188
Goodwill impairments	433	—
Impairment and other charges, exclusive of goodwill impairments shown separately above	410	—
(Earnings) losses from unconsolidated investments, net of cash distributions	(21)	12
Risk-management activities	(65)	760
Gain on sale of assets	(10)	(26)
Deferred income taxes	(129)	(281)
Other	43	2
Changes in working capital:		
Accounts receivable	35	(77)
Inventory	(9)	23
Prepayments and other assets	(88)	(178)
Accounts payable and accrued liabilities	(13)	61
Changes in non-current assets	(38)	(35)
Changes in non-current liabilities	6	9
Net cash provided by operating activities	60	32
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(303)	(299)
Unconsolidated investments	1	(1)
Proceeds from asset sales, net	105	84
Decrease in short-term investments	14	—
Decrease (increase) in restricted cash and restricted investments	(33)	28
Other investing	3	11
Net cash used in investing activities	(213)	(177)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings, net	54	111
Repayments of long-term borrowings, net	—	(21)
Proceeds from issuance of capital stock	—	2
Other financing, net	—	(4)
Net cash provided by financing activities	54	88
Net decrease in cash and cash equivalents	(99)	(57)
Cash and cash equivalents, beginning of period	693	328

Cash and cash equivalents, end of period	$594	$271
Other non-cash investing activity:		
Non-cash capital expenditures	$42	$34

See the notes to condensed consolidated financial statements.

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DYNEGY INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(unaudited) (in millions)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008
Net loss	$(346)	$(274)
Cash flow hedging activities, net:		
Unrealized mark-to-market gains arising during period, net	81	20
Reclassification of mark-to-market losses to earnings, net	—	(1)
Deferred losses on cash flow hedges, net	(3)	(2)
Changes in cash flow hedging activities, net (net of tax expense of $7 and $5, respectively)	78	17
Amortization of unrecognized prior service cost and actuarial loss (net of tax benefit of $2 and zero)	3	1
Net unrealized loss on securities, net (net of tax benefit of zero and $5, respectively)	—	(8)
Unconsolidated investments other comprehensive income (loss), net (net of tax (expense) benefit of $(2) and $4)	5	(7)
Other comprehensive income, net of tax	86	3
Comprehensive loss	(260)	(271)
Less: Comprehensive income attributable to the noncontrolling interests	56	7
Comprehensive loss attributable to Dynegy Inc.	$(316)	$(278)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net loss	$(683)	$(426)
Cash flow hedging activities, net:		
Unrealized mark-to-market gains (losses) arising during period, net	115	(6)
Reclassification of mark-to-market gains to earnings, net	—	7
Deferred losses on cash flow hedges, net	(6)	(2)
Changes in cash flow hedging activities, net (net of tax expense of $(16) and zero, respectively)	109	(1)
Amortization of unrecognized prior service cost and actuarial loss (net of tax expense of $1 and zero)	2	1
Net unrealized loss on securities, net (net of tax benefit of zero and $8, respectively)	—	(12)
Unconsolidated investments other comprehensive income (loss), net (net of tax (expense) benefit of $(4) and $4)	6	(7)
Other comprehensive income (loss), net of tax	117	(19)

Comprehensive loss	(566)	(445)
Less: Comprehensive income (loss) attributable to the noncontrolling interests	82	(4)
Comprehensive loss attributable to Dynegy Inc.	$(648)	$(441)

See the notes to condensed consolidated financial statements.

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DYNEGY HOLDINGS INC.
CONDENSED CONSOLIDATED BALANCE SHEET
(unaudited) (in millions)

	June 30, 2009	December 31, 2008
ASSETS		
Current Assets		
Cash and cash equivalents	$411	$ 670
Restricted cash and investments	121	87
Short-term investments	2	24
Accounts receivable, net of allowance for doubtful accounts of $20 and $20, respectively	254	343
Accounts receivable, affiliates	1	1
Inventory	179	184
Assets from risk-management activities	1,414	1,263
Deferred income taxes	4	4
Prepayments and other current assets	296	204
Total Current Assets	2,682	2,780
Property, Plant and Equipment	10,892	10,869
Accumulated depreciation	(2,347)	(1,935)
Property, Plant and Equipment, Net	8,545	8,934
Other Assets		
Restricted cash and investments	1,157	1,158
Assets from risk-management activities	207	114
Goodwill	—	433
Intangible assets	418	437
Accounts receivable, affiliates	7	4
Other long-term assets	342	314
Total Assets	$13,358	$ 14,174
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$191	$ 284
Accrued interest	71	56
Accrued liabilities and other current liabilities	174	157
Liabilities from risk-management activities	1,164	1,119
Notes payable and current portion of long-term debt	93	64
Deferred income taxes	10	1
Total Current Liabilities	1,703	1,681
Long-term debt	5,895	5,872
Long-term debt, affiliates	200	200
Long-Term Debt	6,095	6,072
Other Liabilities		
Liabilities from risk-management activities	291	288
Deferred income taxes	906	1,052
Other long-term liabilities	475	498
Total Liabilities	9,470	9,591
Commitments and Contingencies (Note 13)		

Stockholders' Equity		
Capital Stock, $1 par value, 1,000 shares authorized at June 30, 2009 and December 31, 2008	—	—
Additional paid-in capital	5,545	5,684
Affiliate receivable	(827)	(827)
Accumulated other comprehensive loss, net of tax	(183)	(215)
Accumulated deficit	(699)	(29)
Total Dynegy Holdings Inc. Stockholder's Equity	3,836	4,613
Noncontrolling interests	52	(30)
Total Stockholders' Equity	3,888	4,583
Total Liabilities and Stockholders' Equity	$13,358	$ 14,174

See the notes to condensed consolidated financial statements.

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DYNEGY HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited) (in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues	$493	$322	$1,397	$865
Cost of sales	(285)	(456)	(666)	(907)
Operating and maintenance expense, exclusive of depreciation shown separately below	(144)	(125)	(268)	(236)
Depreciation and amortization expense	(94)	(92)	(186)	(184)
Gain on sale of assets	—	26	—	26
Goodwill impairments	—	—	(433)	—
Impairment and other charges, exclusive of goodwill impairments shown separately above	(405)	—	(410)	—
General and administrative expenses	(45)	(39)	(83)	(78)
Operating loss	(480)	(364)	(649)	(514)
Earnings (losses) from unconsolidated investments	13	3	20	(2)
Interest expense	(98)	(108)	(196)	(217)
Other income and expense, net	3	14	7	34
Loss from continuing operations before income taxes	(562)	(455)	(818)	(699)
Income tax benefit (Note 15)	220	184	138	275
Loss from continuing operations	(342)	(271)	(680)	(424)
Income from discontinued operations, net of tax (expense) benefit of ($4), zero, ($4) and $1, respectively (Note 2)	6	—	7	—
Net loss	(336)	(271)	(673)	(424)
Less: Net loss attributable to the noncontrolling interests	(1)	(2)	(3)	(2)
Net loss attributable to Dynegy Holdings Inc.	$(335)	$(269)	$(670)	$(422)

See the notes to condensed consolidated financial statements.

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DYNEGY HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited) (in millions)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(673)	$(424)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	189	188
Goodwill impairments	433	—
Impairment and other charges, exclusive of goodwill impairments shown separately above	410	—
(Earnings) losses from unconsolidated investments, net of cash distributions	(20)	2
Risk-management activities	(65)	760
Gain on sale of assets, net	(10)	(26)
Deferred income taxes	(139)	(273)
Other	43	—
Changes in working capital:		
Accounts receivable	35	(78)
Inventory	(9)	23
Prepayments and other assets	(88)	(178)
Accounts payable and accrued liabilities	5	61
Changes in non-current assets	(38)	(35)
Changes in non-current liabilities	7	9
Net cash provided by operating activities	80	29
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(303)	(299)
Unconsolidated investments	—	10
Proceeds from asset sales, net	105	84
Decrease in short-term investments	13	—
Decrease (increase) in restricted cash and restricted investments	(33)	28
Affiliate transactions	(3)	1
Other investing	3	7
Net cash used in investing activities	(218)	(169)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings, net	54	111
Repayments to long-term borrowings	—	(21)
Dividend to affiliate	(175)	—
Other financing, net	—	(4)
Net cash provided by (used in) financing activities	(121)	86
Net decrease in cash and cash equivalents	(259)	(54)

Cash and cash equivalents, beginning of period	670	292
Cash and cash equivalents, end of period	$411	$238
Other non-cash investing activity:		
Non-cash capital expenditures	$42	$34

See the notes to condensed consolidated financial statements.

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DYNEGY HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(unaudited) (in millions)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008
Net loss	$(336)	$(271)
Cash flow hedging activities, net:		
Unrealized mark-to-market gains arising during period, net	81	20
Reclassification of mark-to-market losses to earnings, net	—	(1)
Deferred losses on cash flow hedges, net	(3)	(2)
Changes in cash flow hedging activities, net (net of tax expense of $7 and $5, respectively)	78	17
Amortization of unrecognized prior service cost and actuarial loss (net of tax benefit of $2 and zero)	3	1
Net unrealized loss on securities, net (net of tax benefit of zero and $5, respectively)	—	(8)
Unconsolidated investments other comprehensive income (loss), net (net of tax (expense) benefit of $(2) and $4)	5	(7)
Other comprehensive income, net of tax	86	3
Comprehensive loss	(250)	(268)
Less: Comprehensive income attributable to the noncontrolling interests	56	7
Comprehensive loss attributable to Dynegy Holdings Inc.	$(306)	$(275)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net loss	$(673)	$(424)
Cash flow hedging activities, net:		
Unrealized mark-to-market gains (losses) arising during period, net	115	(6)
Reclassification of mark-to-market gains to earnings, net	—	7
Deferred losses on cash flow hedges, net	(6)	(2)
Changes in cash flow hedging activities, net (net of tax (expense) benefit of $(16) and zero, respectively)	109	(1)
Amortization of unrecognized prior service cost and actuarial loss (net of tax expense of $1 and zero)	2	1
Net unrealized loss on securities, net (net of tax benefit of zero and $8, respectively)	—	(12)
Unconsolidated investments other comprehensive income (loss), net (net of tax (expense) benefit of $(4) and $4)	6	(7)
Other comprehensive income (loss), net of tax	117	(19)
Comprehensive loss	(556)	(443)

Less: Comprehensive income (loss) attributable to the noncontrolling interests	82	(4)
Comprehensive loss attributable to Dynegy Holdings Inc.	$(638)	$(439)

See the notes to condensed consolidated financial statements.

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DYNEGY INC. and DYNEGY HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
For the Interim Periods Ended June 30, 2009 and 2008

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, as adjusted for the adoption of SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51" ("SFAS No. 160") as discussed below. These interim financial statements do 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 Form 10-K for the year ended December 31, 2008 filed on February 26, 2009, 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 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. Certain reclassifications have been made to prior period amounts in order to conform to current year presentation.

Accounting Principles Adopted

SFAS No. 141(R). On January 1, 2009, we adopted 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 of the financial statements all the information they need to evaluate and understand the nature and financial effect of the business combination. The adoption of this statement had no impact on our financial statements.

SFAS No. 157. On January 1, 2009, we adopted SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157") for nonfinancial assets and liabilities measured at fair value on a nonrecurring basis, which had been deferred under FSP SFAS No. 157-2. Please read Note 5—Fair Value Measurements for further discussion.

SFAS No. 160. On January 1, 2009, we adopted SFAS No. 160. Please read Note 3—Noncontrolling Interests for further discussion.

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)
For the Interim Periods Ended June 30, 2009 and 2008

SFAS No. 161. On January 1, 2009, we adopted SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS No. 161"). Please read Note 4—Risk Management Activities, Derivatives and Financial Instruments for further discussion.

SFAS No. 165. On June 30, 2009, we adopted SFAS No. 165, "Subsequent Events" ("SFAS No. 165"). SFAS No. 165 provides guidance on management's assessment of subsequent events. We have evaluated subsequent events through August 10, 2009, the date our financial statements were issued and up to the time of the filing of our financial statements with the SEC. SFAS No. 165 is effective for interim or annual financial periods ending after June 15, 2009.

EITF Issue 08-5. On January 1, 2009, we adopted EITF Issue 08-5, "Issuer's Accounting for Liabilities Measured at Fair Value with a Third Party Credit Enhancement" ("EITF Issue No. 08-5"). Please read Note 5—Fair Value Measurements for further discussion.

FSP SFAS 107-1. On June 30, 2009, we adopted FSP SFAS 107-1 and APB 28-1, "Disclosures about Fair Value of Financial Instruments" ("FSP 107-1 and APB 28-1"). Please read Note 5—Fair Value Measurements for further discussion.

FSP SFAS 157-4. On June 30, 2009, we adopted FSP SFAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" ("FSP 157-4"). Please read Note 5—Fair Value Measurements for further discussion.

Accounting Principle Not Yet Adopted

FSP SFAS 132(R)-1. FSP SFAS 132(R)-1 amends SFAS No. 132(R), "Employers' Disclosures about Pensions and Other Postretirement Benefits," to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The objectives of the disclosures about plan assets in an employer's defined benefit pension or other postretirement plan are to provide users of financial statements with an understanding of: (i) how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies; (ii) the major categories of plan assets; (iii) the inputs and valuation techniques used to measure the fair value of plan assets; (iv) the effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period and (v) significant concentrations of risk within plan assets. The disclosures about plan assets required by this FSP are to be provided for fiscal years ending after December 15, 2009. We are currently evaluating the disclosure implications of this standard; however, this statement will have no impact on our financial condition, results of operations or cash flows.

SFAS No. 167. On June 12, 2009, the FASB issued SFAS No. 167, "Amendments to FIN 46(R)" ("SFAS No. 167"), which amends the consolidation guidance that applies to variable interest entities. The FASB's objective in issuing this statement is to improve financial reporting by enterprises involved with variable interest entities. The FASB undertook this project to address (i) the effects on certain provisions of FASB Interpretation No. 46, as a result of the elimination of the qualifying special-purpose entity concept in FASB Statement No. 166, "Accounting for Transfers of Financial Assets", and (ii) constituent concerns about the application of certain key provisions of Interpretation 46(R), including those in which the accounting and disclosures under the Interpretation do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. This statement is effective for fiscal years beginning after November 15, 2009. We are currently evaluating the impact of this standard on our consolidated financial statements.

SFAS No. 168. On June 29, 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162" ("SFAS No. 168"). SFAS No. 168 will become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We anticipate this statement will have no impact on our financial condition, results of operations or cash flows.

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Note 2—Dispositions and Discontinued Operations

Dispositions

LS Power Transaction. On August 9, 2009, we entered into a purchase and sale agreement with LS Power Partners, L.P. and certain of its affiliates (collectively, "LS Power") pursuant to which we agreed to (i) sell to LS Power our interests in: Dynegy Arlington Valley, LLC; Griffith Energy LLC; Bridgeport Energy LLC; Rocky Road Power, LLC; Tilton Energy LLC; Riverside Generating Company, L.L.C.; Bluegrass Generation Company, L.L.C.; Renaissance Power, L.L.C.; Sandy Creek Services, LLC; and Dynegy Sandy Creek Holdings, LLC, and (ii) issue to LS Power $235 million aggregate principal amount of DHI 7.50 percent senior unsecured notes due 2015. In exchange for the ownership interests and notes, we will receive (i) $1.025 billion in cash (consisting, in part, of $175 million of restricted cash on our unaudited condensed consolidated balance sheets to be released to Dynegy from the Sandy Creek restricted account) and (ii) 245 million shares of Dynegy's Class B common stock (currently held by LS Power), with the remaining 95 million shares of Dynegy's Class B common stock held by LS Power to be converted at closing to an equivalent number of shares of Dynegy's Class A common stock. Concurrent with the execution of the purchase and sale agreement, LS Power and Dynegy entered into a new Shareholder Agreement, which upon closing of the transaction, will eliminate special approval rights, board representation and certain other rights associated with the former Class B common shares and limit the acquisition and transfer of Dynegy's common stock held by LS Power. This agreement provides that we have agreed not to issue Dynegy's equity securities for our own purposes until the earlier of (i) 121 days following the closing of the transaction with LS Power and (ii) the first date following closing of the transaction in which LS Power owns, in aggregate, less than 10 percent of Dynegy's then outstanding Class A common stock. The parties have made customary representations and warranties and the completion of the transaction is conditioned upon obtaining certain regulatory approvals and the expiration or termination of the Hart-Scott-Rodino waiting period. The agreement also includes other customary closing conditions, including the lack of a material adverse effect and contains customary termination rights by both parties. Assuming all necessary conditions are satisfied, the sale is expected to close in the second half of 2009.

In connection with discussions leading to the agreement with LS Power, we determined it was more likely than not that certain assets would be sold prior to the end of their previously estimated useful lives. Therefore, we updated our March 31, 2009 impairment analysis for each of the asset groups that we were considering for sale as part of the transaction with LS Power. As a result of this evaluation, we recorded pre-tax impairment charges of $197 million during the second quarter 2009, which are included in Impairment and other charges in our unaudited condensed consolidated statements of operations. The asset groups included in this transaction do not meet the criteria of held for sale at June 30, 2009. Based on the fair value at June 30, 2009 of the consideration to be received from LS Power as now reflected in the definitive transaction documents, we expect to record further pre-tax impairment charges of approximately $355 million in the third quarter 2009 upon the asset groups meeting the criteria of held for sale, as well as a net loss on sale of assets of approximately $130 million upon closing of the transaction, based on our stock price and the value of our investment in Sandy Creek at June 30, 2009. However, the estimates of the total impairment charges and loss on sale could change materially based on changes in the fair value of the shares of Class B common stock that is part of the consideration to be received from LS Power transaction. Please read Note 6—Impairment Charges for further discussion of these impairments.

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 loss.

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

Discontinued Operations

Heard County. On April 30, 2009, we completed the sale of our interest in the Heard County power generation facility for approximately $105 million. We recorded a $10 million pre-tax gain during the second quarter 2009 related to the sale, which is included in Income from discontinued operations on our unaudited condensed consolidated statements of operations.

Heard County was classified as held for sale during the first quarter 2009. At that time, we discontinued depreciation and amortization of Heard County's property, plant and equipment. Depreciation and amortization expense related to Heard County totaled approximately zero and $1 million in the three- and six-month periods ended June 30, 2009, respectively, compared to approximately $1 million and $2 million in the three- and six-month periods ended June 30, 2008, respectively. We are reporting the results of Heard County's operations in discontinued operations for all periods presented.

Calcasieu. On March 31, 2008, we completed the sale of the Calcasieu power generation facility for approximately $56 million, net of transaction costs.

Calcasieu was classified as held for sale during the first quarter 2007. At that time, we discontinued depreciation and amortization of Calcasieu's property, plant and equipment. Depreciation and amortization expense related to Calcasieu totaled zero in the three- and six-month periods ended June 30, 2008. We are reporting the results of Calcasieu's operations in discontinued operations for the three-month period ended March 31, 2008.

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Summary. The following table summarizes information related to both Dynegy's and DHI's discontinued operations (all of which are included in our GEN-WE segment)

	Heard County	Calcasieu	Total
		(in millions)	
Three Months Ended June 30, 2009			
Gain on sale before taxes	$ 10	$ —	$ 10
Gain on sale after taxes	6	—	6
Three Months Ended June 30, 2008			
Revenues	$ 1	$ —	$ 1
Six Months Ended June 30, 2009			
Revenues	$ 2	$ —	$ 2
Income from operations before taxes	1	—	1
Income from operations after taxes	1	—	1
Gain on sale before taxes	10	—	10
Gain on sale after taxes	6	—	6
Six Months Ended June 30, 2008			
Revenues	$ 3	$ —	$ 3
Loss on sale before taxes	—	(1)	(1)
Loss on sale after taxes	—	—	—

Note 3—Noncontrolling Interests

On January 1, 2009, we adopted SFAS No. 160, which requires: (i) ownership interests in subsidiaries held by parties other than the parent to be clearly identified, labeled, and presented in the consolidated statements of financial position within equity, but separate from the parent's equity; (ii) the amount of consolidated net income (loss) attributable to the parent and to the noncontrolling interest to be clearly identified and presented on the face of the consolidated statements of operations; (iii) changes in a parent's ownership interests that do not result in deconsolidation to be accounted for as equity transactions; and (iv) that a parent recognize a gain or loss in net income upon deconsolidation of a subsidiary, with any retained noncontrolling equity investment in the former subsidiary initially measured at fair value. The following table presents the net loss attributable to Dynegy's and DHI's stockholders:

	Dynegy Inc. Three Months Ended June 30,		Dynegy Holdings Inc. Three Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			

Loss from continuing operations	$	(351	)	$	(272	)	$	(341	)	$	(269	)
Income from discontinued operations, net of tax expense of $4, zero, $4 and zero, respectively		6			—			6			—	
Net loss	$	(345	)	$	(272	)	$	(335	)	$	(269	)

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	Dynegy Inc. Six Months Ended June 30,		Dynegy Holdings Inc. Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Loss from continuing operations	$(687)	$(424)	$(677)	$(422)
Income from discontinued operations, net of tax benefit (expense) of ($4), $1, ($4) and $1, respectively	7	—	7	—
Net loss	$(680)	$(424)	$(670)	$(422)

The following table presents a reconciliation of the carrying amount of total equity, equity attributable to Dynegy and the equity attributable to the noncontrolling interests at the beginning and the end of the six months ended June 30, 2009:

	Controlling Interest	Noncontrolling Interests	Total
		(in millions)	
December 31, 2008	$ 4,515	$ (30)	$ 4,485
Net loss	(680)	(3)	(683)
Other comprehensive income (loss), net of tax:			
Unrealized mark-to-market gains arising during period	25	90	115
Reclassification of mark-to-market gains (losses) to earnings	(2)	2	—
Deferred gains (losses) on cash flow hedges	1	(7)	(6)
Amortization of unrecognized prior service cost and actuarial loss	2	—	2
Unconsolidated investments other comprehensive income	6	—	6
Total other comprehensive income, net of tax	32	85	117
Other equity activity:			
Options exercised	(1)	—	(1)
Options and restricted stock granted	5	—	5
401(k) plan and profit sharing stock	3	—	3
Board of directors stock compensation	(2)	—	(2)
June 30, 2009	$ 3,872	$ 52	$ 3,924

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The following table presents a reconciliation of the carrying amount of total equity, equity attributable to Dynegy and the equity attributable to the noncontrolling interests at the beginning and the end of the six months ended June 30, 2008:

	Controlling Interest	Noncontrolling Interests	Total
		(in millions)	
December 31, 2007	$ 4,506	$ 23	$ 4,529
Net loss	(424)	(2)	(426)
Other comprehensive income (loss), net of tax:			
Unrealized mark-to-market losses arising during period	(6)	—	(6)
Reclassification of mark-to-market gains (losses) to earnings	8	(1)	7
Deferred losses on cash flow hedges	(1)	(1)	(2)
Amortization of unrecognized prior service cost and actuarial loss	1	—	1
Unconsolidated investments other comprehensive loss	(7)	—	(7)
Net unrealized loss on securities	(12)	—	(12)
Total other comprehensive loss, net of tax	(17)	(2)	(19)
Other equity activity:			
Subscriptions receivable	2	—	2
Options exercised	1	—	1
401(k) plan and profit sharing stock	3	—	3
Options and restricted stock granted	9	—	9
June 30, 2008	$ 4,080	$ 19	$ 4,099

The following table presents a reconciliation of the carrying amount of total equity, equity attributable to DHI and the equity attributable to the noncontrolling interests at the beginning and the end of the of the six months ended June 30, 2009.

	Controlling Interest	Noncontrolling Interests	Total
		(in millions)	
December 31, 2008	$ 4,613	$ (30)	$ 4,583
Net loss	(670)	(3)	(673)
Other comprehensive income (loss), net of tax:			
Unrealized mark-to-market gains arising during period	25	90	115

Reclassification of mark-to-market gains (losses) to earnings	(2)	2	—
Deferred gains (losses) on cash flow hedges	1	(7)	(6)
Amortization of unrecognized prior service cost and actuarial loss	2	—	2
Unconsolidated investments other comprehensive income	6	—	6
Total other comprehensive income, net of tax	32	85	117
Other equity activity:			
Dividend to Dynegy	(175)	—	(175)
Contribution from Dynegy	36	—	36
June 30, 2009	$ 3,836	$ 52	$ 3,888

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The following table presents a reconciliation of the carrying amount of total equity, equity attributable to DHI and the equity attributable to the noncontrolling interests at the beginning and the end of the of the six months ended June 30, 2008.

	Controlling Interest	Noncontrolling Interests (in millions)	Total
December 31, 2007	$ 4,597	$ 23	$ 4,620
Net loss	(422)	(2)	(424)
Other comprehensive income (loss), net of tax:			
Unrealized mark-to-market losses arising during period	(6)	—	(6)
Reclassification of mark-to-market gains (losses) to earnings	8	(1)	7
Deferred losses on cash flow hedges	(1)	(1)	(2)
Amortization of unrecognized prior service cost and actuarial loss	1	—	1
Unconsolidated investments other comprehensive loss	(7)	—	(7)
Net unrealized loss on securities	(12)	—	(12)
Total other comprehensive loss, net of tax	(17)	(2)	(19)
Other equity activity:			
Affiliate activity	10	—	10
June 30, 2008	$ 4,168	$ 19	$ 4,187

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 seeks to manage these commodity price risks with financially settled and other types of contracts consistent with our commodity risk management policy. Our treasury team seeks to manage our financial risks and exposures associated with interest expense variability.

Our commodity risk management strategy gives us the flexibility to sell energy and capacity through a combination of spot market sales and near-term contractual arrangements (generally over a rolling 12 to 36 month time frame). Our commodity risk management goal is to increase predictability of cash flows in the near-term while keeping the ability to capture value from rising commodity prices over the longer term. Many of our contractual arrangements are derivative instruments and must be accounted for at fair value. We also manage commodity price risk by entering into capacity forward sales arrangements, tolling arrangements, RMR contracts, fixed price coal purchases and other arrangements that do not receive fair value accounting treatment because these arrangements do not meet the definition of a derivative or are designated as “normal purchase normal sales.” As a result, the gains and losses with respect to these arrangements are not reflected in the unaudited condensed consolidated statements of operations until the settlement dates.

Quantitative Disclosures Related to Financial Instruments and Derivatives

On January 1, 2009, we adopted SFAS No. 161, which 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.

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The following disclosures and tables present information concerning the impact of derivative instruments on our unaudited condensed consolidated balance sheets and statements of operations. In the table below, commodity contracts primarily consist of derivative contracts related to our power generation business that we have not designated as accounting hedges, that are entered into for purposes of economically hedging future fuel requirements and sales commitments and securing commodity prices. Interest rate contracts primarily consist of derivative contracts related to managing our interest rate risk. As of June 30, 2009, our commodity derivatives were comprised of both long and short positions; a long position is a contract to purchase a commodity, while a short position is a contract to sell a commodity. As of June 30, 2009, we had net long/(short) commodity derivative contracts outstanding and notional interest rate swaps outstanding in the following quantities:

Contract Type	Hedge Designation	Quantity (in millions)	Unit of Measure	Net Fair Value (in millions)
Commodity derivative contracts:				
Electric energy (1)	Not designated	(75)	MW	$ 281
Natural gas (1)	Not designated	264	MMBtu	$ (9)
Other (2)	Not designated	2	Misc.	$ —
Interest rate contracts:				
Interest rate swaps	Cash flow hedge	(511)	Dollars	$ (106)
Interest rate swaps	Fair value hedge	(25)	Dollars	$ 2
Interest rate swaps	Not designated	231	Dollars	$ (18)
Interest rate swaps	Not designated	(206)	Dollars	$ 16

(1) Mainly comprised of swaps, options and physical forwards.
(2) Comprised of emissions, coal, crude oil, and fuel oil options, swaps and physical forwards.

Derivatives on the Balance Sheet. The following table presents the fair value and balance sheet classification of derivatives in the unaudited condensed consolidated balance sheet as of June 30, 2009, segregated between designated, qualifying hedging instruments and those that are not, and by type of contract segregated by assets and liabilities. 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 that allow 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 unaudited condensed consolidated balance sheets present derivative assets and liabilities, as well as cash collateral paid or received, on a gross basis. As of June 30, 2009, included in Prepayments and other current assets on our unaudited condensed consolidated balance sheets, we had approximately $166 million of cash collateral postings, which represent the effect of net cash outflows arising from daily settlements of our exchange-traded or brokered commodity futures positions held with our futures clearing manager. In addition, as of June 30, 2009, included in Accrued liabilities and other current liabilities on our unaudited condensed consolidated balance sheets, we had approximately $45 million of cash collateral receipts, which represent the effect of net cash inflows to collateralize mark-to-market values of various positions.

Contract Type	Balance Sheet Location	June 30, 2009	December 31, 2008
		(in millions)	
Derivatives designated as hedging instruments:			
Derivative Assets:			
Interest rate contracts	Assets from risk management activities	$ 2	$ 3
Derivative Liabilities:			
Interest rate contracts	Liabilities from risk management activities	(106)	(238)
Total derivatives designated as hedging instruments, net		(104)	(235)
Derivatives not designated as hedging instruments:			
Derivative Assets:			
Commodity contracts	Assets from risk management activities	1,603	1,355
Interest rate contracts	Assets from risk management activities	16	19
Derivative Liabilities:			
Commodity contracts	Liabilities from risk management activities	(1,331)	(1,147)
Interest rate contracts	Liabilities from risk management activities	(18)	(22)
Total derivatives not designated as hedging instruments, net		270	205
Total derivatives, net		$ 166	$ (30)

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Impact of Derivatives on the Consolidated Statements of Operations

The following discussion and tables present the disclosure of the location and amount of gains and losses on derivative instruments in our unaudited condensed consolidated statements of operations for the three and six months ended June 30, 2009 and 2008 segregated between designated, qualifying hedging instruments and those that are not, by type of contract.

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.

In the second quarter 2007, one of our consolidated subsidiaries, PPEA, entered into three interest rate swap agreements with an initial aggregate notional amount of approximately $183 million. These interest rate swap agreements convert certain of PPEA's floating rate debt exposure to a fixed interest rate of approximately 5.3 percent. The aggregate notional amount of the swaps at June 30, 2009 was approximately $511 million. These interest rate swap agreements expire in June 2040. Effective July 1, 2007, we designated these agreements as cash flow hedges. Therefore, the effective portion of the changes in value after that date are reflected in other comprehensive income (loss), and subsequently reclassified to interest expense contemporaneously with the related accruals of interest expense, or depreciation expense in the event the interest was capitalized, in either case to the extent of hedge effectiveness.

During the three and six months ended June 30, 2009, we recorded no income and for the three and six months ended June 30, 2008, we recorded no income and $2 million, respectively, related to ineffectiveness from changes in fair value of derivative positions and no amounts were excluded from the assessment of hedge effectiveness related to the hedge of future cash flows in either of the periods. During the three and six months ended June 30, 2009 and 2008, no amounts were reclassified to earnings in connection with forecasted transactions that were no longer considered probable of occurring.

The balance in cash flow hedging activities within Accumulated other comprehensive income (loss), net at June 30, 2009 is expected to be reclassified to future earnings when the forecasted hedged transaction impacts earnings. Because a significant majority of the interest expense incurred by PPEA is capitalized, a significant portion of the current and future derivative settlements will continue to be deferred in Accumulated other comprehensive income (loss) and will be reclassified to depreciation expense over the expected life of the plant once the Plum Point Project commences operations. Because not all of the interest expense is capitalized, of this amount, after-tax losses of approximately $1 million are currently estimated to be reclassified into earnings over the 12-month period ending June 30, 2010. The actual amounts that will be reclassified to earnings over this period and beyond could vary materially from this estimated amount as a result of changes in market prices, hedging strategies, the probability of forecasted transactions occurring and other factors.

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The impact of interest rate swap contracts designated as cash flow hedges and the related hedged item on our unaudited condensed consolidated statements of operations for the three months ended June 30, 2009 and 2008 is presented below:

Derivatives in SFAS No. 133 Cash Flow Hedging Relationships	Amount of Gain Recognized in OCI on Derivatives (Effective Portion) For the Three Months Ended June 30, 2009	2008	Location of Gain Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain Reclassified from Accumulated OCI into Income (Effective Portion) For the Three Months Ended June 30, 2009	2008
	(in millions)			(in millions)	
Interest rate contracts	$ 81	$ 20	Interest expense	$ —	$ 2
Total	$ 81	$ 20		$ —	$ 2

The impact of interest rate swap contracts designated as cash flow hedges and the related hedged item on our unaudited condensed consolidated statements of operations for the six months ended June 30, 2009 and 2008 is presented below:

Derivatives in SFAS No. 133 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) For the Six Months Ended June 30, 2009	2008	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) For the Six Months Ended June 30, 2009	2008
	(in millions)			(in millions)	
Interest rate contracts	$ 115	$ (6)	Interest expense	$ —	$ 2
Commodity contracts(1)	—	—	Revenues	—	(10)
Total	$ 115	$ (6)		$ —	$ (8)

(1) Beginning April 2, 2007, we chose to cease designating derivatives related to our power generation business as hedges. These amounts represent reclassifications into earnings of amounts that were previously frozen in Accumulated other comprehensive loss upon de-designation in April 2007.

Fair Value Hedges. We also enter into derivative instruments that qualify, and that we may elect to 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. The maximum length of time for which we have hedged our exposure for fair value hedges is through

2012. During the three and six months ended June 30, 2009 and 2008, 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 three and six months ended June 30, 2009 and 2008, there were no gains or losses related to the recognition of firm commitments that no longer qualified as fair value hedges.

The impact of interest rate swap contracts designated as fair value hedges and the related hedged item on our unaudited condensed consolidated statements of operations for the three and six months ended June 30, 2009 and 2008 was immaterial.

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Financial Instruments Not Designated as Hedges. We elect not to designate derivatives related to our power generation business and certain interest rate instruments as cash flow or fair value hedges. Thus, we apply mark-to-market accounting treatment to these derivatives. As a result, 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 activity for which the derivative instruments serve as economic hedges.

For the three-month period ended June 30, 2009, our revenues included approximately $104 million of mark-to-market losses related to this activity compared to $481 million of mark-to-market losses in the same period in the prior year. For the six-month period ended June 30, 2009, our revenues included approximately $64 million of mark-to-market gains related to this activity compared to $760 million of mark-to-market losses in the same period in the prior year.

The impact of derivative financial instruments that have not been designated as hedges on our unaudited condensed consolidated statement of operations for the three months ended June 30, 2009 and 2008 is presented below. Note that this presentation does not reflect the expected gains or losses arising from the underlying physical transactions associated with these financial instruments. Therefore, this presentation is not indicative of the economic gross profit we expect to realize when the underlying physical transactions settle.

Derivatives Not Designated as Hedging Instruments under SFAS No. 133	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of All Gain (Loss) Recognized in Income on Derivatives for the Three Months Ended June 30, 2009	2008
		(in millions)	
Commodity contracts	Revenues	$ 32	$ (501)
Interest rate contracts	Interest expense	—	1

The impact of derivative financial instruments that have not been designated as hedges on our unaudited condensed consolidated statement of operations for the six months ended June 30, 2009 and 2008 is presented below. Note that this presentation does not reflect the expected gains or losses arising from the underlying physical transactions associated with these financial instruments. Therefore, this presentation is not indicative of the economic gross profit we expect to realize when the underlying physical transactions settle.

Derivatives Not Designated as Hedging Instruments under SFAS No. 133	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of All Gain (Loss) Recognized in Income on Derivatives for the Six Months Ended June 30, 2009	2008
		(in millions)	
Commodity contracts	Revenues	$ 299	$ (781)
Interest rate contracts	Interest expense	—	—

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended June 30, 2009 and 2008

Note 5—Fair Value Measurements

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 June 30, 2009. 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 June 30, 2009			
	Level 1	Level 2	Level 3	Total
	(in millions)			
Assets:				
Assets from commodity risk management activities	$ —	$ 1,525	$ 78	$ 1,603
Assets from interest rate swaps	—	18	—	18
Other (1)	—	11	—	11
Total	$ —	$ 1,554	$ 78	$ 1,632
Liabilities:				
Liabilities from commodity risk management activities	$ —	$ 1,296	$ 35	$ 1,331
Liabilities from interest rate swaps	—	124	—	124
Total	$ —	$ 1,420	$ 35	$ 1,455

(1) Other represents short-term investments and long-term investments.

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 June 30, 2009 (in millions)
Balance at March 31, 2009	$ 33
Realized and unrealized gains, net	28
Purchases, issuances and settlements	(18)
Transfer to Level 3	—
Balance at June 30, 2009	$ 43

Unrealized gains relating to instruments still held as of June 30, 2009	$	24

	Six Months Ended June 30, 2009 (in millions)	
Balance at December 31, 2008	$	60
Realized and unrealized gains, net		23
Purchases, issuances and settlements		(40)
Transfer to Level 3		—
Balance at June 30, 2009	$	43
Unrealized gains relating to instruments still held as of June 30, 2009	$	18

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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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.

On January 1, 2009, we adopted EITF Issue No. 08-5, which applies to liabilities issued with an inseparable third-party credit enhancement when they are measured or disclosed at fair value on a recurring basis. The underlying principle in the consensus in EITF Issue No. 08-5 is that a third-party credit enhancement does not relieve the issuer of its ultimate obligation under the liability. We had approximately $166 million of cash collateral postings as of June 30, 2009 included in Prepayments and other current assets on our unaudited condensed consolidated balance sheets, which represents 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. In addition, we had approximately $1,024 million of letters of credit issued as of June 30, 2009. Substantially all of our derivative positions with our derivative counterparties are supported by letters of credit issued pursuant to our Fifth Amended and Restated Credit Facility (the "Credit Facility") or by cash collateral postings. As a result of the consensus in EITF Issue No. 08-5, we no longer can consider the letters of credit as credit enhancements in our valuation of our derivative liabilities beginning in 2009. Based on our net risk management asset position as of January 1, 2009 and June 30, 2009, our adoption of EITF Issue No. 08-5 did not result in a material effect on our unaudited condensed consolidated financial statements for the three- or six-month periods ended June 30, 2009.

On January 1, 2009, we adopted SFAS No. 157 for nonfinancial assets and liabilities measured at fair value on a nonrecurring basis, which had been deferred under FSP SFAS No. 157-2. The following table sets forth by level within the fair value hierarchy our fair value measurements with respect to nonfinancial assets and liabilities that are measured at fair value on a nonrecurring basis as of June 30, 2009. These 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 Measurements as of June 30, 2009				
	Level 1	Level 2	Level 3 (in millions)	Total	Total Losses
Assets:					
Goodwill	$ —	$ —	$ —	$ —	$ (433)
Assets held and used	—	—	228	228	(410)
Total	$ —	$ —	$ 228	$ 228	$ (843)

During the first quarter 2009, goodwill with a carrying amount of $433 million was written down to its implied fair value of zero, resulting in an impairment charge of $433 million, which is included in Goodwill impairment on our unaudited condensed consolidated statements of operations. Please read Note 9—Goodwill for further discussion and disclosures addressing the description of the inputs and information used to develop the inputs as well as the valuation techniques used to measure the goodwill impairment.

During the first half 2009, long-lived assets held and used with a carrying amount of $638 million were written down to their fair value of $228 million, resulting in an impairment charge of $410 million, which is included in Impairment and other charges on our unaudited condensed consolidated statements of operations. Please read Note 6—Impairment Charges for further discussion.

On June 30, 2009, we adopted FSP SFAS 157-4, which provides guidance on (i) estimating the fair value of an asset or liability when the volume and level of activity for the asset or liability have significantly decreased and (ii) identifying transactions that are not orderly. The adoption of FSP SFAS 157-4 had no impact on our financial statements.

Fair Value of Financial Instruments. On June 30, 2009, we adopted FSP FAS 107-1 and APB 28-1, which requires the disclosure of the estimated fair value of financial instruments. We have determined the estimated fair-value amounts using available market information and selected valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. The use of different market assumptions or valuation methodologies could have a material effect on the estimated fair-value amounts.

The carrying values of financial assets and liabilities approximate fair values due to the short-term maturities of these instruments. The carrying amounts and fair values of debt are included in Note 10—Debt.

	June 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Interest rate derivatives designated as cash flow accounting hedges (1)	$ (106)	$ (106)	$ (238)	$ (238)
Interest rate derivatives designated as fair value accounting hedges (1)	2	2	3	3
Interest rate derivatives not designated as accounting hedges (1)	(2)	(2)	(2)	(2)
Commodity-based derivative contracts not designated as accounting hedges (1)	272	272	207	207
Other (2)	11	11	25	25
Total	$ 177	$ 177	$ (5)	$ (5)

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

(2) Other represents short-term and long-term investments.

Note 6—Impairment Charges

During the first quarter 2009, we performed a goodwill impairment test due to changes in market conditions that would more likely than not reduce the fair values of our GEN-MW, GEN-WE and GEN-NE reporting units below their carrying amounts. Please read Note 9—Goodwill for further discussion. This decline in value also triggered testing of the recoverability of our long-lived assets. We performed an impairment analysis and recorded a pre-tax impairment charge of $5 million ($3 million after tax). This charge, which relates to the Bluegrass power generation facility, is included in Impairment and other charges in our unaudited condensed consolidated statements of operations. We determined the fair value of the Bluegrass facility using assumptions that reflected our best estimate of third party market participants' considerations.

At June 30, 2009, in connection with discussions leading to the agreement with LS Power discussed further in Note 2—Dispositions and Discontinued Operations—Dispositions—LS Power Transaction, we determined it was more likely than not that certain assets would be sold prior to the end of their previously estimated useful lives. Therefore, we updated our March 31, 2009 long-lived asset impairment analysis for each of the asset groups that we were considering for sale as part of the proposed transaction as of June 30, 2009. As a result, we recorded a pre-tax impairment charge of $197 million ($120 million after-tax). Of this charge, $179 million relates to the Bridgeport power generation facility and related assets and is recorded in the GEN-NE segment. The remaining $18 million ($11 million after-tax) relates to the Bluegrass power generation facility and related assets and is recorded in the GEN-MW segment. This additional impairment charge for the Bluegrass power generation facility reflects updated assumptions regarding the terms of a potential sale as well as continued weakening of forward capacity prices in the second quarter 2009. These charges are included in Impairment and other charges in our unaudited condensed consolidated statements of operations. We determined the fair value of these generation facilities and related assets using assumptions that reflect our best estimate of third party market participants' considerations and corroborated these estimates indirectly based on our assumptions regarding the terms of and the overall value inherent in the proposed transaction with LS Power.

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(Unaudited)

For the Interim Periods Ended June 30, 2009 and 2008

In performing the June 30, 2009 impairment analysis, we used an 80 percent likelihood at June 30, 2009 of reaching an agreement for sale of the assets, and certain assumptions about the terms of such a sale. If we had been certain at June 30, 2009 of reaching the agreement with LS Power discussed further in Note 2—Dispositions and Discontinued Operations—Dispositions—LS Power Transaction, we would have used 100 percent of the estimated sales proceeds to calculate the impairment and would have recorded additional estimated impairment charges of approximately $160 million in our GEN-MW segment and $195 million in our GEN-WE segment, based on the fair value at June 30, 2009 of the consideration ultimately agreed upon under the agreement with LS Power. We expect to record these additional charges in the third quarter of 2009 upon the asset groups meeting the criteria of held-for-sale; however, this estimate of the total impairment charge could change materially based on changes in the fair value of the shares of Class B common stock that is part of the consideration to be received from LS Power in the transaction.

In updating our impairment analysis for assets that were being considered for sale as discussed above, we noted that the aggregate carrying value of the assets included in the proposed transaction exceeded the aggregate fair value of the consideration to be received. In addition, we noted a continued weakening in forward capacity and forward power prices in certain of the markets in which we operate. This indicated a possible decline in the value of power generation assets in all three of our reportable segments. Therefore, at June 30, 2009, we updated our March 31, 2009 impairment analysis for our remaining power generation facilities not currently under consideration for sale. As a result of changes in market conditions in the second quarter 2009 within the Northeast region, we recorded a pre-tax impairment charge of $208 million ($129 million after-tax) related to the Roseton and Danskammer power generation facilities. This charge is included in Impairment and other charges in our unaudited condensed consolidated statements of operations. We determined the fair value of these facilities using assumptions that reflect our best estimate of third party market participants’ considerations. This involved using the present value technique, incorporating our best estimate of third party market participants’ assumptions about the best use of assets, future power and fuel costs and the costs of complying with environmental regulations.

Our impairment analysis of our generating assets is based on forward-looking projections of our estimated future cash flows based on discrete financial forecasts developed by management for planning purposes. These projections incorporate certain assumptions including forward power and capacity prices, forward fuel costs and costs of complying with environmental regulations. As additional information becomes available regarding the significant assumptions used in our analysis, we may conclude that it is necessary to update our impairment analyses in future periods to assess the recoverability of our assets additional impairment charges could be required.

Note 7—Accumulated Other Comprehensive Loss

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

	June 30, 2009	December 31, 2008
	(in millions)	
Cash flow hedging activities, net	$ (101)	$ (125)

Unrecognized prior service cost and actuarial loss		(64	)		(66	)
Accumulated other comprehensive loss—unconsolidated investments		(18	)		(24	)
Accumulated other comprehensive loss, net of tax	$	(183	)	$	(215	)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

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Note 8—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. There was no material change during the three and six months ended June 30, 2009. Please see Note 12—Variable Interest Entities—Hydroelectric Generation Facilities in our Form 10-K for discussion of these entities.

PPEA Holding Company LLC. We own an approximate 37 percent interest in PPEA Holding Company LLC (“PPEA Holding”) which, through its wholly-owned subsidiary, Plum Point Energy Associates, LLC (“PPEA”) owns an approximate 57 percent undivided interest in a 665 MW coal fired power generation facility (the “Plum Point Project”), which is under construction in Mississippi County, Arkansas. Our net investment in PPEA Holding at June 30, 2009 was a liability of approximately $77 million. Our unaudited condensed consolidated balance sheet included $554 million of plant construction in progress at June 30, 2009 that is collateral for the Plum Point Project debt, which is nonrecourse to us. As of June 30, 2009, we have posted a $15 million letter of credit issued under our Credit Facility to support our contingent equity contribution to the Plum Point Project. Please see Note 15—Debt—Plum Point Credit Agreement Facility in our Form 10-K for discussion of Plum Point’s borrowings. PPEA Holding meets the definition of a VIE, and we have determined we are the primary beneficiary of this entity; therefore, we have consolidated it. Please see Note 12—Variable Interest Entities—PPEA Holding Company LLC in our Form 10-K for further discussion.

Summarized aggregate financial information for PPEA Holding, included in our unaudited condensed consolidated financial statements, is included below:

	June 30, 2009	December 31, 2008
	(in millions)	
As of:		
Current assets	$ 2	$ 1
Property, plant and equipment, net	556	507
Intangible asset	193	193
Other non-current asset	24	29
Total assets	775	730
Current liabilities	25	19
Long-term debt	671	615
Non-current liabilities	109	244
Noncontrolling interest	52	(30)

For the period ending:		
Operating loss	—	(1)
Net loss	(2)	(3)

DLS Power Holdings and DLS Power Development. In December 2008, Dynegy executed an agreement with LS Associates to dissolve DLS Power Holdings and DLS Power Development effective January 1, 2009. Under the terms of the dissolution, Dynegy acquired exclusive rights, ownership and developmental control of substantially all repowering or expansion opportunities related to its existing portfolio of operating assets. In the first quarter 2009, Dynegy subsequently contributed these assets to DHI. LS Associates received approximately $19 million in cash from Dynegy on January 2, 2009, and acquired full ownership and developmental rights associated with various “greenfield” power generation and transmission development projects not related to Dynegy’s existing operating portfolio of assets.

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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 owns all of Sandy Creek Energy Associates, LP ("SCEA"). SCEA owns an approximate 64 percent 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 and LSP Sandy Creek Services LLC each own a 50 percent interest in SC Services.

SCH and SC Services both meet the definition of a VIE, as they will require additional subordinated financial support to conduct their normal ongoing operations. However, we are not the primary beneficiary of the entities, and therefore, do not consolidate them. We account for our investments in SCH and SC Services as equity method investments. At June 30, 2009, we had $7 million included in non-current Accounts receivable, affiliate and $48 million included in Other long-term liabilities on our unaudited consolidated balance sheets. We believe that our maximum exposure to economic loss from these VIEs is limited to $282 million.

On August 9, 2009, we entered into an agreement to sell our interests in SCH and SC Services to LS Power. At the closing of the transaction we expect to record a loss of approximately $90 million based on the June 30, 2009 value of these investments. This estimate could change materially based on changes in the value of our investment prior to close of the transaction. Please read Note 2—Dispositions and Discontinued Operations—Dispositions—LS Power Transaction for further discussion.

Note 9—Goodwill

Assets and liabilities of companies acquired in purchase transactions are recorded at fair value at the date of acquisition. Goodwill represents the excess purchase price over the fair value of net assets acquired, plus any identifiable intangibles. We review goodwill for potential impairment as of November 1st of each year or more frequently if events or circumstances occur that would more likely than not reduce the fair value of a reporting unit below its carrying amount. During the first quarter 2009, there were several events and circumstances which, when considered in the aggregate, indicated such a reduction in the fair value of our GEN-MW, GEN-WE and GEN-NE reporting units:

- The first quarter 2009 was characterized by a steep decline in forward commodity prices. Forward market prices for natural gas decreased by 27 percent and 17 percent, respectively, for the calendar years 2009 and 2010, significantly impacting the current market and corresponding forward market prices for power;

- During the first quarter 2009, acquisition activity related to power generation facilities was very low, indicating a lack of demand for such transactions;

- Dynegy's market capitalization continued to decline through the first quarter 2009, with Dynegy's stock price falling from an average of $2.51 per share in the fourth quarter 2008 to an average of $1.73 per share in the first quarter 2009 and a closing price of $1.41 at March 31, 2009; and

- General economic indicators, such as economic growth forecasts and unemployment forecasts, deteriorated further during the first quarter 2009.

Considered individually, none of the foregoing events and circumstances would necessarily indicate a significant reduction in the fair value of our reporting units. Dynegy's stock price is likely to remain volatile throughout 2009, and may change significantly from the closing price on March 31, 2009. However, in light of the significant drop in forward power prices during the first quarter 2009 and the further deterioration in general economic indicators, it was deemed unlikely that Dynegy's market capitalization would exceed its book equity in the near future. As a result, we concluded that an impairment test of our goodwill on our GEN-MW, GEN-WE and GEN-NE reporting units was required as of March 31, 2009.

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The impairment test is performed in two steps at the reporting unit level. The first step compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit is higher than its carrying amount, no impairment of goodwill is indicated and no further testing is required. However, if the fair value of the reporting unit is below its carrying amount, a second step must be performed to determine the goodwill impairment required, if any.

Consistent with historical practice, on November 1, 2008, we determined the fair value of our reporting units using the income approach based on a discounted cash flows model. This approach used forward-looking projections of our estimated future operating results based on discrete financial forecasts developed by management for planning purposes. Cash flows beyond the discrete forecasts were estimated using a terminal value calculation, which incorporated historical and forecasted financial trends and considered long-term earnings growth rates based on growth rates observed in the power sector. In performing our impairment test at November 1, 2008, the results of our fair value assessment using the income approach were corroborated using market information about recent sales transactions for comparable assets within the regions in which we operate.

Due to further declines in our market capitalization through December 31, 2008, we determined that assumptions utilized in the November 1, 2008 analysis required updating. We evaluated key assumptions including forward natural gas and power pricing, power demand growth, and cost of capital. While some of the assumptions had changed subsequent to the November 1, 2008 analysis, we determined that the impact of updating those assumptions would not have caused the fair value of the individual reporting units to be below their respective carrying values at December 31, 2008.

As a result of the events and circumstances discussed above, as of March 31, 2009, we updated our fair value assessment using the income approach, taking into account the significant drop in forward prices we observed over the three months ended March 31, 2009. As our long-term outlook on power demand remained unchanged, we did not change our expectations regarding commodity prices beyond 2011 for purposes of this analysis. Additionally, we updated the weighted average cost of capital assumptions used in our income approach to reflect current market data as of March 31, 2009.

Based on the decline in acquisition activity during the first quarter 2009 and the length of time from the most recent asset sales transactions we used to corroborate the results of our income approach valuation in November 2008, we were not able to rely fully on recent sales transactions to corroborate the results of our fair value assessment using the income approach in March 2009. Therefore, for our first quarter 2009 analysis, we also used a market-based approach, comparing our forecasted earnings and Dynegy’s market capitalization to those of similarly situated public companies by considering multiples of earnings.

For each of the reporting units included in our analysis, fair value assessed using the income approach exceeded the fair value assessed using this market-based approach. However, given that Dynegy’s market capitalization had continued to remain below its book equity for more than six months and given the absence of recent asset sales transaction activity to reasonably corroborate the results of our income approach valuation, we had determined that there has been a shift in the manner in which market participants were valuing our business, and believed that the market-based approach has become more relevant for estimating the fair value of our reporting units as of March 31, 2009. We therefore concluded that it was appropriate to place equal weight on the market-based approach (rather than relying primarily on the income approach) for the purpose of determining fair value in step one of the impairment analysis. Based on the results of our analysis discussed above, our GEN-MW, GEN-WE and GEN-NE reporting units did not pass the first step as of March 31, 2009.

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Having determined that the carrying values of the GEN-MW, GEN-WE and GEN-NE reporting units exceeded their fair values, we performed the second step of the analysis. This second step compares the implied fair value of each reporting unit's goodwill with the carrying amount of such goodwill. We performed a hypothetical allocation of the fair value of the reporting units determined in step one to all of the assets and liabilities of the unit, including any unrecognized intangible assets. After making these hypothetical allocations, we determined no residual value remained that could be allocated to goodwill within each of our GEN-MW, GEN-WE or GEN-NE segments. We recorded first quarter 2009 impairment charges on all three of these reporting units, as follows:

	GEN-MW	GEN-WE	GEN-NE	Total
		(in millions)		
Goodwill at December 31, 2008	$ 76	$ 260	$ 97	$ 433
Impairment of Goodwill	(76)	(260)	(97)	(433)
Goodwill at June 30, 2009	$ —	$ —	$ —	$ —

We finalized the second step of our impairment analysis early in the second quarter 2009 and determined no further adjustments were necessary.

Note 10—Debt

	June 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(in millions)		
Term Loan B, due 2013	$ 69	$ 61	$ 69	$ 52
Term Facility, floating rate due 2013	850	761	850	639
Senior Notes and Debentures:				
6.875 percent due 2011	502	481	502	427
8.75 percent due 2012	501	481	501	426
7.5 percent due 2015	550	461	550	388
8.375 percent due 2016	1,047	889	1,047	742
7.125 percent due 2018	173	118	173	110
7.75 percent due 2019	1,100	853	1,100	762
7.625 percent due 2026	171	105	172	93
Subordinated Debentures payable to affiliates, 8.316 percent, due 2027	200	95	200	83
Sithe Senior Notes, 9.0 percent due 2013	344	335	344	328
Plum Point Credit Agreement Facility, floating rate due 2010 (1)	571	332	515	365
Plum Point Tax Exempt Bonds, floating rate due 2036	100	100	100	100
	6,178		6,123	
Unamortized premium on debt, net	10		13	
	6,188		6,136	
Less: Amounts due within one year, including non-cash amortization of basis adjustments	93		64	

Total Long-Term Debt	$ 6,095	$ 6,072

(1) Upon completion of the construction of the Plum Point Project, the Construction Loan will terminate and the debt thereunder will be replaced by the Bank Loan. The Bank Loan matures on the thirtieth anniversary of the later of the date on which substantial completion of the facility has occurred or the first date of commercial operation under any of the power purchase agreements then in effect. The expected commercial operations date is August 2010. Please read Note 15—Debt—Plum Point Credit Agreement Facility in our Form 10-K for further discussion.

As of June 30, 2009, DHI's available liquidity under the Credit Facility was reduced temporarily as a result of borrowing limitations under the covenant regarding the ratio of secured debt to EBITDA. Although our available liquidity is reduced, we have adequate liquidity to meet expected needs for the remainder of this quarter. As of September 30, 2009, the reduction is expected to be lifted in connection with Amendment No. 4 to DHI's Credit Facility.

Credit Facility Amendment. On August 5, 2009, we entered into Amendment No. 4 ("Amendment No. 4") to DHI's Credit Facility, which includes, among other items, the following material amendments:

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Ratio of Secured Debt to EBITDA. To allow for more flexibility, the financial covenants were amended to provide that the ratio of Secured Debt to EBITDA (as defined in the Credit Facility) (measured as of the last day of the specified measurement period) shall be no greater than: 2.50:1 (measurement period ending June 30, 2009); 3.00:1 (measurement periods ending September 30, 2009 and December 31, 2009);3.25:1 (measurement periods ending March 31, 2010 and June 30, 2010); 3.50:1 (measurement periods ending September 30, 2010, December 31, 2010, March 31, 2011 and June 30, 2011); 3.25:1 (measurement period ending September 30, 2011); 3.00:1 (measurement period ending December 31, 2011); and 2.50:1 (measurement periods ending thereafter).

Ratio of EBITDA to Consolidated Interest Expense. To allow for more flexibility, the financial covenants were amended to provide that the ratio of EBITDA to Consolidated Interest Expense (as defined in the Credit Facility) (measured as of the last day of the specified measurement period) shall be no less than: 1.625:1 (measurement period ending June 30, 2009); 1.75:1 (measurement periods ending September 30, 2009 and December 31, 2009); 1.70:1 (measurement period ending March 31, 2010); 1.60:1 (measurement period ending June 30, 2010); 1.30:1 (measurement periods ending September 30, 2010 and December 31, 2010);1.35:1 (measurement period ending March 31, 2011);1.40:1 (measurement period ending June 30, 2011); 1.60:1 (measurement periods ending September 30, 2011 and December 31, 2011); and 1.75:1 (measurement periods ending thereafter).

Ratio of Total Indebtedness to EBITDA. Prior to incurring certain DHI indebtedness, adding revolver commitments, making certain investments, or certain sales of assets or engaging in certain other permitted activities, we must satisfy certain conditions precedent, including satisfaction, on a pro forma basis, of a separate ratio test of Total Indebtedness to EBITDA (as defined in the Credit Facility). To allow for more flexibility, Amendment No. 4 amended this ratio test (measured as of the last day of the specified measurement period) to no greater than: 6.50:1 (for measurement periods ending prior to and through June 2009); 6.00:1 (for measurement periods ending at any time from July 1, 2009 through December 31, 2009); 6.50:1 (for measurement periods ending at any time from January 1, 2010 through June 30, 2011); 6.25:1 (for measurement periods ending at any time from July 1, 2011 through September 30, 2011;6.00:1 (for measurement periods ending at any time from October 1, 2011 through December 31, 2011); and 5.00:1 (for measurement periods ending thereafter).

Post-Amendment Asset Sales. We may designate up to $500 million of proceeds from the sale of assets after August 5, 2009, as excluded from the asset sale, reinvestment and prepayment provisions of the Credit Facility.

Prepayment Covenants. The debt prepayment covenants were amended to provide that, in the event the maturity date of any of the 6.875 percent Senior Notes due 2011 or the 8.75 percent Senior Notes due 2012 issued by DHI is extended to a date, or refinanced with debt maturing, after the April 2, 2013 Term L/C Facility maturity date, DHI may prepay other longer-dated indebtedness in the amount of any such notes so extended or refinanced.

Margin for Borrowings. The margin for borrowings was amended to provide that the applicable margin will be either 2.375 percent or 2.75 percent per annum for base rate loans and either 3.375 percent or 3.75 percent per annum for Eurodollar loans, with the lower applicable margin being payable if the ratings for the Credit Facility by S&P or Moody’s are BB+ or Ba1 or higher, respectively, and the higher applicable margin being payable if such ratings are both less than BB+ and Ba1.

Unused Commitment Fee. The unused commitment fee was amended to increase the fee to either 0.625 percent or 0.75 percent payable on the unused portion of the Revolving Facility, with the lower commitment fee being payable if the ratings for the Revolving Facility by S&P or Moody’s or BB+ or Ba1 or higher, respectively, and the higher commitment fee being payable if such ratings are both less than BB+ and Ba1.

We are currently in compliance with our covenants.

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(Unaudited)

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Note 11—Related Party Transactions

Equity Investments. We hold two investments in joint ventures in which LS Power or its affiliates are also investors. DHI has 50 percent ownership interests in SCEA and SC Services, and subsidiaries of LS Power held the remaining 50 percent interests. Please see Note 8—Variable Interest Entities—Sandy Creek for further discussion.

Agreement with LS Power. On August 9, 2009, we entered into an agreement to sell certain assets to LS Power, including our interests in SCH and SC Services. Please read Note 2—Dispositions and Discontinued Operations—Dispositions—LS Power Transaction for further discussion.

Other. On January 8, 2009, DHI paid a dividend of $175 million to Dynegy.

Subsequent to the dissolution of DLS Power Holdings and DLS Power Development, Dynegy acquired exclusive rights, ownership and developmental control of substantially all repowering or expansion opportunities related to its existing portfolio of operating assets, and subsequently contributed approximately $15 million of these assets and approximately $19 million of deferred tax assets associated with these assets to DHI. Please read Note 8—Variable Interest Entities—DLS Power Holdings and DLS Power Development for further information.

Note 12—Dynegy's Loss Per Share

Basic loss per share represents the amount of losses for the period available to each share of Dynegy's common stock outstanding during the period. Diluted loss per share represents the amount of losses for the period available to each share of Dynegy's 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 loss per share from continuing operations to diluted loss per share from continuing operations is shown in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions, except per share amounts)			
Loss from continuing operations	$ (352)	$ (274)	$ (690)	$ (426)
Less: Net loss attributable to the noncontrolling interest	(1)	(2)	(3)	(2)
Loss from continuing operations attributable to Dynegy Inc for basic and diluted loss per share	$ (351)	$ (272)	$ (687)	$ (424)
Basic weighted-average shares	842	840	842	839
Effect of dilutive securities:				

Stock options and restricted stock	2	2	1	2
Diluted weighted-average shares	844	842	843	841
Loss per share from continuing operations attributable to Dynegy Inc.:				
Basic	$ (0.42)	$ (0.32)	$ (0.82)	$ (0.51)
Diluted (1)	$ (0.42)	$ (0.32)	$ (0.82)	$ (0.51)

(1) Entities with a net loss from continuing operations are prohibited from including potential common shares in the computation of diluted per-share amounts. Accordingly, Dynegy has utilized the basic shares outstanding amount to calculate both basic and diluted loss per share for the three and six months ended June 30, 2009 and 2008.

Note 13—Commitments and Contingencies

Legal Proceedings

Set forth below is a summary of our material ongoing legal proceedings. 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.

Cooling Water Intake Permits. The cooling water intake structures at several of our facilities are regulated under section 316(b) of the Clean Water Act. This provision generally requires that standards set for facilities require that the location, design, construction, and capacity of cooling water intake structures reflect the best technology available ("BTA") for minimizing adverse environmental impact. These standards are developed and implemented for power generating facilities through the National Pollutant Discharge Elimination System ("NPDES") permits or individual State Pollutant Discharge Elimination System ("SPDES") permits. Historically, standards for minimizing adverse environmental impacts of cooling water intakes have been made by permitting agencies on a case-by-case basis considering the best professional judgment of the permitting agency.

The environmental groups that participate in NPDES and SPDES permit proceedings generally argue that only closed cycle cooling meets the BTA requirement. The issuance and renewal of NPDES or SPDES permits for three of our facilities have been challenged on this basis.

- Danskammer SPDES Permit — In January 2005, the New York State Department of Environmental Conservation ("NYSDEC") issued a Draft SPDES Permit renewal for the Danskammer facility. Three environmental groups sought to impose a permit requirement that the Danskammer facility install a closed cycle cooling system. Following a formal evidentiary hearing, the revised Danskammer SPDES Permit was issued on June 1, 2006 without requiring installation of a closed cycle cooling system. The permit was upheld on appeal by the Appellate Division and petitions for leave to appeal to the New York Court of Appeals were denied.

- Roseton SPDES Permit — In April 2005, the NYSDEC issued a Draft SPDES Permit renewal for the Roseton facility. The Draft Roseton SPDES Permit would require 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 facility install a closed cycle cooling system. In September 2006, the administrative law judge issued a ruling admitting the petitioners to 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 the petitioners, NYSDEC staff and us. The adjudicatory hearing on the Draft Roseton SPDES Permit will be scheduled after the Commissioner decides the appeal. We believe that the petitioners' claims lack merit and we plan to oppose those claims vigorously.

- Moss Landing NPDES Permit — The California Regional Water Quality Control Board ("Water Board") issued an NPDES permit for the Moss Landing Facility in 2000 in connection with modernization of the facility. A local environmental group sought review of the permit contending that the once through seawater-cooling system at Moss Landing should be replaced with a closed cycle cooling system to meet the BTA requirements. Following an initial remand from the courts, the Water Board affirmed its BTA finding. The Water Board's decision was affirmed by the Superior Court in 2004 and by the Court of Appeals in 2007. The petitioners filed a petition for review by the Supreme Court of California, which was granted in March 2008. Further action was deferred pending final disposition of the U.S. Supreme Court challenge regarding the Cooling Water Intake Structures Phase II regulations ("Phase II Rules"), as further described below. We believe that petitioner's claims lack merit and we plan to oppose those claims vigorously.

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Due to the nature of the claims, an adverse result in these proceedings could have a material effect on our financial condition, results of operations and cash flows.

In 2004, the U.S. EPA issued the Phase II Rules, which set forth standards to implement the BTA requirements for cooling water intakes at existing facilities. The rules were challenged by several environmental groups and in 2007 were struck down by the U.S. Court of Appeals for the Second Circuit in Riverkeeper, Inc. v. EPA. The Court's decision remanded several provisions of the rules to the U.S. EPA for further rulemaking. Several parties sought review of the decision before the U.S. Supreme Court. On April 1, 2009, the U.S. Supreme Court ruled that the U.S. EPA permissibly relied on cost-benefit analysis in setting the national BTA performance standard and in providing for cost-benefit variances from those standards as part of the Phase II Rules. We believe the U.S. Supreme Court's decision supports our position in the actions described above.

On June 30, 2009, the California State Water Resources Control Board issued its draft policy on the use of coastal and estuarine waters for power plant cooling. If the policy becomes final in its present form, it will require that existing power plants either: i) reduce water intake flow rate to a level commensurate with that which can be achieved by a closed-cycle wet cooling system; or ii) reduce impingement mortality and entrainment to a level comparable to that achieved by such a reduced water intake flow rate using operational or structural controls, or both. The policy may allow less stringent requirements under limited circumstances for very efficient generating units such as Moss Landing units 1 and 2. Compliance with the policy would be required at our South Bay power generation facility by December 31, 2012, at our Morro Bay power generation facility by December 31, 2015 and at our Moss Landing power generation facility by December 17, 2017.

Given the numerous variables and factors involved in calculating the potential costs associated with installing a closed cycle cooling system, any decision to install such a system at any of our plants, should one be required, would be made on a case-by-case basis considering all relevant factors at such time. If capital expenditures related to cooling water systems become great enough to render the operation of the plant uneconomical, we could, at our option, and subject to any applicable financing agreements or other obligations, reduce operations or cease to operate that facility and forego the capital expenditures.

Gas Index Pricing Litigation. We, several of our affiliates and other energy companies are named as defendants in numerous lawsuits in state and federal court claiming damages resulting from alleged price manipulation and false reporting of natural gas prices to certain index publications in the 2000-2002 timeframe (the "Gas Index Pricing Litigation"). The cases are pending in Nevada federal district court and Tennessee state appellate court. Recent developments include:

- In February 2007, the Tennessee state court dismissed a putative class action on defendants' motion. Plaintiffs appealed and in October 2008, the appellate court reversed the dismissal and remanded the case for further proceedings. In December 2008, the defendants appealed the decision to the Tennessee Supreme Court. The matter is fully briefed and we await further action from the court.

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In February 2008, the United States District Court in Las Vegas, Nevada granted defendants' motion for summary judgment in a putative class action in Colorado, which was transferred to Nevada through the multi-district litigation management process, thereby dismissing the case and all of plaintiffs' claims against certain defendants (including Dynegy). Plaintiffs moved for reconsideration and the court ordered additional briefing on plaintiffs' declaratory judgment claims against certain defendants (including Dynegy). In January 2009, the court dismissed plaintiffs' remaining declaratory judgment claims. The decision is subject to appeal.

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- In June 2009, we and the plaintiff in an action pending in Nevada federal court entered into a confidential settlement agreement to resolve the litigation. The settlement is without admission of wrongdoing and we continue to deny plaintiff's allegations.

- The remaining five cases, three of which seek class certification, are also pending in Nevada federal court. All of the cases were transferred through the multi-district litigation management process from other states, including Kansas, Wisconsin, Missouri and Illinois. The cases allege 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. In December 2008, plaintiffs in the class actions filed motions for class certification. The motion is expected to be fully briefed in the third quarter of 2009.

We continue to analyze the Gas Index Pricing Litigation and are vigorously defending the remaining matters. Due to the uncertainty of litigation, we cannot predict whether we will incur any liability in connection with these lawsuits. However, given the nature of the claims, an adverse result in these proceedings could have a material 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 which are now fully briefed. A hearing on defendants' motions was scheduled for May 2009, however the court took the motion off calendar and will consider the submissions of the parties. No timetable is established for the court's order. We believe the plaintiffs' suit lacks merit and we intend to oppose their claims vigorously.

Information Request under Section 114 of the Clean Air Act. On March 9, 2009, we received an information request from the U.S. EPA regarding maintenance, repair and replacement projects undertaken between January 1, 2000 and the present at the Danskammer power generation facility. We submitted responses to the information request on April 7 and July 17, 2009 and are continuing to cooperate with the U.S. EPA to provide additional information as requested. The information request is related to a nationwide enforcement initiative by the U.S. EPA targeting electric utilities. The U.S. EPA's inquiry may lead to claims of CAA violations that could result in an enforcement action, the scope of which cannot be predicted with confidence at this time, but which could have a material effect on our financial condition, results of operations and cash flows.

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 affect our financial condition, results of operations or cash flows.

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 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. Related to the indemnifications discussed below, we have accrued approximately $2 million as of June 30, 2009.

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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 provides that we will manage the Gas Index Pricing Litigation 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. West Coast Power is no longer a party to any active Gas Index Pricing Litigation matters. 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 Cost 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 U.S. 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 Resources, Inc. (“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 remediation 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 tax 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. As of June 30, 2009, no claims have been made against these indemnities which expire on September 30, 2009. 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, CoGen Lyondell and Heard County power generating facilities. As of June 30, 2009, no claims have been made against these indemnities.

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Note 14—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 our Form 10-K.

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

	Pension Benefits		Other Benefits	
	Three Months Ended June 30,			
	2009	2008	2009	2008
	(in millions)			
Service cost benefits earned during period	$ 3	$ 2	$ —	$ —
Interest cost on projected benefit obligation	3	3	1	1
Expected return on plan assets	(4)	(4)	—	—
Recognized net actuarial loss	1	1	—	—
Net periodic benefit cost	$ 3	$ 2	$ 1	$ 1

	Pension Benefits		Other Benefits	
	Six Months Ended June 30,			
	2009	2008	2009	2008
	(in millions)			
Service cost benefits earned during period	$ 6	$ 5	$ 1	$ 1
Interest cost on projected benefit obligation	6	6	2	2
Expected return on plan assets	(7)	(7)	—	—
Recognized net actuarial loss	2	1	—	—
Net periodic benefit cost	$ 7	$ 5	$ 3	$ 3

Contributions. During the six months ended June 30, 2009 we made $3 million in contributions to our pension plans and other postretirement benefit plans. We made no contributions to our pension plans or other postretirement benefit plans during the six months ended June 30, 2008. We expect to make contributions of approximately $26 million to our pension plans and $1 million to other benefit plans during 2009.

Note 15—Income Taxes

Effective Tax Rate. We 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's income taxes included in continuing operations were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions, except rates)			
Income tax benefit	$ 209	$ 186	$ 124	$ 282
Effective tax rate	37 %	41 %	15 %	40 %

For the six months ended June 30, 2009, Dynegy's overall effective tax rate on continuing operations was different than the statutory rate of 35 percent due primarily to nondeductible goodwill. Additionally, a change in state income tax law resulted in additional income tax expense of approximately $21 million. As a result of the LS Power transaction, we revised our assumptions around the ability to utilize certain state deferred tax assets, and therefore we recorded valuation allowances resulting in additional state tax expense of $10 million for the three and six months ended June 30, 2009. For the three and six months ended June 30, 2008, Dynegy's overall effective tax rate on continuing operations was different than the statutory rate of 35 percent due primarily to state income taxes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions, except rates)			
Income tax benefit	$ 220	$ 184	$ 138	$ 275
Effective tax rate	39 %	41 %	17 %	39 %

For the six months ended June 30, 2009, DHI's overall effective tax rate on continuing operations was different than the statutory rate of 35 percent due primarily to nondeductible goodwill. Additionally, a change in state income tax law resulted in additional income tax expense of approximately $15 million. As a result of the LS Power transaction, we revised our assumptions around the ability to utilize certain state deferred tax assets, and therefore we recorded valuation allowances resulting in additional state tax expense of $7 million for the three and six months ended June 30, 2009. For the three and six months ended June 30, 2008, DHI's overall effective tax rate on continuing operations was different than the statutory rate of 35 percent due primarily to state income taxes.

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Note 16—Segment Information

We report results for the following segments: (i) GEN-MW, (ii) GEN-WE and (iii) GEN-NE. Our unaudited condensed consolidated financial results also reflect corporate-level expenses such as general and administrative, interest and depreciation and amortization.

Reportable segment information for Dynegy, including intercompany transactions accounted for at prevailing market rates, for the three and six months ended June 30, 2009 and 2008 is presented below:

Dynegy's Segment Data as of and for the Three Months Ended June 30, 2009
(in millions)

	Power Generation				
	GEN-MW	GEN-WE	GEN-NE	Other	Total
Unaffiliated revenues:					
Domestic	$ 172	$ 141	$ 181	$ (1)	$ 493
Total revenues	$ 172	$ 141	$ 181	$ (1)	$ 493
Depreciation and amortization	$ (57)	$ (18)	$ (16)	$ (3)	$ (94)
Impairment and other charges	(18)	—	(387)	—	(405)
Operating income (loss)	$ (85)	$ 37	$ (382)	$ (50)	$ (480)
Earnings from unconsolidated investments	—	13	—	—	13
Other items, net	—	2	—	2	4
Interest expense					(98)
Loss from continuing operations before income taxes					(561)
Income tax benefit					209
Loss from continuing operations					(352)
Income from discontinued operations, net of taxes					6

Net loss					(346)
Less: Net loss attributable to the noncontrolling interests					(1)
Net loss attributable to Dynegy Inc.					$ (345)
Identifiable assets:					
Domestic	$ 7,075	$ 2,946	$ 1,986	$ 1,514	$ 13,521
Other	—	—	—	19	19
Total	$ 7,075	$ 2,946	$ 1,986	$ 1,533	$ 13,540
Capital expenditures	$ (146)	$ (7)	$ (11)	$ (1)	$ (165)

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(Unaudited)

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

	Power Generation				
	GEN-MW	GEN-WE	GEN-NE	Other	Total
Unaffiliated revenues:					
Domestic	$ 66	$ 177	$ 56	$ 1	$ 300
Other	—	—	22	—	22
Total revenues	$ 66	$ 177	$ 78	$ 1	$ 322
Depreciation and amortization	$ (52)	$ (24)	$ (14)	$ (2)	$ (92)
Operating loss	$ (170)	$ (32)	$ (142)	$ (20)	$ (364)
Earnings (losses) from unconsolidated investments	—	3	—	(6)	(3)
Other items, net	—	4	—	11	15
Interest expense					(108)
Loss from continuing operations before income taxes					(460)
Income tax benefit					186
Loss from continuing operations					(274)
Loss from discontinued operations, net of taxes					—
Net loss					(274)
Less: Net loss attributable to the noncontrolling interests					(2)
Net loss attributable to Dynegy Inc.					$ (272)
Identifiable assets:					
Domestic	$ 9,235	$ 3,664	$ 2,494	$ 1,106	$ 16,499

Other	—	—	17	12	29
Total	$ 9,235	$ 3,664	$ 2,511	$ 1,118	$ 16,528
Unconsolidated investments	$ —	$ —	$ —	$ 62	$ 62
Capital expenditures and investments in unconsolidated affiliates	$ (134)	$ (18)	$ (12)	$ (9)	$ (173)

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Dynegy's Segment Data as of and for the Six Months Ended June 30, 2009
(in millions)

	Power Generation				
	GEN-MW	GEN-WE	GEN-NE	Other	Total
Unaffiliated revenues:					
Domestic	$ 697	$ 223	$ 478	$ (1)	$ 1,397
Total revenues	$ 697	$ 223	$ 478	$ (1)	$ 1,397
Depreciation and amortization	$ (109)	$ (40)	$ (31)	$ (6)	$ (186)
Goodwill impairments	(76)	(260)	(97)	—	(433)
Impairment and other charges	(23)	—	(387)	—	(410)
Operating income (loss)	$ 115	$ (250)	$ (425)	$ (87)	$ (647)
Earnings from unconsolidated investments	—	20	—	1	21
Other items, net	2	2	—	4	8
Interest expense					(196)
Loss from continuing operations before income taxes					(814)
Income tax benefit					124
Loss from continuing operations					(690)
Income from discontinued operations, net of taxes					7
Net loss					(683)
Less: Net loss attributable to the noncontrolling interests					(3)
Net loss attributable to Dynegy Inc.					$ (680)

Identifiable assets:					
Domestic	$ 7,075	$ 2,946	$ 1,986	$ 1,514	$ 13,521
Other	—	—	—	19	19
Total	$ 7,075	$ 2,946	$ 1,986	$ 1,533	$ 13,540
Capital expenditures	$ (274)	$ (8)	$ (18)	$ (3)	$ (303)

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

	Power Generation				
	GEN-MW	GEN-WE	GEN-NE	Other	Total
Unaffiliated revenues:					
Domestic	$ 230	$ 306	$ 235	$ —	$ 771
Other	—	—	94	—	94
Total revenues	$ 230	$ 306	$ 329	$ —	$ 865
Depreciation and amortization	$ (105)	$ (47)	$ (27)	$ (5)	$ (184)
Operating loss	$ (229)	$ (78)	$ (163)	$ (44)	$ (514)
Losses from unconsolidated investments	—	(2)	—	(10)	(12)
Other items, net	—	4	6	25	35
Interest expense					(217)
Loss from continuing operations before income taxes					(708)
Income tax benefit					282
Loss from continuing operations					(426)
Income from discontinued operations, net of taxes					—
Net loss					(426)
Less: Net loss attributable to the noncontrolling interests					(2)
Net loss attributable to Dynegy Inc.					$ (424)
Identifiable assets:					

Domestic	$	9,235	$	3,664	$	2,494	$	1,106	$	16,499
Other		—		—		17		12		29
Total	$	9,235	$	3,664	$	2,511	$	1,118	$	16,528
Unconsolidated investments	$	—	$	—	$	—	$	62	$	62
Capital expenditures and investments in unconsolidated affiliates	$	(249)	$	(21)	$	(22)	$	(18)	$	(310)

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(Unaudited)

For the Interim Periods Ended June 30, 2009 and 2008

Reportable segment information for DHI, including intercompany transactions accounted for at prevailing market rates, for the three and six months ended June 30, 2009 and 2008 is presented below:

DHI's Segment Data as of and for the Three Months Ended June 30, 2009
(in millions)

	Power Generation				
	GEN-MW	GEN-WE	GEN-NE	Other	Total
Unaffiliated revenues:					
Domestic	$ 172	$ 141	$ 181	$ (1)	$ 493
Total revenues	$ 172	$ 141	$ 181	$ (1)	$ 493
Depreciation and amortization	$ (57)	$ (18)	$ (16)	$ (3)	$ (94)
Impairment and other charges	(18)	—	(387)	—	(405)
Operating income (loss)	$ (85)	$ 37	$ (382)	$ (50)	$ (480)
Earnings from unconsolidated investments	—	13	—	—	13
Other items, net	—	2	—	1	3
Interest expense					(98)
Loss from continuing operations before income taxes					(562)
Income tax benefit					220
Loss from continuing operations					(342)
Income from discontinued operations, net of taxes					6
Net loss					(336)
Less: Net loss attributable to the noncontrolling interests					(1)

Net loss attributable to Dynegy Holdings Inc.					$ (335)
Identifiable assets:					
Domestic	$ 7,075	$ 2,946	$ 1,986	$ 1,332	$ 13,339
Other	—	—	—	19	19
Total	$ 7,075	$ 2,946	$ 1,986	$ 1,351	$ 13,358
Capital expenditures	$ (146)	$ (7)	$ (11)	$ (1)	$ (165)

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DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended June 30, 2009 and 2008

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

	Power Generation				
	GEN-MW	GEN-WE	GEN-NE	Other	Total
Unaffiliated revenues:					
Domestic	$ 66	$ 177	$ 56	$ 1	$ 300
Other	—	—	22	—	22
Total revenues	$ 66	$ 177	$ 78	$ 1	$ 322
Depreciation and amortization	$ (52)	$ (24)	$ (14)	$ (2)	$ (92)
Operating loss	$ (170)	$ (32)	$ (142)	$ (20)	$ (364)
Earnings from unconsolidated investments	—	3	—	—	3
Other items, net	—	4	—	10	14
Interest expense					(108)
Loss from continuing operations before income taxes					(455)
Income tax benefit					184
Loss from continuing operations					(271)
Loss from discontinued operations, net of taxes					—
Net loss					(271)
Less: Net loss attributable to the noncontrolling interests					(2)
Net loss attributable to Dynegy Holdings Inc.					$ (269)
Identifiable assets:					

Domestic	$ 9,235	$ 3,664	$ 2,494	$ 1,014	$ 16,407
Other	—	—	17	12	29
Total	$ 9,235	$ 3,664	$ 2,511	$ 1,026	$ 16,436
Capital expenditures	$ (134)	$ (18)	$ (12)	$ (4)	$ (168)

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DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended June 30, 2009 and 2008

DHI's Segment Data as of and for the Six Months Ended June 30, 2009
(in millions)

	Power Generation				
	GEN-MW	GEN-WE	GEN-NE	Other	Total
Unaffiliated revenues:					
Domestic	$ 697	$ 223	$ 478	$ (1)	$ 1,397
Total revenues	$ 697	$ 223	$ 478	$ (1)	$ 1,397
Depreciation and amortization	$ (109)	$ (40)	$ (31)	$ (6)	$ (186)
Goodwill impairments	(76)	(260)	(97)	—	(433)
Impairment and other charges	(23)	—	(387)	—	(410)
Operating income (loss)	$ 115	$ (250)	$ (425)	$ (89)	$ (649)
Earnings from unconsolidated investments	—	20	—	—	20
Other items, net	2	2	—	3	7
Interest expense					(196)
Loss from continuing operations before income taxes					(818)
Income tax benefit					138
Loss from continuing operations					(680)
Income from discontinued operations, net of taxes					7
Net loss					(673)
Less: Net loss attributable to the noncontrolling interests					(3)
Net loss attributable to Dynegy Holdings Inc.					$ (670)

Identifiable assets:					
Domestic	$ 7,075	$ 2,946	$ 1,986	$ 1,332	$ 13,339
Other	—	—	—	19	19
Total	$ 7,075	$ 2,946	$ 1,986	$ 1,351	$ 13,358
Capital expenditures	$ (274)	$ (8)	$ (18)	$ (3)	$ (303)

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DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

For the Interim Periods Ended June 30, 2009 and 2008

DHI's Segment Data as of and for the Six Months Ended June 30, 2008
(in millions)

	Power Generation				
	GEN-MW	GEN-WE	GEN-NE	Other	Total
Unaffiliated revenues:					
Domestic	$ 230	$ 306	$ 235	$ —	$ 771
Other	—	—	94	—	94
Total revenues	$ 230	$ 306	$ 329	$ —	$ 865
Depreciation and amortization	$ (105)	$ (47)	$ (27)	$ (5)	$ (184)
Operating loss	$ (229)	$ (78)	$ (163)	$ (44)	$ (514)
Losses from unconsolidated investments	—	(2)	—	—	(2)
Other items, net	—	4	6	24	34
Interest expense					(217)
Loss from continuing operations before income taxes					(699)
Income tax benefit					275
Loss from continuing operations					(424)
Income from discontinued operations, net of taxes					—
Net loss					(424)
Less: Net loss attributable to the noncontrolling interests					(2)
Net loss attributable to Dynegy Holdings Inc.					$ (422)
Identifiable assets:					

Domestic	$ 9,235	$ 3,664	$ 2,494	$ 1,014	$ 16,407
Other	—	—	17	12	29
Total	$ 9,235	$ 3,664	$ 2,511	$ 1,026	$ 16,436
Capital expenditures	$ (249)	$ (21)	$ (22)	$ (7)	$ (299)

Note 17—Subsequent Events

We have evaluated subsequent events through August 10, 2009, the date our financial statements were issued and up to the time of the filing of our financial statements with the SEC.

On August 9, 2009, we entered into an agreement to sell our interests in several power generation facilities and our equity investment in the Sandy Creek joint ventures. Please read Note 2—Dispositions and Discontinued Operations—Dispositions—LS Power Transaction for further discussion.

In addition, on August 5, 2009, we entered into Amendment No. 4 to the Credit Facility. Please read Note 10—Debt—Credit Facility Amendment for further discussion.

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DYNEGY INC. and DYNEGY HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

For the Interim Periods Ended June 30, 2009 and 2008

Item 2—MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS—DYNEGY INC. AND DYNEGY HOLDINGS INC.

The following discussion should be read together with the unaudited condensed consolidated financial statements and the notes thereto included in this report and with the audited consolidated financial statements and the notes thereto included in our Form 10-K.

We are holding companies and conduct substantially all of our business operations through our subsidiaries. Our current business operations are focused primarily on the power generation sector of the energy industry. We report the results of our power generation business as three separate segments in our consolidated financial statements: (i) the Midwest segment ("GEN-MW"); (ii) the West segment ("GEN-WE"); and (iii) the Northeast segment ("GEN-NE"). Our unaudited condensed consolidated financial results also reflect corporate-level expenses such as general and administrative, interest and depreciation and amortization.

In addition to our operating generation facilities, we own an approximate 37 percent interest in PPEA Holding, which through its wholly owned subsidiary owns a 57 percent undivided interest in the Plum Point Project, a 665 MW coal-fired power generation facility under construction in Arkansas, which is included in GEN-MW. We also own a 50 percent interest in SCEA, which owns an approximate 64 percent undivided interest in the Sandy Creek Project, an 898 MW power generation facility under construction in Texas, which is included in GEN-WE. On August 9, 2009, we entered into a transaction with LS Power to sell our interests in the Sandy Creek Project. Please read Recent Developments below for further information.

Recent Developments

LS Power Transaction. On August 9, 2009, we entered into a purchase and sale agreement with LS Power in which we agreed: (i) to sell our ownership interests in 4,788 MW of peaking and combined-cycle power generation assets, as well as our remaining noncontrolling interests in the Sandy Creek Project under construction in Texas and (ii) to issue $235 million principal amount of DHI 7.50 percent senior unsecured notes due 2015. We will receive $1.025 billion in cash (consisting, in part, of $175 million of restricted cash on our unaudited condensed consolidated balance sheets to be released to Dynegy from the Sandy Creek restricted account) and 245 million of Dynegy's Class B shares from LS Power.

Upon closing of the transaction, which is expected to occur during the second half of 2009 subject to receipt of required regulatory approvals, the remaining 95 million shares of Dynegy's Class B common stock held by LS Power will be converted into an equivalent number of shares of Dynegy's Class A common stock, representing approximately 15 percent of Dynegy's outstanding Class A common stock. Concurrent with the execution of the purchase and sale agreement, LS Power and Dynegy entered into a new Shareholder Agreement, which, upon closing of the transaction, generally will restrict LS Power from increasing their future ownership above 15 percent for a specified period and eliminate special approval, board representation and other certain rights associated with the former Class B common shares. Please see Note 2—Dispositions and Discontinued Operations—Dispositions—LS Power Transaction for further information.

Based on the fair value at June 30, 2009 of the consideration to be received from LS Power as now reflected in the definitive transaction documents, we expect to record further pre-tax impairment charges of approximately $355 million in the third quarter 2009 upon the asset groups meeting the criteria of held for sale, as well as a net loss on sale of assets of approximately $130 million upon closing of the transaction, based on our stock price and the value of our investment in Sandy Creek at June 30, 2009. However, the estimates of the total impairment charge and loss on sale could change materially based on changes in the fair value of the shares of Class B common stock that is part of the consideration to be received in the sales transaction. Please read Note 6—Impairment Charges for further discussion of these impairments.

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Credit Facility Amendment. On August 5, 2009, we entered into Amendment No. 4 to the Credit Facility. Among certain other changes, Amendment No. 4 (a) modifies the financial covenants relating to the ratios of Secured Debt to EBITDA and of EBITDA to Consolidated Interest Expense; (b) further modifies certain conditions precedent to, incurring of certain DHI indebtedness, adding revolver commitments, making certain investments, or certain sales of assets and engaging in certain other permitted activities; (c) increases the amount of assets eligible for disposition outside the asset sale, reinvestment and prepayment provisions of the Credit Facility; (d) expands our ability to prepay additional debt of DHI under certain conditions; and (e) increases applicable margin for borrowings and the unused commitment fee payable on the unused portion of the revolving facility. Please read Note 10—Debt—Credit Facility Amendment for further discussion.

Cost Saving Initiative. Beginning in the third quarter 2009, we have implemented an extensive, multi-year program to reduce costs across the company. We expect to begin realizing these savings in 2010. Savings are expected to be generated through reductions in capital expenditures, operations and maintenance costs, and corporate general and administrative expenses. We expect to record a restructuring charge of less than $5 million in the third quarter 2009 in connection with this effort.

LIQUIDITY AND CAPITAL RESOURCES

Overview

In this section, we describe our liquidity and capital requirements and our internal and external liquidity and capital resources. Our liquidity and capital requirements are primarily a function of our debt maturities and debt service requirements, fixed capacity payments and contractual obligations, capital expenditures (including required environmental expenditures) and working capital needs. Examples of working capital needs include prepayments or cash collateral associated with purchases of commodities, particularly natural gas, fuel oil and coal, facility maintenance costs and other costs such as payroll.

Our primary sources of internal liquidity are cash flows from operations, cash on hand, available capacity under our Credit Facility, of which the revolver capacity is scheduled to mature in April 2012 and the term letter of credit capacity of $850 million is scheduled to mature in April 2013. Additionally, DHI may borrow money from time to time from Dynegy. Our primary sources of external liquidity are asset sales proceeds and proceeds from capital market transactions to the extent we engage in these transactions.

Operating cash flows provided by our power generation assets and the available cash we currently hold are expected to be sufficient to fund the operation of our business, as well as our planned capital expenditure program, including expenditures in connection with the Midwest consent decree ("Midwest Consent Decree"), and debt service requirements over the next twelve months. We maintain capacity under the Credit Facility in order to post collateral in the form of letters of credit or cash, and we believe we have sufficient capacity should we be required to post additional collateral. Please read Note 10—Debt— Credit Facility Amendment for a discussion of the financial covenants contained in the Credit Facility.

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Current Liquidity. The following table summarizes our consolidated revolver capacity and liquidity position at August 3, 2009, June 30, 2009 and December 31, 2008:

	August 3, 2009	June 30, 2009	December 31, 2008
		(in millions)	
Revolver capacity (1)(2)	$ 903	$ 875	$ 1,080
Borrowings against revolver capacity	—	—	—
Term letter of credit capacity, net of required reserves	825	825	825
Plum Point and Sandy Creek letter of credit capacity	377	377	377
Available contingent letter of credit facility capacity (3)	—	—	—
Outstanding letters of credit	(947)	(1,024)	(1,135)
Unused capacity	1,158	1,053	1,147
Cash—DHI	532	411	670
Total available liquidity—DHI	1,690	1,464	1,817
Cash—Dynegy	183	183	23
Total available liquidity—Dynegy	$ 1,873	$ 1,647	$ 1,840

(1) We currently have a syndicate of lenders participating in the revolving portion of our Credit Facility with commitments ranging from $10 million to $105 million. We have not experienced, nor do we currently anticipate, any difficulties in obtaining funding from any of the lenders at this time. However, we continue to monitor the environment, and any lack of or delay in funding by a significant member or multiple members of our banking group would negatively affect our liquidity position.

(2) As of June 30, 2009, DHI's available liquidity under the Credit Facility was reduced temporarily as a result of borrowing limitations under the covenant regarding the ratio of secured debt to EBITDA. Although our available liquidity is reduced, we have adequate liquidity to meet expected needs for the remainder of this quarter. As of September 30, 2009, the reduction is expected to be lifted in connection with Amendment No. 4 to DHI's Credit Facility. Please read Note10—Credit Facility Amendment for further discussion.

(3) Under the terms of the Contingent LC Facility, up to $300 million of capacity can become available, contingent on 2009 forward natural gas prices rising above $13/MMBtu. 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.

Cash on Hand. At August 3, 2009 and June 30, 2009, Dynegy had cash on hand of $715 million and $594 million, respectively, as compared to $693 million at December 31, 2008. The decrease in cash on hand as compared to the end of 2008 is primarily attributable to capital expenditures and an increase in cash collateral on futures and exchange-cleared derivatives partially offset by cash provided by the operating activities of our power generation business and the receipt of proceeds from the Heard County sale.

At August 3, 2009 and June 30, 2009, DHI had cash on hand of $532 million and $411 million, respectively, as compared to $670 million at December 31, 2008. The decrease in cash on hand as compared to the end of 2008 is primarily attributable to a dividend of $175 million paid to Dynegy in January 2009, an increase in capital expenditures and cash collateral on futures and exchange-cleared derivatives partially offset by cash provided by the operating activities of our power generation business and the receipt of proceeds from the Heard County sale.

Operating Activities

Historical Operating Cash Flows. Dynegy's cash flow provided by operations totaled $60 million for the six months ended June 30, 2009. DHI's cash flow provided by operations totaled $80 million for the six months ended June 30, 2009. During the period, our power generation business provided positive cash flow from operations of $338 million from the operation of our power generation facilities. Cash provided by the operations of our power generation facilities was partly offset by a $166 million increase in collateral postings, including the effect of cash inflows and outflows arising from the daily settlements of our exchange-traded or brokered commodity futures positions held with our futures clearing manager. Corporate and other operations included a use of approximately $278 million and $258 million in cash by Dynegy and DHI, respectively, primarily due to interest payments to service debt and general and administrative expenses, partially offset by interest income. Dynegy's operating cash flow also reflected the payment of $19 million to LS Associates in conjunction with the dissolution of DLS Power Holdings and DLS Power Development.

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Dynegy's cash flow provided by operations totaled $32 million for the six months ended June 30, 2008. DHI's cash flow provided by operations totaled $29 million for the six months ended June 30, 2008. During the period, our power generation business provided positive cash flow from operations of $324 million. Cash provided by the operations of our power generation facilities was partly offset by a $186 million increase in collateral postings, including the effect of cash inflows and outflows arising from the daily settlements of our exchange-traded or brokered commodity futures positions held with our futures clearing manager. Corporate and other operations include a use of approximately $292 million and $295 million in cash by Dynegy and DHI, respectively, primarily due to interest payments to service debt, general and administrative expenses and a $17 million legal settlement payment previously reserved, partially offset by interest income.

Future Operating Cash Flows. Our future operating cash flows will vary based on a number of factors, many of which are beyond our control, including the price of natural gas and its correlation to power prices, the cost of coal and fuel oil, collateral requirements, the value of capacity and ancillary services and legal, environmental and regulatory requirements. Additionally, the increased costs associated with the Credit Facility amendment, the cost savings initiative and LS Power transaction will impact our future operating cash flows. Over the longer term, our operating cash flows also will be impacted by, among other things, our ability to tightly manage our operating costs, including increased maintenance and environmental costs, in balance with ensuring that our plants are available to operate when markets offer attractive returns.

Collateral Postings. We use a significant portion of our capital resources, in the form of cash and letters of credit, to satisfy counterparty collateral demands. These counterparty collateral demands reflect our non-investment grade credit ratings and counterparties' views of our financial condition and ability to satisfy our performance obligations, as well as commodity prices and other factors. The following table summarizes our consolidated collateral postings to third parties by business at August 3, 2009, June 30, 2009 and December 31, 2008:

	August 3, 2009	June 30, 2009 (in millions)	December 31, 2008
By Business:			
Generation	$ 1,042	$ 1,119	$ 1,064
Other	189	189	189
Total	$ 1,231	$ 1,308	$ 1,253
By Type:			
Cash (1)	$ 284	$ 284	$ 118
Letters of Credit	947	1,024	1,135
Total	$ 1,231	$ 1,308	$ 1,253

(1) Cash collateral postings exclude the effect of cash inflows and outflows arising from the daily settlements of our exchange-traded or brokered commodity futures positions held with our futures clearing manager.

The changes in collateral postings from December 31, 2008 to June 30, 2009 and to August 3, 2009 are primarily related to increases in initial margin requirements associated with the volume of forward power sales and fuel purchase transactions.

Going forward, we expect counterparties' collateral demands to continue to reflect changes in commodity prices, including seasonal changes in weather-related demand, as well as their views of our creditworthiness. We believe that we have sufficient capital resources to satisfy counterparties' collateral demands, including those for which no collateral is currently posted, for the foreseeable future.

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Investing Activities

Capital Expenditures. We continue to tightly manage our operating costs and capital expenditures. We had approximately $303 million and $299 million in capital expenditures during the six months ended June 30, 2009 and 2008. Our capital spending by reportable segment was as follows:

	For the Six Months Ended June 30,	
	2009	2008
	(in millions)	
GEN-MW	$ 274	$ 249
GEN-WE	8	21
GEN-NE	18	22
Other	3	7
Total	$ 303	$ 299

Capital spending in our GEN-MW segment primarily consisted of environmental and maintenance capital projects, as well as approximately $47 million and $120 million spent on development capital related to the Plum Point Project during the six months ended June 30, 2009 and 2008, respectively. Capital spending in our GEN-WE and GEN-NE segments primarily consisted of maintenance projects.

During the first quarter 2009, we revised our estimate of the timing regarding a maintenance capital project at our Moss Landing facility in GEN-WE. We expect capital expenditures for the remainder of 2009 to be approximately $45 million higher than originally planned, primarily due to the change in timing.

Asset Dispositions. On April 30, 2009, we completed our sale of the Heard County power generation facility to Oglethorpe for approximately $105 million, net of transaction costs. Please read Note 2—Discontinued Operations—Heard County for further discussion.

On August 9, 2009, we entered into a purchase and sale agreement with LS Power in which we agreed to: (i) sell our ownership interests in 4,788 MW of peaking and combined-cycle power generation assets, as well as our remaining noncontrolling interest in the Sandy Creek Project under construction in Texas and (ii) issue $235 million principal amount of DHI 7.50 percent senior unsecured notes due 2015. We will receive $1.025 billion in cash (consisting, in part, of $175 million of restricted cash on our unaudited condensed consolidated balance sheets to be released to Dynegy from the Sandy Creek restricted account) and 245 million of Dynegy's Class B shares held by LS Power. Please see Note 2—Dispositions and Discontinued Operations—Dispositions—LS Power Transaction for further information.

Proceeds from asset sales during the six months ended June 30, 2008 totaled $84 million and primarily related to the sale of our Calcasieu power generating facility, net of transaction costs, the NYMEX shares and seats, and the beneficial interest in Oyster Creek. Please read Note 2—Dispositions and Discontinued Operations—Discontinued Operations—Calcasieu for further discussion.

Consistent with industry practice, we regularly evaluate our generation fleet based primarily on geographic location, fuel supply, market structure and market recovery expectations. We consider divestitures of non-core assets where the balance of the above factors suggests that such assets' earnings potential is limited or that the value that can be captured through a divestiture outweighs the benefits of continuing to own and operate such assets. We have previously indicated that we consider Plum Point a non-core asset and intend to pursue alternatives regarding our remaining ownership interest.

Other Investing Activities. Cash inflow related to short-term investments during the six months ended June 30, 2009 totaled $14 million and $13 million for both Dynegy and DHI, respectively, reflecting a distribution from our short-term investments. There was a $33 million cash outflow during the six months ended June 30, 2009 related to changes in restricted cash balances primarily due to a $39 million increase in the Independence restricted cash balance. Other included $3 million of insurance proceeds.

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Dynegy made $11 million in contributions to DLS Power Holdings during the six months ended June 30, 2008 offset by the distribution of approximately $7 million and repayment of approximately $3 million of an affiliate receivable from the Dynegy Member. Please see Note 8—Variable Interest Entities—Sandy Creek for further discussion.

There was a $28 million cash inflow during the six months ended June 30, 2008 related to changes in restricted cash balances primarily due to a reduction of our cash collateral as a result of SCEA's sale of an 11 percent undivided interest in the Sandy Creek Project, the release of restricted cash and the use of restricted cash for the ongoing construction of the Plum Point Project, partially offset by interest income. Finally, Other included $7 million of insurance proceeds and $4 million of proceeds from the liquidation of an investment during the six months ended June 30, 2008.

Financing Activities

Historical Cash Flow from Financing Activities. Dynegy's net cash provided by financing activities during the six months ended June 30, 2009 totaled $54 million, primarily related to proceeds from long-term borrowings under the Plum Point Credit Agreement Facility. DHI's net cash used in financing activities during the six months ended June 30, 2009 totaled $121 million. This included a one-time dividend payment from DHI to Dynegy of $175 million offset by $54 million primarily related to proceeds from long-term borrowings under the Plum Point Credit Agreement Facility.

Dynegy's cash provided by financing activities during the six months ended June 30, 2008 totaled $88 million, which primarily related to proceeds of $111 million from long-term borrowings under the Plum Point Credit Agreement Facility, partly offset by a $21 million principal payment on our 9.00 percent secured bonds due 2013. DHI's cash provided by financing activities during the six months ended June 30, 2008 totaled $86 million, which primarily related to proceeds of $111 million from long-term borrowings under the Plum Point Credit Agreement Facility, partly offset by a $21 million principal payment on our 9.00 percent secured bonds due 2013.

Financing Trigger Events. Our debt instruments and other financial obligations include provisions which, if not met, could require early payment, additional collateral support or similar actions. These trigger events include financial covenants, insolvency events, defaults on scheduled principal or interest payments, acceleration of other financial obligations and change of control provisions. We do not have any trigger events tied to specified credit ratings or stock price in our debt instruments and are not party to any contracts that require us to issue equity based on credit ratings or other trigger events. However, certain interest rate swaps to which Plum Point is a party could be terminated if a credit downgrade of Plum Point occurs and there is also a default by the insurer that has provided credit insurance for the swaps. The fair value of the Plum Point interest rate swaps at June 30, 2009 was $105 million of a liability.

Capital-Structuring Transactions. Following the pending transaction with LS Power, we will be focused on deploying the proceeds from the transaction in a manner that best aligns with our capital allocation objectives. We are considering executing one or more financing transactions in the near-term designed to reduce existing debt or other obligations or replace certain debt obligations with longer-term obligations. Transactions to redeem outstanding debt may require us to pay a premium over market price. Capital allocation determinations generally are subject to the discretion of Dynegy's Board of Directors as well as availability of capital and related investment opportunities, and may be limited by the provisions of our financing agreements as well as the provisions of the agreements with LS Power. Any particular use of capital in an amount that is not considered material may be made without any prior public disclosure and could occur at any time.

Further, as part of our ongoing efforts to maintain a capital structure that is closely aligned with the cash-generating potential of our asset-based business, which is subject to cyclical changes in commodity prices, we may explore additional sources of external liquidity, including public or private debt or equity issuances. Matters to be considered will include reducing cash interest expense, covenant flexibility, return on investment and maturity profile, all to be balanced with maintaining adequate liquidity. The timing of any transaction may be impacted by events, such as strategic growth opportunities, legal judgments or regulatory or environmental requirements as well as any decisions to seek an improved credit profile. The receptiveness of the capital markets to an offering of debt or equity securities cannot be assured and may be negatively impacted by, among other things, our non-investment grade credit ratings, significant debt maturities, long-term business prospects and other factors beyond our control, including current market conditions. Any issuance of equity by Dynegy likely would have other effects as well, including stockholder dilution, and our ability to issue equity securities will be limited by the agreements with LS Power entered into on August 9, 2009. This agreement provides that we have agreed not to issue Dynegy's equity securities for our own purposes until the earlier of (i) 121 days following the closing of the transaction with LS Power and (ii) the first date following closing of the transaction in which LS Power owns, in aggregate, less than 10 percent of Dynegy's then outstanding Class A common stock. Further, our ability to issue debt securities is limited by our financing agreements, including our Credit Facility.

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In addition, we continually review and discuss opportunities to participate in what we believe will be continuing consolidation of the power generation industry. No such definitive transaction has been agreed to and none can be guaranteed to occur; however, we have successfully executed on similar opportunities in the past and could do so again in the future. Depending on the terms and structure of any such transaction, we could issue significant debt and/or equity securities for capital-raising purposes. We also could be required to assume substantial debt obligations and the underlying payment obligations.

Dividends and Dynegy Common Stock. Dividend payments on Dynegy's common stock are at the discretion of its Board of Directors. Dynegy did not declare or pay a dividend on its common stock during the second quarter 2009, and does not expect to pay a dividend on any class of its common stock in the foreseeable future.

Credit Ratings

Our credit rating status is currently "non-investment grade"; our senior unsecured debt is rated "B" by Standard & Poor's, "B3" by Moody's, and "B+" by Fitch. On April 8, 2009, Moody's downgraded our corporate family and probability of default ratings of the electricity utility to "B2" from "B1" based on projected lower power prices affecting credit metrics. The agency also cut our senior secured bank facilities rating to "Ba2" from "Ba1", and senior unsecured debt rating to "B3" from "B2". The downgrades did not trigger any of our financing arrangements or other obligations and otherwise have not impacted our operations or liquidity.

Disclosure of Contractual Obligations and Contingent Financial Commitments

We have incurred various contractual obligations and financial commitments in the normal course of our operations and financing activities. Contractual obligations include future cash payments required under existing contractual arrangements, such as debt and lease agreements. These obligations may result from both general financing activities and from commercial arrangements that are directly supported by related revenue-producing activities. Contingent financial commitments represent obligations that become payable only if certain pre-defined events occur, such as financial guarantees.

As of June 30, 2009, there were no material changes to our contractual obligations and contingent financial commitments since December 31, 2008.

Please read "Uncertainty of Forward-Looking Statements and Information" for additional factors that could impact our future operating results and financial condition.

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RESULTS OF OPERATIONS—DYNEGY INC. and DYNEGY HOLDINGS INC.

Overview. In this section, we discuss our results of operations, both on a consolidated basis and, where appropriate, by segment, for the three and six month periods ended June 30, 2009 and 2008. At the end of this section, we have included our outlook for each segment.

We report the results of our power generation business as three separate geographical segments in our unaudited condensed consolidated financial statements. Our unaudited condensed consolidated financial results also reflect corporate-level expenses such as general and administrative, interest and depreciation and amortization.

Three Months Ended June 30, 2009 and 2008

Summary Financial Information. The following tables provide summary financial data regarding Dynegy's consolidated and segmented results of operations for the three month periods ended June 30, 2009 and 2008, respectively:

Dynegy's Results of Operations for the Three Months Ended June 30, 2009

	Power Generation				
	GEN-MW	GEN-WE	GEN-NE	Other	Total
Revenues	$ 172	$ 141	$ 181	$ (1)	$ 493
Cost of sales	(120)	(55)	(110)	—	(285)
Operating and maintenance expense, exclusive of depreciation and amortization expense shown separately below	(62)	(31)	(50)	(1)	(144)
Depreciation and amortization expense	(57)	(18)	(16)	(3)	(94)
Impairment and other charges	(18)	—	(387)	—	(405)
General and administrative expense	—	—	—	(45)	(45)
Operating income (loss)	$ (85)	$ 37	$ (382)	$ (50)	$ (480)
Earnings from unconsolidated investments	—	13	—	—	13
Other items, net	—	2	—	2	4
Interest expense					(98)
Loss from continuing operations before income taxes					(561)
Income tax benefit					209
Loss from continuing operations					(352)
					6

Income from discontinued operations, net of taxes		
Net loss		(346)
Less: Net loss attributable to the noncontrolling interests		(1)
Net loss attributable to Dynegy Inc.	$	(345)

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Dynegy's Results of Operations for the Three Months Ended June 30, 2008

	Power Generation GEN-MW	GEN-WE	GEN-NE	Other	Total
Revenues	$ 66	$ 177	$ 78	$ 1	$ 322
Cost of sales	(137)	(163)	(155)	(1)	(456)
Operating and maintenance expense, exclusive of depreciation and amortization expense shown separately below	(47)	(33)	(51)	6	(125)
Depreciation and amortization expense	(52)	(24)	(14)	(2)	(92)
Gain on sale of assets, net	—	11	—	15	26
General and administrative expense	—	—	—	(39)	(39)
Operating loss	$ (170)	$ (32)	$ (142)	$ (20)	$ (364)
Earnings (losses) from unconsolidated investments	—	3	—	(6)	(3)
Other items, net	—	4	—	11	15
Interest expense					(108)
Loss from continuing operations before income taxes					(460)
Income tax benefit					186
Net loss					(274)
Less: Net loss attributable to the noncontrolling interests					(2)
Net loss attributable to Dynegy Inc.					$ (272)

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The following tables provide summary financial data regarding DHI's consolidated and segmented results of operations for the three month periods ended June 30, 2009 and 2008, respectively:

DHI's Results of Operations for the Three Months Ended June 30, 2009

	Power Generation				
	GEN-MW	GEN-WE	GEN-NE	Other	Total
Revenues	$ 172	$ 141	$ 181	$ (1)	$ 493
Cost of sales	(120)	(55)	(110)	—	(285)
Operating and maintenance expense, exclusive of depreciation and amortization expense shown separately below	(62)	(31)	(50)	(1)	(144)
Depreciation and amortization expense	(57)	(18)	(16)	(3)	(94)
Impairment and other charges	(18)	—	(387)	—	(405)
General and administrative expense	—	—	—	(45)	(45)
Operating income (loss)	$ (85)	$ 37	$ (382)	$ (50)	$ (480)
Earnings from unconsolidated investments	—	13	—	—	13
Other items, net	—	2	—	1	3
Interest expense					(98)
Loss from continuing operations before income taxes					(562)
Income tax benefit					220
Loss from continuing operations					(342)
Income from discontinued operations, net of taxes					6
Net loss					(336)
Less: Net loss attributable to the noncontrolling interests					(1)
Net loss attributable to Dynegy Holdings Inc.					$ (335)

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DHI's Results of Operations for the Three Months Ended June 30, 2008

	Power Generation				
	GEN-MW	GEN-WE	GEN-NE	Other	Total
Revenues	$ 66	$ 177	$ 78	$ 1	$ 322
Cost of sales	(137)	(163)	(155)	(1)	(456)
Operating and maintenance expense, exclusive of depreciation and amortization expense shown separately below	(47)	(33)	(51)	6	(125)
Depreciation and amortization expense	(52)	(24)	(14)	(2)	(92)
Gain on sale of assets, net	—	11	—	15	26
General and administrative expense	—	—	—	(39)	(39)
Operating loss	$ (170)	$ (32)	$ (142)	$ (20)	$ (364)
Earnings from unconsolidated investments	—	3	—	—	3
Other items, net	—	4	—	10	14
Interest expense					(108)
Loss from continuing operations before income taxes					(455)
Income tax benefit					184
Net loss					(271)
Less: Net loss attributable to the noncontrolling interests					(2)
Net loss attributable to Dynegy Holdings Inc.					$ (269)

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The following table provides summary segmented operating statistics for the three months ended June 30, 2009 and 2008, respectively:

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008
GEN-MW		
Million Megawatt Hours Generated	5.9	5.5
In Market Availability for Coal Fired Facilities (1)	92 %	91 %
Average Capacity Factor for Combined Cycle Facilities (2)	28 %	11 %
Average Quoted On-Peak Market Power Prices ($/MWh) (3):		
Cinergy (Cin Hub)	$ 34	$ 77
Commonwealth Edison (NI Hub)	$ 32	$ 75
PJM West	$ 40	$ 99
Average Market Spark Spreads ($/MWh) (4):		
PJM West	$ 12	$ 14
GEN-WE		
Million Megawatt Hours Generated (5)	1.3	2.3
Average Capacity Factor for Combined Cycle Facilities (2)	21 %	38 %
Average Quoted On-Peak Market Power Prices ($/MWh) (3):		
North Path 15 (NP 15)	$ 31	$ 97
Palo Verde	$ 30	$ 92
Average Market Spark Spreads ($/MWh) (4):		
North Path 15 (NP 15)	$ 5	$ 18
Palo Verde	$ 7	$ 15
GEN-NE		
Million Megawatt Hours Generated	2.1	1.6
In Market Availability for Coal Fired Facilities (1)	92 %	88 %
Average Capacity Factor for Combined Cycle Facilities (2)	39 %	22 %
Average Quoted On-Peak Market Power Prices ($/MWh) (3):		
New York—Zone G	$ 44	$ 123
New York—Zone A	$ 31	$ 75
Mass Hub	$ 39	$ 114
Average Market Spark Spreads ($/MWh) (4):		
New York—Zone A	$ 2	$ (9)
Mass Hub	$ 11	$ 29