

DYNEGY HOLDINGS INC  
Form 10-Q  
August 08, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended June 30, 2011

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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**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

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

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

**Dynegy Inc.** Yes  No   
**Dynegy Holdings Inc.** Yes  No

Indicate the number of shares outstanding of Dynegy Inc.'s classes of common stock, as of the latest practicable date: Common stock, \$0.01 par value per share, 122,435,022 shares outstanding as of August 1, 2011. All of Dynegy Holdings Inc.'s outstanding common stock is owned by Dynegy Inc.

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This combined Form 10-Q is separately filed by Dynegey Inc. and Dynegey 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.

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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, 2011 and constituting nearly 100

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percent of Dynegy's total consolidated asset base as of June 30, 2011. Unless the context indicates otherwise, throughout this report, the terms the Company, we, us, our and ours 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, DHI or specific subsidiaries 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.

ASU	Accounting Standards Update
BACT	Best available control technology
BART	Best available retrofit technology
BTA	Best technology available
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CAISO	The California Independent System Operator
CAMR	Clean Air Mercury Rule
CARB	California Air Resources Board
CAVR	The Clean Air Visibility Rule
CCR	Coal Combustion Residuals
CEQA	California Environmental Quality Act
CERCLA	The Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended
CO <sub>2</sub>	Carbon Dioxide
CSAPR	Cross-State Air Pollution Rule
CWA	Clean Water Act
DHI	Dynegy Holdings Inc.
DMSLP	Dynegy Midstream Services L.P.
EBITDA	Earnings before interest, taxes, depreciation and amortization
EPA	Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
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
HAPs	Hazardous air pollutants, as defined by the Clean Air Act
ICC	Illinois Commerce Commission
IMA	In-market asset availability
ISO	Independent System Operator
ISO-NE	Independent System Operator New England
MACT	Maximum achievable control technology
MGGA	Midwest Greenhouse Gas Accord
MGGRP	Midwestern Greenhouse Gas Reduction Program
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	One million British thermal units
MW	Megawatts
MWh	Megawatt hour
NOL	Net operating loss
NO <sub>x</sub>	Nitrogen oxide
NPDES	National Pollutant Discharge Elimination System
NRG	NRG Energy, Inc.
NSPS	New Source Performance Standard
NYISO	New York Independent System Operator
NYSDEC	New York State Department of Environmental Conservation
OAL	Office of Administrative Law

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OTC	Over-the-counter
PJM	PJM Interconnection, LLC
PPEA	Plum Point Energy Associates, LLC
PPEA Holding	Plum Point Energy Associates Holding Company, LLC
PSD	Prevention of significant deterioration
RACT	Reasonably available control technology
RCRA	Resource Conservation and Recovery Act
RGGI	Regional Greenhouse Gas Initiative
RMR	Reliability Must Run
SEC	U.S. Securities and Exchange Commission
SIP	State Implementation Plan
SO <sub>2</sub>	Sulfur dioxide
SPDES	State Pollutant Discharge Elimination System
VaR	Value at Risk
VIE	Variable Interest Entity
WCI	Western Climate Initiative

Table of Contents**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)**

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 399	\$ 291
Restricted cash and investments	878	81
Short-term investments	106	106
Accounts receivable, net of allowance for doubtful accounts of \$31 and \$32, respectively	169	230
Accounts receivable, affiliates		1
Inventory	125	121
Assets from risk-management activities	989	1,199
Deferred income taxes	12	12
Broker margin account	202	80
Prepayments and other current assets	137	123
<b>Total Current Assets</b>	<b>3,017</b>	<b>2,244</b>
<b>Property, Plant and Equipment</b>	<b>8,700</b>	<b>8,593</b>
Accumulated depreciation	(2,499)	(2,320)
<b>Property, Plant and Equipment, Net</b>	<b>6,201</b>	<b>6,273</b>
<b>Other Assets</b>		
Restricted cash and investments	9	859
Assets from risk-management activities	84	72
Intangible assets	116	141
Other long-term assets	436	424
<b>Total Assets</b>	<b>\$ 9,863</b>	<b>\$ 10,013</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 111	\$ 134
Accrued interest	51	36
Accrued liabilities and other current liabilities	86	109
Liabilities from risk-management activities	1,043	1,138
Notes payable and current portion of long-term debt	1,008	148
<b>Total Current Liabilities</b>	<b>2,299</b>	<b>1,565</b>
Long-term debt	3,852	4,426
Long-term debt, affiliates	200	200
<b>Long-Term Debt</b>	<b>4,052</b>	<b>4,626</b>



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<b>Other Liabilities</b>		
Liabilities from risk-management activities	123	99
Deferred income taxes	509	641
Other long-term liabilities	321	336
<b>Total Liabilities</b>	<b>7,304</b>	<b>7,267</b>
<b>Commitments and Contingencies (Note 7)</b>		
<b>Stockholders Equity</b>		
Common Stock, \$0.01 par value, 420,000,000 shares authorized at June 30, 2011 and December 31, 2010; 123,009,079 and 121,687,198 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively	1	1
Additional paid-in capital	6,071	6,067
Subscriptions receivable	(2)	(2)
Accumulated other comprehensive loss, net of tax	(51)	(53)
Accumulated deficit	(3,389)	(3,196)
Treasury stock, at cost, 728,408 and 628,014 shares at June 30, 2011 and December 31, 2010, respectively	(71)	(71)
<b>Total Stockholders Equity</b>	<b>2,559</b>	<b>2,746</b>
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 9,863</b>	<b>\$ 10,013</b>

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,	
	2011	2010	2011	2010
Revenues	\$ 326	\$ 239	\$ 831	\$ 1,097
Cost of sales	(225)	(231)	(503)	(539)
Operating and maintenance expense, exclusive of depreciation shown separately below	(106)	(118)	(216)	(231)
Depreciation and amortization expense	(75)	(90)	(201)	(165)
Impairment and other charges	(1)	(1)	(1)	(1)
General and administrative expenses	(25)	(28)	(65)	(59)
Operating income (loss)	(106)	(229)	(155)	102
Losses from unconsolidated investments				(34)
Interest expense	(89)	(91)	(178)	(180)
Other income and expense, net	3	1	4	2
Loss from continuing operations before income taxes	(192)	(319)	(329)	(110)
Income tax benefit (Note 10)	76	128	136	63
Loss from continuing operations	(116)	(191)	(193)	(47)
Income from discontinued operations, net of taxes				1
Net loss	\$ (116)	\$ (191)	\$ (193)	\$ (46)
<b>Loss Per Share (Note 11):</b>				
Basic loss per share:				
Loss from continuing operations	\$ (0.95)	\$ (1.59)	\$ (1.58)	\$ (0.39)
Income from discontinued operations				0.01
Basic loss per share	\$ (0.95)	\$ (1.59)	\$ (1.58)	\$ (0.38)
Diluted loss per share:				
Loss from continuing operations	\$ (0.95)	\$ (1.59)	\$ (1.58)	\$ (0.39)
Income from discontinued operations				0.01
Diluted loss per share	\$ (0.95)	\$ (1.59)	\$ (1.58)	\$ (0.38)
Basic shares outstanding	122	120	122	120
Diluted shares outstanding	122	121	122	121

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,	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (193)	\$ (46)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	209	172
Impairment and other charges	1	1
Losses from unconsolidated investments, net of cash distributions		34
Risk-management activities	127	8
Deferred income taxes	(135)	(62)
Other	24	30
Changes in working capital:		
Accounts receivable	60	14
Inventory	(4)	3
Broker margin account	(92)	255
Prepayments and other assets	1	8
Accounts payable and accrued liabilities	(55)	(36)
Changes in non-current assets	(33)	(17)
Changes in non-current liabilities	4	4
Net cash provided by (used in) operating activities	(86)	368
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(128)	(201)
Unconsolidated investments		(15)
Maturities of short-term investments	217	27
Purchases of short-term investments	(247)	(331)
Decrease (increase) in restricted cash and investments	53	(10)
Other investing	10	9
Net cash used in investing activities	(95)	(521)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from long-term borrowings, net of financing costs	399	(5)
Repayments of borrowings	(113)	(31)
Net proceeds from issuance of capital stock	3	
Net cash provided by (used in) financing activities	289	(36)
Net increase (decrease) in cash and cash equivalents	108	(189)
Cash and cash equivalents, beginning of period	291	471
Cash and cash equivalents, end of period	\$ 399	\$ 282

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**Other non-cash investing activity:**

Non-cash capital expenditures	\$	(7)	\$	6
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**Other non-cash financing activity:**

Deferred financing fees	\$	(4)		
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See the notes to condensed consolidated financial statements.

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## DYNEGY INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited) (in millions)

	<b>Three Months Ended</b>		
	<b>June 30,</b>		
	<b>2011</b>		<b>2010</b>
Net loss	\$	(116)	\$ (191)
Amortization of unrecognized prior service cost and actuarial gain (net of tax expense of \$1 and \$1)		1	
Other comprehensive income, net of tax		1	
Comprehensive loss	\$	(115)	\$ (191)

	<b>Six Months Ended</b>		
	<b>June 30,</b>		
	<b>2011</b>		<b>2010</b>
Net loss	\$	(193)	\$ (46)
Amortization of unrecognized prior service cost and actuarial gain (net of tax expense of \$1 and \$1)		2	2
Other comprehensive income, net of tax		2	2
Comprehensive loss	\$	(191)	\$ (44)

See the notes to condensed consolidated financial statements.

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## DYNEGY HOLDINGS INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited) (in millions)

	June 30, 2011	December 31, 2010
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 354	\$ 253
Restricted cash and investments	878	81
Short-term investments	94	90
Accounts receivable, net of allowance for doubtful accounts of \$12 and \$13, respectively	168	229
Accounts receivable, affiliates		1
Inventory	125	121
Assets from risk-management activities	989	1,199
Deferred income taxes	4	3
Broker margin account	202	80
Prepayments and other current assets	136	123
<b>Total Current Assets</b>	<b>2,950</b>	<b>2,180</b>
Property, Plant and Equipment	8,700	8,593
Accumulated depreciation	(2,499)	(2,320)
<b>Property, Plant and Equipment, Net</b>	<b>6,201</b>	<b>6,273</b>
<b>Other Assets</b>		
Restricted cash and investments	9	859
Assets from risk-management activities	84	72
Intangible assets	116	141
Other long-term assets	436	424
<b>Total Assets</b>	<b>\$ 9,796</b>	<b>\$ 9,949</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 111	\$ 134
Accrued interest	51	36
Accrued liabilities and other current liabilities	85	106
Liabilities from risk-management activities	1,043	1,138
Notes payable and current portion of long-term debt	1,008	148
<b>Total Current Liabilities</b>	<b>2,298</b>	<b>1,562</b>
Long-term debt	3,852	4,426
Long-term debt, affiliates	200	200
<b>Long-Term Debt</b>	<b>4,052</b>	<b>4,626</b>
<b>Other Liabilities</b>		
Liabilities from risk-management activities	123	99
Deferred income taxes	474	606
Other long-term liabilities	321	337
<b>Total Liabilities</b>	<b>7,268</b>	<b>7,230</b>
<b>Commitments and Contingencies (Note 7)</b>		
<b>Stockholders Equity</b>		
Capital Stock, \$1 par value, 1,000 shares authorized at June 30, 2011 and December 31, 2010		
Additional paid-in capital	5,135	5,135

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Affiliate receivable		(812)		(814)
Accumulated other comprehensive loss, net of tax		(51)		(53)
Accumulated deficit		(1,744)		(1,549)
<b>Total Stockholder s Equity</b>		<b>2,528</b>		<b>2,719</b>
<b>Total Liabilities and Stockholder s Equity</b>	\$	<b>9,796</b>	\$	<b>9,949</b>

See the notes to condensed consolidated financial statements.



Table of Contents**DYNEGY HOLDINGS INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited) (in millions)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues	\$ 326	\$ 239	\$ 831	\$ 1,097
Cost of sales	(225)	(231)	(503)	(539)
Operating and maintenance expense, exclusive of depreciation shown separately below	(106)	(118)	(216)	(231)
Depreciation and amortization expense	(75)	(90)	(201)	(165)
Impairment and other charges	(1)	(1)	(1)	(1)
General and administrative expenses	(23)	(28)	(64)	(59)
Operating income (loss)	(104)	(229)	(154)	102
Losses from unconsolidated investments				(34)
Interest expense	(89)	(91)	(178)	(180)
Other income and expense, net	3	1	4	2
Loss from continuing operations before income taxes	(190)	(319)	(328)	(110)
Income tax benefit (Note 10)	75	128	133	56
Loss from continuing operations	(115)	(191)	(195)	(54)
Income from discontinued operations, net of taxes				1
Net loss	\$ (115)	\$ (191)	\$ (195)	\$ (53)

See the notes to condensed consolidated financial statements.

Table of Contents**DYNEGY HOLDINGS INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited) (in millions)**

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (195)	\$ (53)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	209	172
Impairment and other charges	1	1
Losses from unconsolidated investments, net of cash distributions		34
Risk-management activities	127	8
Deferred income taxes	(132)	(55)
Other	22	27
Changes in working capital:		
Accounts receivable	60	19
Inventory	(4)	3
Broker margin account	(92)	255
Prepayments and other assets	1	8
Accounts payable and accrued liabilities	(54)	(37)
Changes in non-current assets	(33)	(17)
Changes in non-current liabilities	4	4
Net cash provided by (used in) operating activities	(86)	369
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(128)	(201)
Unconsolidated investments		(15)
Maturities of short-term investments	201	28
Purchases of short-term investments	(235)	(316)
Decrease (increase) in restricted cash and investments	53	(10)
Affiliate transactions		(2)
Other investing	10	8
Net cash used in investing activities	(99)	(508)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from long-term borrowings, net of financing costs	399	(5)
Repayments of borrowings	(113)	(31)
Net cash provided by (used in) financing activities	286	(36)
Net increase (decrease) in cash and cash equivalents	101	(175)
Cash and cash equivalents, beginning of period	253	419
Cash and cash equivalents, end of period	\$ 354	\$ 244

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**Other non-cash investing activity:**

Non-cash capital expenditures	\$	(7)	\$	6
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**Other non-cash financing activity:**

Deferred financing fees	\$	(4)		
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See the notes to condensed consolidated financial statements.

Table of Contents**DYNEGY HOLDINGS INC.****CONDENSED CONSOLIDATED OF COMPREHENSIVE INCOME (LOSS)****(unaudited) (in millions)**

	<b>Three Months Ended</b>	
	<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>
Net loss	\$ (115)	\$ (191)
Amortization of unrecognized prior service cost and actuarial gain (net of tax expense of \$1 and \$1)	1	
Other comprehensive income, net of tax	1	
Comprehensive loss	\$ (114)	\$ (191)

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>
Net loss	\$ (195)	\$ (53)
Amortization of unrecognized prior service cost and actuarial gain (net of tax expense of \$1 and \$1)	2	2
Other comprehensive income, net of tax	2	2
Comprehensive loss	\$ (193)	\$ (51)

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, 2011 and 2010**

**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 consolidated financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. These interim financial statements should be read together with the consolidated financial statements and notes thereto included in Dynegy's and DHI's annual report on Form 10-K for the year ended December 31, 2010, filed on March 8, 2011, 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 presentation 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 consolidated financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make informed estimates and judgments that affect our reported financial position and results of operations 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 deferred 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 variable interest entities (VIEs). Actual results could differ materially from our estimates.

***Going Concern.*** Our accompanying unaudited condensed consolidated financial statements have been prepared assuming that we will continue as a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business for the twelve month period following the date of these unaudited condensed consolidated financial statements. However, continued low power prices over the past two years have had a significant adverse impact on our business and continue to negatively impact our projected future liquidity.

We recently completed a reorganization of our subsidiaries and in connection therewith, certain of our subsidiaries (GasCo and CoalCo, as defined in Note 13 Subsequent Events) entered into two new credit facilities on August 5, 2011 which resulted in the repayment in full and termination of commitments under DHI's Fifth Amended and Restated Credit Agreement. However, these new credit facilities contain certain restrictions related to distributions to their respective parent companies, including Dynegy and DHI (please read Note 13 Subsequent Events for further discussion). Although these new credit facilities are designed to provide sufficient operating liquidity for GasCo and CoalCo for the foreseeable future, there still remain significant debt service requirements for the unsecured notes and debentures at DHI as well as the operating lease payment obligations related to the Danskammer and Roseton operating leases at a wholly-owned subsidiary of DHI. We currently project that we will have minimal liquidity at DHI subsequent to funding of the debt service requirements and operating lease payment obligations beyond the next eighteen months absent a significant positive change in the forecasted operating results of the Roseton and Danskammer facilities.

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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, 2011 and 2010**

The August 2011 reorganization represents our first step in addressing our liquidity concerns. Over the next eighteen months, under the strategic direction of the Finance and Restructuring Committee of Dynegy's Board of Directors, we may participate in additional debt restructuring activities, which may include direct or indirect transfers of our subsidiaries' equity interests, refinancing of existing debt and lease obligations, and/or further reorganizations of our subsidiaries as well as other similar initiatives. However, we cannot provide any assurances that we will be successful in accomplishing any such activities.

Our ability to continue as a going concern is dependent on many factors, including, among other things, GasCo and CoalCo generating sufficient positive operating results to enable GasCo and CoalCo to make certain restricted distributions to their parents (as described in Note 13 Subsequent Events), Roseton and Danskammer producing positive operating results, successfully executing any further restructuring strategies, and continuing to execute the company-wide cost reduction initiatives that are ongoing. The accompanying unaudited condensed consolidated financial statements do not include any adjustments that might result from the outcome of the foregoing uncertainties.

***Accounting Principles Not Yet Adopted***

***Fair Value Measurement Disclosures.*** In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04 Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU No. 2011-04). This authoritative guidance changes the wording used to describe the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. ASU No. 2011-04 is effective for interim and annual periods beginning after December 15, 2011. We do not expect the implementation of this guidance to have a significant impact on our financial condition, results of operations or cash flows.

***Presentation of Comprehensive Income.*** In June 2011, the FASB issued ASU 2011-05 Comprehensive Income (Topic 220): Presentation of Comprehensive Income (ASU No. 2011-05). The FASB's objective in issuing this guidance is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. ASU No. 2011-05 eliminates the option of presenting components of other comprehensive income as part of the statement of changes in stockholders' equity. The standard requires that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 is effective for fiscal years, and interim periods within those years,

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beginning after December 15, 2011. We do not expect the implementation of this guidance to have a significant impact on our financial condition, results of operations or cash flows.



Table of Contents**DYNEGY INC. and DYNEGY HOLDINGS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****For the Interim Periods Ended June 30, 2011 and 2010****Note 2 Investments**

The amortized cost basis, unrealized gains and losses and fair values of investments in available for sale investments is shown in the tables below:

	Cost Basis	Investments as of June 30, 2011 Gross Unrealized Gains (in millions)	Gross Unrealized Losses	Fair Value
Available for Sale investments:				
Commercial Paper	\$ 45	\$	\$	\$ 45
Certificates of Deposit	13			13
U.S. Treasury and Government Securities (1)	151			151
Total DHI	\$ 209	\$	\$	\$ 209
Commercial Paper	2			2
Certificates of Deposit	8			8
Corporate Securities	2			2
Total Dynegy	\$ 221	\$	\$	\$ 221

(1) Includes \$115 million in Broker margin account on our unaudited condensed consolidated balance sheets in support of transactions with our futures clearing manager.

	Cost Basis	Investments as of December 31, 2010 Gross Unrealized Gains (in millions)	Gross Unrealized Losses	Fair Value
Available for Sale investments:				

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Commercial Paper	\$	41	\$	\$	\$	41
Certificates of Deposit		12				12
Corporate Securities		2				2
U.S. Treasury and Government Securities (1)		120				120
<b>Total DHI</b>	<b>\$</b>	<b>175</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>175</b>
Commercial Paper		4				4
Certificates of Deposit		8				8
Corporate Securities		4				4
<b>Total Dynegy</b>	<b>\$</b>	<b>191</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>191</b>

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(1) Includes \$85 million in Broker margin account on our consolidated balance sheets in support of transactions with our futures clearing manager.

During the three and six months ended June 30, 2011, we received proceeds of \$36 million from the sale of available for sale securities for which we realized less than \$1 million of gains for the three and six months ended June 30, 2011.

**Note 3 Risk Management Activities, Derivatives and Financial Instruments**

The nature of our business necessarily involves market and financial risks. Specifically, we are exposed to commodity price variability related to our power generation business. Our commercial team manages these commodity price risks with financially settled and other types of contracts consistent with our commodity risk management policy. Our commercial team also uses financial instruments in an attempt to capture the benefit of fluctuations in market prices in the geographic regions where our assets operate. Our treasury team manages our financial risks and exposures associated with interest expense variability.

Table of Contents**DYNEGY INC. and DYNEGY HOLDINGS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****For the Interim Periods Ended June 30, 2011 and 2010**

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 1 to 3 year time frame). Our commodity risk management goal is to protect cash flow in the near-term while keeping the ability to capture value longer-term. Increasing collateral requirements and our liquidity position could impact our ability to effectively employ our risk management strategy. 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***

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. As of June 30, 2011, 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, 2011, we had net long/(short) commodity derivative contracts outstanding in the following quantities:

<b>Contract Type</b>	<b>Hedge Designation</b>	<b>Quantity (in millions)</b>	<b>Unit of Measure</b>	<b>Net Fair Value (in millions)</b>
<b>Commodity contracts:</b>				
Electric energy (1)	Not designated	(39)	MW	\$ 109
Natural gas (1)	Not designated	227	MMBtu	\$ (187)
Heat rate derivatives	Not designated	(4)/39	MW/MMBtu	\$ (22)
Other (2)	Not designated	3	Misc.	\$ 7

(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.** We execute a significant volume of transactions through a futures clearing manager. Our daily cash payments (receipts) to (from) our futures clearing manager consist of three parts: (i) fair value of open positions (exclusive of options) ( Daily Cash Settlements ); (ii) initial margin requirements related to open positions (exclusive of options) ( Initial Margin ); and (iii) fair value and margin requirements related to options ( Options , and collectively with Initial Margin, Collateral ). We do not offset fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting agreement and we do not elect to offset the fair value amounts recognized for the Daily Cash Settlements paid or 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 related Daily Cash Settlements and Collateral, as applicable, on a gross basis. As of June 30, 2011, of the approximately \$202 million included in the Broker margin account on our unaudited condensed consolidated balance sheets, approximately \$137 million represents Collateral and approximately \$61 million represents Daily Cash Settlements. As of December 31, 2010, of the approximately \$80 million included in the Broker margin account on our unaudited condensed consolidated balance sheets, approximately \$75 million represented Collateral offset by approximately \$5 million of Daily Cash Settlements. We use short-term investments to collateralize a portion of our collateral requirements. The broker requires that we post approximately 103 percent of any collateral requirement collateralized with short-term investments. Accordingly, our Broker margin account includes approximately \$3 million related to this requirement at June 30, 2011 and December 31, 2010. Additionally, we posted \$1 million and \$7 million of short-term investments which were not utilized as collateral at June 30, 2011 and December 31, 2010, respectively.

Table of Contents**DYNEGY INC. and DYNEGY HOLDINGS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****For the Interim Periods Ended June 30, 2011 and 2010**

The following table presents the fair value and balance sheet classification of derivatives in the unaudited condensed consolidated balance sheet as of June 30, 2011, and December 31, 2010 segregated between designated, qualifying hedging instruments and those that are not, and by type of contract segregated by assets and liabilities.

Contract Type	Balance Sheet Location	June 30,	December 31,
		2011	2010
(in millions)			
Derivatives designated as hedging instruments:			
Derivative Assets:			
Interest rate contracts	Assets from risk management activities	\$	\$ 1
Total derivatives designated as hedging instruments			
1			
Derivatives not designated as hedging instruments:			
Derivative Assets:			
Commodity contracts	Assets from risk management activities	1,073	1,265
Interest rate contracts	Assets from risk management activities		5
Derivative Liabilities:			
Commodity contracts	Liabilities from risk management activities	(1,166)	(1,231)
Interest rate contracts	Liabilities from risk management activities		(6)
Total derivatives not designated as hedging instruments			
		(93)	33
Total derivatives, net			
		\$ (93)	\$ 34

*Impact of Derivatives on the Consolidated Statements of Operations*

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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, 2011 and 2010 segregated between designated, qualifying hedging instruments and those that are not, by type of contract.

**Cash Flow Hedges.** We may 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. We had no cash flow hedges in place during the three and six months ended June 30, 2011 and 2010.

**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. These derivatives and the corresponding hedged debt matured April 1, 2011. During the three and six months ended June 30, 2011 and 2010, there was no ineffectiveness from changes in the fair value of hedge positions and no amounts were excluded from the assessment of hedge effectiveness. During the three and six months ended June 30, 2011 and 2010, there were no gains or losses related to the recognition of firm commitments that no longer qualified as fair value hedges.

Table of Contents**DYNEGY INC. and DYNEGY HOLDINGS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****For the Interim Periods Ended June 30, 2011 and 2010**

The impact of interest rate swap contracts designated as fair value hedges and the related hedged item on our unaudited condensed consolidated statement of operations for the three and six months ended June 30, 2011 and 2010 was immaterial.

**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 account for changes in the fair value of these derivatives within the consolidated statements of operations (herein referred to as mark-to-market accounting treatment). 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, 2011, our revenues included approximately \$129 million of mark-to-market losses related to this activity compared to \$258 million of mark-to-market losses in the same period in the prior year. For the six months ended June 30, 2011, our revenues included approximately \$127 million of mark-to-market losses related to this activity compared to \$5 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, 2011 and 2010 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 margin we expect to realize when the underlying physical transactions settle.

Derivatives Not Designated as Hedging Instruments	Location of Loss Recognized in Income on Derivatives	Amount of Loss Recognized in Income on Derivatives for the Three Months Ended June 30,	
		2011	2010
		(in millions)	
Commodity contracts	Revenues	\$ (89)	\$ (185)

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, 2011 and 2010 is presented below. Note that this presentation does not reflect the expected gains

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or losses arising from the underlying physical transactions associated with these financial instruments. Therefore, this presentation is not indicative of the economic gross margin we expect to realize when the underlying physical transactions settle.

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives for the Six Months Ended June 30,		
		2011	2010	
		(in millions)		
Commodity contracts	Revenues	\$ (70)	\$	140



Table of Contents**DYNEGY INC. and DYNEGY HOLDINGS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****For the Interim Periods Ended June 30, 2011 and 2010****Note 4 Fair Value Measurements**

The following tables set 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, 2011 and December 31, 2010. 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.

	Level 1	Fair Value as of June 30, 2011		Total
		Level 2	Level 3	
(in millions)				
<b>Assets:</b>				
Assets from commodity risk management activities:				
Electricity derivatives	\$	\$ 325	\$ 48	\$ 373
Natural gas derivatives		658		658
Other derivatives		42		42
Total assets from commodity risk management activities		1,025	48	1,073
DHI Short-term investments:				
Commercial paper		45		45
Certificates of deposit		13		13
U.S. Treasury and government securities (1)		151		151
Total DHI short-term investments		209		209
Total DHI		1,234	48	1,282
Dynegy Short-term investments:				
Commercial paper		2		2
Corporate Securities		2		2
Certificates of deposit		8		8

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Total Dynegy	\$	\$	1,246	\$	48	\$	1,294
Liabilities:							
Liabilities from commodity risk management activities:							
Electricity derivatives	\$	\$	(250)	\$	(13)	\$	(263)
Natural gas derivatives			(845)				(845)
Heat rate derivatives					(23)		(23)
Other derivatives			(35)				(35)
Total Dynegy and DHI	\$	\$	(1,130)	\$	(36)	\$	(1,166)

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(1) Includes \$115 million in Broker margin account on our consolidated balance sheets in support of transactions with our futures clearing manager.

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	Level 1	Fair Value as of December 31, 2010		Total
		Level 2	Level 3	
		(in millions)		
<b>Assets:</b>				
Assets from commodity risk management activities:				
Electricity derivatives	\$	\$ 526	\$ 77	\$ 603
Natural gas derivatives		613	5	618
Other derivatives		44		44
Total assets from commodity risk management activities				
		1,183	82	1,265
Assets from interest rate swaps		6		6
DHI Short-term investments:				
Commercial paper		41		41
Certificates of deposit		12		12
Corporate securities		2		2
U.S. Treasury and government securities (1)		120		120
Total DHI short-term investments				
		175		175
Total DHI				
		1,364	82	1,446
Dynegy Short-term investments:				
Commercial paper		4		4
Certificates of deposit		8		8
Corporate securities		4		4
Total Dynegy	\$	\$ 1,380	\$ 82	\$ 1,462
<b>Liabilities:</b>				
Liabilities from commodity risk management activities:				
Electricity derivatives	\$	\$ (311)	\$ (28)	\$ (339)
Natural gas derivatives		(825)		(825)
Heat rate derivatives			(31)	(31)
Other derivatives		(36)		(36)
	\$	\$ (1,172)	\$ (59)	\$ (1,231)

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Total liabilities from commodity risk management activities					
Liabilities from interest rate swaps			(6)		(6)
Total Dynegy and DHI	\$	\$	(1,178)	\$	(59)
				\$	(1,237)

(1) Includes \$85 million in Broker margin account on our consolidated balance sheets in support of transactions with our futures clearing manager.

We primarily apply the market approach for recurring fair value measurements and endeavor to utilize the best available information. Accordingly, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. For example, assets and liabilities from risk management activities may include exchange-traded derivative contracts and OTC derivative contracts. Some exchange-traded derivatives are valued using broker or dealer quotations, or market transactions in either the listed or OTC markets. In such cases, these exchange-traded derivatives are classified within Level 2. OTC derivative trading instruments include swaps, forwards, options and complex structures that are valued at fair value. In certain instances, these instruments may utilize models to measure fair value. Generally, we use a similar model to value similar instruments. Valuation models utilize various inputs that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, other observable inputs for the asset or liability, and market-corroborated inputs. Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. Certain OTC derivatives trade in less active markets with a lower availability of pricing information. In addition, complex or structured transactions, such as heat-rate call options, can introduce the need for internally-developed model inputs that might not be observable in or corroborated by the market. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3. We have consistently used this valuation technique for all periods presented. Please read Note 2 Summary of Significant Accounting Policies Fair Value Measurements in our Form 10-K for further discussion.

Table of Contents**DYNEGY INC. and DYNEGY HOLDINGS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****For the Interim Periods Ended June 30, 2011 and 2010**

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

	Electricity Derivatives	Three Months Ended June 30, 2011			Total
		Natural Gas Derivatives	(in millions)		
Balance at March 31, 2011	\$ 48	\$ 5	\$ (26)	\$ 27	
Total losses included in earnings	(12)	(5)	(1)	(18)	
Settlements	(1)		4	3	
Balance at June 30, 2011	\$ 35	\$ (23)	\$ 12		
Unrealized losses relating to instruments held as of June 30, 2011	\$ (5)	\$ (4)	\$ (2)	\$ (11)	

	Electricity Derivatives	Six Months Ended June 30, 2011			Total
		Natural Gas Derivatives	(in millions)		
Balance at December 31, 2010	\$ 49	\$ 5	\$ (31)	\$ 23	
Total losses included in earnings	(8)	(5)		(13)	
Settlements	(6)		8	2	
Balance at June 30, 2011	\$ 35	\$ (23)	\$ 12		
Unrealized gains (losses) relating to instruments held as of June 30, 2011	\$ 2	\$ (3)	\$ (1)		

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	Electricity Derivatives	Three Months Ended June 30, 2010			Total
		Natural Gas Derivatives	Heat Rate Derivatives	(in millions)	
Balance at March 31, 2010	\$ 70	\$ 5	\$ 20	\$ 95	
Total losses included in earnings	(35)		(7)	(42)	
Sales and settlements:					
Sales	(3)		(20)	(23)	
Settlements	(9)		(16)	(25)	
Balance at June 30, 2010	\$ 23	\$ 5	\$ (23)	\$ 5	
Unrealized losses relating to instruments still held as of June 30, 2010	\$ (40)	\$	\$ (11)	\$ (51)	

	Electricity Derivatives	Six Months Ended June 30, 2010				Total
		Natural Gas Derivatives	Heat Rate Derivatives	Interest Rate Swaps	(in millions)	
Balance at December 31, 2009	\$ 6	\$ 5	\$ 17	\$ (50)	\$ (22)	
Deconsolidation of Plum Point				50	50	
Total gains included in earnings	43		11		54	
Purchases, sales and settlements:						
Purchases	1		1		2	
Sales	(13)		(21)		(34)	
Settlements	(14)		(31)		(45)	
Balance at June 30, 2010	\$ 23	\$ 5	\$ (23)	\$	\$ 5	
Unrealized gains relating to instruments still held as of June 30, 2010	\$ 33	\$	\$ 2	\$	\$ 35	

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. We did not have any transfers between Level 1, Level 2 and Level

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3 for the three and six months ended June 30, 2011 and 2010.

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**Nonfinancial Assets and Liabilities.** 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. 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, 2010			Total	Total Losses
	Level 1	Level 2	Level 3 (in millions)		
Equity method investment	\$	\$	\$	\$	\$ (37)
Total	\$	\$	\$	\$	\$ (37)

On January 1, 2010, we recorded an impairment of our investment in PPEA Holding as part of our cumulative effect of a change in accounting principle. We determined the fair value of our investment using assumptions that reflected our best estimate of third party market participants considerations based on the facts and circumstances related to our investment at that time. The fair value of our investment on January 1, 2010 was considered a Level 3 measurement because the fair value was determined based on probability weighted cash flows resulting from various alternative scenarios including no change in the financing structure, a restructuring of the project debt and insolvency. These scenarios and the related probability weighting were consistent with the scenarios used at December 31, 2009 in our long-lived asset impairment analysis. At March 31, 2010, we fully impaired our investment in PPEA Holding due to the uncertainty and risk surrounding PPEA's financing structure. Please read Note 7 Impairment and Restructuring Charges 2010 Impairment Charges Other in our Form 10-K.

**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.



Table of Contents**DYNEGY INC. and DYNEGY HOLDINGS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****For the Interim Periods Ended June 30, 2011 and 2010**

The carrying values of financial assets and liabilities (cash, accounts receivable, restricted cash, investments, and accounts payable) not presented in the table below approximate fair values due to the short-term maturities of these instruments. The fair value of debt as reflected in the table has been calculated based on the average of certain available broker quotes for the periods ending June 30, 2011 and December 31, 2010, respectively.

	June 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Interest rate derivatives designated as fair value accounting hedges (1)	\$	\$	\$ 1	\$ 1
Interest rate derivatives not designated as accounting hedges (1)			(1)	(1)
Commodity-based derivative contracts not designated as accounting hedges (1)	(93)	(93)	34	34
Term Loan B, due 2013	(68)	(66)	(68)	(67)
Term Facility, floating rate due 2013	(850)	(832)	(850)	(845)
Revolver Facility	(400)	(392)		
Senior Notes and Debentures:				
6.875 percent due 2011 (2)			(80)	(79)
8.75 percent due 2012	(89)	(88)	(89)	(87)
7.5 percent due 2015 (3)	(770)	(633)	(768)	(592)
8.375 percent due 2016 (4)	(1,043)	(835)	(1,043)	(777)
7.125 percent due 2018	(173)	(120)	(172)	(116)
7.75 percent due 2019	(1,100)	(799)	(1,100)	(728)
7.625 percent due 2026	(171)	(112)	(171)	(107)
Subordinated Debentures payable to affiliates, 8.316 percent, due 2027	(200)	(101)	(200)	(83)
Sithe Senior Notes, 9.0 percent due 2013 (5)	(197)	(195)	(233)	(233)
Other DHI (6)	209	209	175	175
Other Dynegy (7)	12	12	16	16

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

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- (2) Payment in full was made on April 1, 2011, which was the maturity date of this debt.
- (3) Includes unamortized discounts of \$15 million and \$17 million at June 30, 2011 and December 31, 2010, respectively.
- (4) Includes unamortized discounts of \$3 million and \$4 million at June 30, 2011 and December 31, 2010, respectively.
- (5) Includes unamortized premiums of \$6 million and \$8 million at June 30, 2011 and December 31, 2010, respectively.
- (6) Other represents short-term investments, including \$115 million and \$85 million of short-term investments included in the Broker margin account at June 30, 2011 and December 31, 2010, respectively.
- (7) Other represents short-term investments at June 30, 2011 and December 31, 2010.

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

	<b>June 30, 2011</b>	<b>(in millions)</b>	<b>December 31, 2010</b>
Cash flow hedging activities, net	\$	3	\$ 3
Unrecognized prior service cost and actuarial loss, net		(54)	(56)
Accumulated other comprehensive loss, net of tax	\$	(51)	\$ (53)

**Note 6 Variable Interest Entities**

**PPEA Holding Company, LLC.** Until the sale of our interest on November 10, 2010, we owned an approximate 37 percent interest in PPEA Holding, which through PPEA, its wholly-owned subsidiary, owns an approximate 57 percent undivided interest in the Plum Point Project. On November 10, 2010, we completed the sale of our interest in PPEA Holding to one of the other investors in PPEA Holding. Please read Note 7 Impairment and Restructuring Charges 2010 Impairment Charges Other in our Form 10-K.

Due to the uncertainty and risk surrounding PPEA's financing structure as a result of events that occurred in 2010, we concluded that there was an other-than-temporary impairment of our investment in PPEA Holding and fully impaired our equity investment at March 31, 2010. As a result, we recorded an impairment charge of approximately \$37 million for the three months ended March 31, 2010, which is included in Losses from unconsolidated investments in our unaudited condensed consolidated statements of operations. The impairment is a Level 3 non-recurring fair value measurement and reflected our best estimate of third party market participants' considerations including probabilities related to restructuring of the project debt and potential insolvency. Please read Note 4 Fair Value Measurements for further discussion.

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Summarized aggregate financial information for unconsolidated equity investments and our equity share thereof was:

	Three Months Ended June 30, 2010	
	Total	Equity Share
	(in millions)	
Revenues	\$	\$
Operating loss		(1)
Net loss		(42)

	Six Months Ended June 30, 2010	
	Total	Equity Share
	(in millions)	
Revenues	\$	\$
Operating loss		(2)
Net income (loss)		(33)
		3

During the second quarter of 2010, we did not recognize our share of losses from our investment in PPEA Holding as our investment in PPEA Holding was valued at zero at June 30, 2010, and we did not have an obligation to provide further financial support.

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**For the Interim Periods Ended June 30, 2011 and 2010**

Losses from unconsolidated investments for the six months ended June 30, 2010 were \$34 million, which includes an impairment loss of \$37 million, discussed above. This impairment was partially offset by equity earnings of \$3 million, comprised primarily of mark-to-market gains related to PPEA's interest rate swaps, partly offset by financing expenses.

**Note 7 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.

**Restructuring Litigation.** On July 21, 2011, certain holders of obligations with potential recourse rights to DHI initiated legal proceedings seeking to enjoin Dynegy Inc.'s restructuring efforts previously disclosed on July 10, 2011. The lawsuits, *Libertyview Credit Opportunities Fund, L.P. et al v. Dynegy Holdings, Inc.*, (Index No. 651998/11) in the Supreme Court of the State of New York (the New York Action) and *Roseton OL, LLC and Danskammer OL, LLC v. Dynegy Holdings, Inc.*, (C.A. No. 6689-VCP) in the Court of Chancery of the State of Delaware (the Delaware Action), seek to enjoin the proposed reorganization based on purported breaches of guarantees issued by DHI in connection with two sale lease back transactions in which DHI's subsidiaries, Dynegy Roseton, L.L.C. and Dynegy Danskammer, L.L.C., leased certain power-generating facilities located in Newburgh, New York. Shortly after filing, the New York Action was stayed pending resolution of the Delaware Action. The plaintiffs in the Delaware Action filed a motion for a temporary restraining order (TRO) to enjoin the Reorganization on July 21, 2011. DHI opposed the motion by arguing, among other things, that the unambiguous language of the Guaranties expressly permits the reorganization. On July 29, 2011, the Delaware court denied the TRO in the Delaware Action, finding that plaintiffs had failed to show a likelihood of success on the merits, irreparable harm or that the balancing of the equities weighed in their favor. Thereafter, plaintiffs sought certification of an interlocutory appeal, which was denied by the Delaware Chancery Court on August 4, 2011 and subsequently denied by the Delaware Supreme Court on August 5, 2011. Absent any injunction, the Company closed its restructuring and refinancing on August 5, 2011. We believe plaintiffs' claims in the New York Action and Delaware Action are without merit and we will continue to oppose any further efforts

to challenge the restructuring.

***Stockholder Litigation Relating to the Blackstone and Icahn Merger Agreements.*** In connection with the merger agreement with an affiliate of The Blackstone Group L.P. (as amended, the Blackstone Merger Agreement ) and the merger agreement with an affiliate of Icahn Enterprises L.P. (as amended, the Icahn Merger Agreement and, together with the Blackstone Merger Agreement, the Merger Agreements ), numerous stockholder lawsuits were filed in the District Courts of Harris County, Texas, the Southern District of Texas, and the Court of Chancery of the State of Delaware. The cases in these three jurisdictions were ultimately consolidated into one action in each jurisdiction (the Consolidated Texas State Court Action, the Consolidated Texas Federal Action, and the Consolidated Delaware Chancery Court Action ). One stockholder derivative lawsuit was filed in a District Court in Harris County, Texas.

On November 7, 2010, during the pendency of the Blackstone transaction, the parties entered into a memorandum of understanding providing for the full and final settlement of the Texas state stockholder class actions and the Delaware actions. The memorandum of understanding and settlement were expressly subject to and conditioned upon the consummation of the transactions contemplated by the Blackstone Merger Agreement. Accordingly, when the Blackstone Merger Agreement was terminated, the settlement became null and void. Thereafter, the motion by the plaintiff in the stockholder derivative action to nonsuit all defendants without prejudice was granted on December 14, 2010.

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**For the Interim Periods Ended June 30, 2011 and 2010**

Following the termination of the Icahn Merger Agreement and upon Dynegy's insistence, the plaintiffs in the Consolidated Texas Federal Action and Consolidated Delaware Chancery Court Action moved to dismiss their claims without prejudice. The courts dismissed the cases on March 1, 2011, and March 16, 2011, respectively. On March 28, 2011, plaintiff's counsel in the Consolidated Texas State Court Action filed a motion seeking attorneys' fees and expenses. In July 2011, the Court granted the motion and awarded approximately \$1.6 million in fees and expenses. Dynegy intends to appeal the decision.

**Gas Index Pricing Litigation.** We, several of our affiliates, our former joint venture affiliate and other energy companies were 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 various index publications in the 2000-2002 timeframe. Many of the cases have been resolved and those which remain are pending in Nevada federal district court. All of the pending cases contain similar claims that individually, and in conjunction with other energy companies, we engaged in an illegal scheme to inflate natural gas prices in four states by providing false information to natural gas index publications. In November 2009, following defendants' motion for reconsideration, the court invited defendants to renew their motions for summary judgment on preemption of plaintiffs' state law claims, which were filed shortly thereafter. Plaintiffs concurrently moved to amend their complaints to add federal claims. In October 2010, the court denied plaintiffs' motion to amend.

On July 18, 2011, the Court granted defendants' motions for summary judgment, thereby dismissing all of plaintiffs' state law claims. Plaintiffs recently filed notices of appeal.

Plaintiff in one of the pending actions, *Multiut Corporation v. Dynegy, Inc. et al*, had previously filed similar claims under federal law, which are not subject to the Court's July 18, 2011 order. Multiut Corporation is presently proceeding before the United States Bankruptcy Court for the Northern District of Illinois, Eastern Division having petitioned for Chapter 11 in May 2009. In April 2011, the bankruptcy court denied confirmation of Multiut's proposed plan of reorganization and entered an order converting the case under Chapter 7 of the bankruptcy code and appointed a Trustee to oversee the liquidation of Multiut's assets, one of which is Multiut's claim against Dynegy in the gas index litigation. Dynegy is the largest creditor in that proceeding and intends to discuss the Nevada court's July 18 order with the Trustee. We believe Multiut's remaining federal claims lack merit and we will continue to oppose plaintiff's claims vigorously.

**Cooling Water Intake Permits.** The cooling water intake structures at several of our power generation facilities are regulated under Section 316(b) of the Clean Water Act. This provision generally provides that standards set for power generation facilities require that the location, design, construction and capacity of cooling water intake structures reflect the BTA for minimizing adverse environmental impact.

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These standards are developed and implemented for power generating facilities through the NPDES permits or individual SPDES permits on a case-by-case basis.

The environmental groups that participate in our 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 power generation facilities (Danskammer, Roseton and Moss Landing) have been challenged on this basis. The Danskammer SPDES permit, which was renewed and issued in June 2006, does not require installation of a closed cycle cooling system; however, it does require aquatic organism mortality reductions resulting from NYSDEC's determination of BTA requirements under its regulations. All appeals of this permit have been exhausted. Two permit challenges are still pending.

- **Roseton SPDES Permit** In April 2005, the NYSDEC issued a Draft SPDES Permit renewal for the Roseton plant. The permit is opposed by environmental groups challenging the BTA determination. In October 2006, various holdings in the administrative law judge's ruling admitting the environmental group petitioners to party status and setting forth the issues to be adjudicated in the permit renewal hearing were appealed to the Commissioner of NYSDEC by the petitioners, NYSDEC staff and us. The permit renewal hearing will be scheduled after the Commissioner rules on those appeals. We believe that the petitioners' claims lack merit and we plan to oppose those claims vigorously.



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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, 2011 and 2010**

- Moss Landing NPDES Permit The California Regional Water Quality Control Board ( Water Board ) issued an NPDES permit for the Moss Landing power generating facility in 2000 that did not require closed cycle cooling. A local environmental group challenged the BTA determination of the permit. The Water Board's decision was affirmed by the Superior Court in 2004 and by the Court of Appeals in 2007. The Supreme Court of California granted review in March 2008. The petitioner's brief was filed in December 2009. We filed a motion to dismiss and our responsive brief in March 2010. The petitioner's reply brief was filed in May 2010. Our motion to dismiss was denied in June 2010. In July 2010, the California Energy Commission filed an application for leave to file a brief in support of our argument challenging the jurisdiction of the Superior Court. In September 2010, four air quality control districts filed an application for leave to file a brief in support of jurisdiction of the Superior Court. The Supreme Court of California held oral argument in this case on May 24, 2011, and we await a ruling from the court. We believe that petitioner's claims lack merit and we plan to continue to oppose those claims vigorously.

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

*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 GHG including CO<sub>2</sub> 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 September 2009, the court dismissed all of the plaintiffs' claims based on lack of subject matter jurisdiction and because plaintiffs lacked standing to bring the suit. Shortly thereafter, plaintiffs appealed to the Ninth Circuit. The appeal is fully briefed and in February 2011, the Ninth Circuit issued an order staying the scheduling of oral argument until the United States Supreme Court's ruling in *Connecticut v. AEP*. On June 20, 2011, the Supreme Court issued its decision in *Connecticut v. AEP*. The Court was equally divided by a vote of 4-4 on the question of whether the plaintiffs had standing to bring the suit and, therefore, affirmed the court's exercise of jurisdiction. On the merits the Court ruled by a vote of 8-0 that the CAA and EPA action authorized by the Act displace any federal common law right to seek abatement of carbon dioxide emissions from fossil fuel-fired power plants. In response to the Supreme Court's decision, a motion has been filed in *Kivalina* to allow supplemental briefing addressing the effect of the *Connecticut v. AEP* decision. We believe the plaintiffs' suit lacks merit and we will continue to oppose their claims vigorously.

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***Illinova Generating Company Arbitration.*** In May 2007, Dynegy's subsidiary Illinova Generating Company ( IGC ) received an adverse award in an arbitration brought by Ponderosa Pine Energy, LLC ( PPE ). The award required IGC to pay PPE \$17 million, which IGC paid in June 2007 under protest while simultaneously seeking to vacate the award in the District Court of Dallas County, Texas. In March 2010, the Dallas District Court vacated the award, finding that one of the arbitrators had exhibited evident partiality. PPE is appealing that decision to the Fifth District Court of Appeals in Dallas, Texas. Coinciding with the appeal, IGC filed a claim against PPE seeking recovery of the \$17 million plus interest. In September 2010, the Dallas District Court ordered PPE to deposit the \$17 million principal in an interest-bearing escrow account jointly owned by IGC and PPE pending the Dallas Court of Appeals decision, which has not yet been issued. As a result of the uncertainty surrounding the outcome of PPE's appeal, our receivable from PPE is fully reserved at June 30, 2011.

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**For the Interim Periods Ended June 30, 2011 and 2010**

**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 \$1 million as of June 30, 2011.

**LS Power Indemnities.** In connection with the LS Power Transactions we agreed in the purchase and sale agreement to indemnify LS Power against claims regarding any breaches in our representations and warranties and certain other potential liabilities. Claims for indemnification shall survive until twelve months subsequent to closing with exceptions for tax claims, which shall survive for the applicable statute of limitations plus 30 days, and certain other representations and potential liabilities, which shall survive indefinitely. The indemnifications provided to LS Power are limited to \$1.3 billion in total; however, several categories of indemnifications are not available to LS Power until the liabilities incurred in the aggregate are equal to or exceed \$15 million and are capped at a maximum of \$100 million. Further, the purchase and sale agreement provides in part that we may not reduce or avoid liability for a valid claim based on a claim of contribution. In addition to the above indemnities related to the LS Power Transactions, we have agreed to indemnify LS Power against claims related to the Riverside/Foothills Project for certain aspects of the project. Namely, LS Power has been indemnified for any disputes that arise as to ownership, transfer of bonds related to the project, and any failure by us to obtain approval for the transfer of the payment in-lieu of taxes program already in place. The indemnities related solely to the Riverside/Foothills Project are capped at a maximum of \$180 million and extend until the earlier of the expiration of the tax agreement or December 26, 2026. At this time, we have incurred no significant expenses under these indemnities. Please read Note 4 Dispositions, Contract Terminations and Discontinued Operations Dispositions and Contract Terminations LS Power Transactions in our Form 10-K for further discussion.

**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 indemnification agreement in relevant part provides that NRG assumes responsibility for all defense costs and any risk of loss, subject to certain conditions and limitations, arising from a February 2002 complaint filed at FERC by the California Public Utilities Commission alleging that several parties, including West Coast Power subsidiaries, overcharged the State of California for wholesale power. FERC found the rates charged by wholesale suppliers to be just and reasonable; however, this matter was appealed and ultimately remanded back to FERC for further review. On May 24, 2011 and May 26, 2011, FERC issued two orders in these dockets. The first order denied the request of the California Parties for consolidation of various dockets and denied their request for summary disposition on market manipulation issues. The second order addressed treatment of settled parties and the scope of hearing issues in the ongoing proceedings.

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**DYNEGY INC. and DYNEGY HOLDINGS INC.**

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**(Unaudited)**

**For the Interim Periods Ended June 30, 2011 and 2010**

**Targa Indemnities.** During 2005, as part of our sale of our midstream business ( 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 material expense under these prior indemnities. We have recorded an accrual of less than \$1 million for remediation of groundwater contamination at the Breckenridge Gas Processing Plant sold by DMSLP in 2001. The indemnification provided by DMSLP to the purchaser of the plant has a limit of \$5 million.

**Illinois Power Indemnities.** 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 absolute 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.

**Black Mountain Guarantee.** Through one of our subsidiaries, we hold a 50 percent ownership interest in Black Mountain (Nevada Cogeneration) ( Black Mountain ), in which our partner is a Chevron subsidiary. Black Mountain owns the Black Mountain power generation facility and has a power purchase agreement with a third party that extends through April 2023. In connection with the power purchase agreement, pursuant to which Black Mountain receives payments which decrease in amount over time, we agreed to guarantee 50 percent of certain payments that may be due to the power purchaser under a mechanism designed to protect it from early termination of the agreement. At June 30, 2011, if an event of default due to early termination had occurred under the terms of the mortgage on the facility entered into in connection with the power purchase agreement, we could have been required to pay the power purchaser approximately \$54 million under the guarantee.

**Other Indemnities.** We entered into indemnifications regarding environmental, tax, employee and other representations when completing asset sales such as, but not limited, to the Rolling Hills, Calcasieu, CoGen Lyondell and Heard County power generating facilities. As of June 30, 2011, no claims have been made against these indemnities. There is no limitation on our liability under certain of these indemnities. However, management is unaware of any existing claims.

**Note 8 Debt**

*DHI s Credit Facility*

During the second quarter 2011, we borrowed \$400 million under DHI s Fifth Amended and Restated Credit Agreement. This borrowing was repaid on August 5, 2011 in connection with the closing of the two new credit facilities entered into as part of the August 2011 Reorganization as defined in Note 13 Subsequent Events. In addition, DHI s term facility of \$850 million was repaid with current restricted cash and the term loan of \$68 million was repaid using proceeds from the GasCo Term Loan Facility. The \$400 million and \$68 million were classified as long-term debt on our unaudited condensed consolidated balance sheets as these amounts were refinanced on a long-term basis. Please read Note 13 Subsequent Events for further discussion.

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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, 2011 and 2010**

*Senior Notes and Debentures*

We made scheduled repayments of \$80 million during the second quarter 2011.

*Subordinated Debentures*

As permitted under the indenture, we have deferred our \$8 million June 2011 payment of interest on the Subordinated Debentures.

*Other Senior Notes*

We made scheduled repayments of \$33 million during the second quarter 2011.

**Note 9 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 24 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:

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	Pension Benefits		Other Benefits	
	2011	2010	2011	2010
	Three Months Ended June 30, (in millions)			
Service cost benefits earned during period	\$ 3	\$ 3	\$	\$
Interest cost on projected benefit obligation	3	4	1	1
Expected return on plan assets	(4)	(4)		
Recognized net actuarial loss	2	1		
Net periodic benefit cost	\$ 4	\$ 4	\$ 1	\$ 1



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	Pension Benefits		Other Benefits	
	2011	Six Months Ended June 30, 2010	2011	2010
	(in millions)			
Service cost benefits earned during period	\$ 6	\$ 6	\$ 1	\$ 1
Interest cost on projected benefit obligation	7	7	2	2
Expected return on plan assets	(8)	(8)		
Recognized net actuarial loss	3	2		
Net periodic benefit cost	\$ 8	\$ 7	\$ 3	\$ 3

**Contributions.** During the six months ended June 30, 2011 and 2010, we made \$6 million in contributions to our pension plans or other postretirement benefit plans. We expect to make contributions of approximately \$12 million to our pension plans and \$2 million to other benefit plans during 2011.

**Note 10 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		Six Months Ended	
	2011	June 30, 2010	2011	June 30, 2010
	(in millions, except rates)			
Income tax benefit	\$ 76	\$ 128	\$ 136	\$ 63

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Effective tax rate	40%	40%	41%	57%
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For the three months ended June 30, 2011 and 2010, Dynegy's overall effective tax rate on continuing operations was different than the statutory rate of 35 percent due primarily to the impact of state taxes.

For the six months ended June 30, 2011, Dynegy's overall effective tax rate on continuing operations was different than the statutory rate of 35 percent due primarily to the impact of state taxes which included a benefit of \$9 million related to an increase in state NOLs due to the acceptance of amended returns, partially offset by an expense of \$3 million related to an increase in the Illinois statutory rate. For the six months ended June 30, 2010, the overall effective tax rate on continuing operations was different than the statutory rate of 35 percent due primarily to a benefit of \$18 million related to the release of reserves for uncertain tax positions, partially offset by the impact of state taxes.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
	(in millions, except rates)			
Income tax benefit	\$ 75	\$ 128	\$ 133	\$ 56
Effective tax rate	39%	40%	41%	51%

For the three months ended June 30, 2011 and 2010, DHI's overall effective tax rate on continuing operations was different than the statutory rate of 35 percent due primarily to the impact of state taxes.

For the six months ended June 30, 2011, DHI's overall effective tax rate on continuing operations was different than the statutory rate of 35 percent due primarily to the impact of state taxes which included a benefit of \$6 million related to an increase in state NOLs due to the acceptance of amended returns, partially offset by an expense of \$2 million related to an increase in the Illinois statutory rate. For the six months ended June 30, 2010, DHI's overall effective tax rate on continuing operations was different than the statutory rate of 35 percent due primarily to a benefit of \$12 million related to the release of reserves for uncertain tax positions, partly offset by the impact of state taxes.

**Note 11 Dynegy's Loss Per Share**

Basic loss per share represents the amount of losses for the period available to each share of our common stock outstanding during the period. Diluted loss per share represents the amount of losses for the period available to each share of our 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. Basic and diluted shares outstanding for all periods presented have been calculated to reflect the 1-for-5 reverse stock split effected May 25, 2010. Please read Note 23 Capital Stock in our Form 10-K for further discussion.



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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(in millions, except per share amounts)</b>			
Loss from continuing operations for basic and diluted loss per share	\$ (116)	\$ (191)	\$ (193)	\$ (47)
Basic weighted-average shares	122	120	122	120
Effect of dilutive securities:				
Stock options and restricted stock		1		1
Diluted weighted-average shares	122	121	122	121
Loss per share from continuing operations:				
Basic	\$ (0.95)	\$ (1.59)	\$ (1.58)	\$ (0.39)
Diluted (1)	\$ (0.95)	\$ (1.59)	\$ (1.58)	\$ (0.39)

(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, we have utilized the basic shares outstanding amount to calculate both basic and diluted loss per share for the three and six months ended June 30, 2011 and 2010.

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We reported 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, 2011 and 2010 is presented below:

**Dynegy's Segment Data as of and for the Three Months Ended June 30, 2011****(in millions)**

	GEN-MW	Power Generation GEN-WE	GEN-NE	Other	Total
Unaffiliated revenues:					
Domestic	\$ 195	\$ 19	\$ 112	\$	\$ 326
Total revenues	\$ 195	\$ 19	\$ 112	\$	\$ 326
Depreciation and amortization	\$ (50)	\$ (16)	\$ (7)	(2)	(75)
Impairment and other charges			(1)		(1)
Operating loss	\$ (37)	\$ (19)	\$ (21)	(29)	(106)
Other items, net	2	1			3
Interest expense					(89)
Loss from continuing operations before income taxes					(192)
Income tax benefit					76
Net loss					\$ (116)
Identifiable assets:					
Domestic	\$ 5,026	\$ 1,803	\$ 1,575	\$ 1,459	\$ 9,863
Total	\$ 5,026	\$ 1,803	\$ 1,575	\$ 1,459	\$ 9,863

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Capital expenditures	\$	(49)	\$	(9)	\$	(4)	\$	(62)
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Table of Contents**DYNEGY INC. and DYNEGY HOLDINGS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****For the Interim Periods Ended June 30, 2011 and 2010****Dynegy's Segment Data as of and for the Three Months Ended June 30, 2010****(in millions)**

	GEN-MW	Power Generation GEN-WE	GEN-NE	Other	Total
Unaffiliated revenues:					
Domestic	\$ 63	\$ 71	\$ 105	\$	\$ 239
Total revenues	\$ 63	\$ 71	\$ 105	\$	\$ 239
Depreciation and amortization	\$ (63)	\$ (17)	\$ (8)	\$ (2)	\$ (90)
Impairment and other charges			(1)		(1)
Operating loss	\$ (165)	\$ (9)	\$ (26)	\$ (29)	\$ (229)
Other items, net				1	1
Interest expense					(91)
Loss from continuing operations before income taxes					(319)
Income tax benefit					128
Net loss					\$ (191)
Identifiable assets:					
Domestic	\$ 5,282	\$ 2,112	\$ 1,768	\$ 1,410	\$ 10,572
Other				24	24
Total	\$ 5,282	\$ 2,112	\$ 1,768	\$ 1,434	\$ 10,596
Capital expenditures and investments in unconsolidated affiliates	\$ (108)	\$ (2)	\$ (2)	\$ (3)	\$ (115)





Table of Contents**DYNEGY INC. and DYNEGY HOLDINGS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****For the Interim Periods Ended June 30, 2011 and 2010****Dynegy's Segment Data as of and for the Six Months Ended June 30, 2011****(in millions)**

	<b>GEN-MW</b>	<b>Power Generation GEN-WE</b>	<b>GEN-NE</b>	<b>Other</b>	<b>Total</b>
Unaffiliated revenues:					
Domestic	\$ 475	\$ 81	\$ 275	\$	\$ 831
Total revenues	\$ 475	\$ 81	\$ 275	\$	\$ 831
Depreciation and amortization	\$ (150)	\$ (33)	\$ (14)	\$ (4)	\$ (201)
Impairment and other charges			(1)		(1)
Operating loss	\$ (40)	\$ (18)	\$ (26)	\$ (71)	\$ (155)
Other items, net	2	1		1	4
Interest expense					(178)
Loss from continuing operations before income taxes					(329)
Income tax benefit					136
Net loss					\$ (193)
Identifiable assets:					
Domestic	\$ 5,026	\$ 1,803	\$ 1,575	\$ 1,459	\$ 9,863
Total	\$ 5,026	\$ 1,803	\$ 1,575	\$ 1,459	\$ 9,863
Capital expenditures	\$ (93)	\$ (14)	\$ (21)	\$	\$ (128)

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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, 2011 and 2010**

**Dynegy's Segment Data as of and for the Six Months Ended June 30, 2010**

**(in millions)**

	<b>GEN-MW</b>	<b>Power Generation GEN-WE</b>	<b>GEN-NE</b>	<b>Other</b>	<b>Total</b>
<b>Unaffiliated revenues:</b>					
Domestic	\$ 549	\$ 214	\$ 334	\$	\$ 1,097
<b>Total revenues</b>	\$				