DYNEGY HOLDINGS INC
Form 10-Q/A
July 25, 2008

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

FORM 10-Q/A
Amendment No. 1

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

For the quarterly period ended March 31, 2008

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ________ to ________

DYNEGY INC.
DYNEGY HOLDINGS INC.
(Exact name of registrant as specified in its charter)

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

1000 Louisiana, Suite 5800 **Houston, Texas** **(Address of principal executive offices)**	**77002** **(Zip Code)**

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

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

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

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

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

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 x
Dynegy Holdings Inc.	Yes ¨ No x

Indicate the number of shares outstanding of Dynegy Inc. s classes of common stock, as of the latest practicable date: Class A common stock, $0.01 par value per share, 502,112,596 shares outstanding as of May 2, 2008; Class B common stock, $0.01 par value per share, 340,000,000 shares outstanding as of May 2, 2008. All of Dynegy Holdings Inc. s outstanding common stock is owned indirectly by Dynegy Inc.

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

DYNEGY INC. and DYNEGY HOLDINGS INC.

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DYNEGY INC. AND DYNEGY HOLDINGS INC. FORM 10-Q/A

EXPLANATORY NOTE 1

Dynegy Inc. and Dynegy Holdings Inc. are filing this Amendment No. 1 on Form 10-Q/A (Amendment No. 1) to reflect the effect of a $229 million overstatement of both revenues and cost of sales for the three months ended March 31, 2008, as reported in our Quarterly Report on Form 10-Q for the period ended March 31, 2008, which was originally filed on May 8, 2008 (the Original Filing). The restatement for the foregoing items had no effect on our previously reported operating loss, net loss or loss per share for the three months ended March 31, 2008. These items are discussed in more detail in the Introductory Note to the accompanying unaudited condensed consolidated financial statements beginning on page 13. The following Items of the Original Filing are amended by this Amendment No. 1:

Item 1. Condensed Consolidated Financial Statements
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Item 4. Controls and Procedures

Unaffected items have not been repeated in this Amendment No. 1.

PLEASE NOTE THAT THE INFORMATION CONTAINED IN THIS AMENDMENT NO. 1, INCLUDING THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND THE NOTES THERETO, DOES NOT REFLECT EVENTS OCCURRING AFTER THE DATE OF THE

ORIGINAL FILING. SUCH EVENTS INCLUDE, AMONG OTHERS, THE EVENTS DESCRIBED IN OUR CURRENT REPORTS ON FORM 8-K. FOR A DESCRIPTION OF THESE EVENTS, PLEASE READ OUR REPORTS FILED SINCE MAY 8, 2008, INCLUDING OUR CURRENT REPORTS ON FORM 8-K AND ANY AMENDMENTS THERETO.

EXPLANATORY NOTE 2

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 three month period ended March 31, 2008 and constituting nearly 100 percent of Dynegy s total consolidated asset base as of March 31, 2008 except for Dynegy s 50 percent interest in DLS Power Holdings, LLC and DLS Power Development Company, LLC. Unless the context indicates otherwise, throughout this report, the terms the Company , we , us , our and ours are used to refer to both Dynegy and DHI and their direct and indirect subsidiaries, including Dynegy Illinois Inc. (Dynegy Illinois) before it became a wholly owned subsidiary of Dynegy by way of the merger of Merger Sub Co., then Dynegy s wholly owned subsidiary, with and into Dynegy Illinois. Discussions or areas of this report that apply only to Dynegy or DHI are clearly noted in such section.

DEFINITIONS

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

APB	Accounting Principles Board
BTA	Best technology available
Cal ISO	The California Independent System Operator
CARB	California Air Resources Board
CDWR	California Department of Water Resources
CEC	California Energy Commission
CFTC	Commodity Futures Trading Commission
CO2	Carbon Dioxide
CRM	Our former customer risk management business segment
CUSA	Chevron U.S.A. Inc., a wholly owned subsidiary of Chevron Corporation
DHI	Dynegy Holdings Inc., Dynegy s primary financing subsidiary
DMG	Dynegy Midwest Generation, Inc.
DMSLP	Dynegy Midstream Services L.P.
EITF	Emerging Issues Task Force
EPA	Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN	FASB Interpretation
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
ICC	Illinois Commerce Commission
IMA	In-market asset availability
ISO	Independent System Operator
LNG	Liquefied natural gas
MISO	Midwest Independent Transmission Operator, Inc.
MMBtu	One million British thermal units
MW	Megawatts
MWh	Megawatt hour
NPDES	National Pollutant Discharge Elimination System
NRG	NRG Energy, Inc.
NYSDEC	New York State Department of Environmental Conservation
PJM	PJM Interconnection, LLC
PPEA	PPEA Holding Company LLC
PUHCA	Public Utility Holding Company Act of 1935, as amended
RGGI	Regional Greenhouse Gas Initiative
SCEA	Sandy Creek Energy Associates, LP
SCH	Sandy Creek Holdings LLC
SEC	U.S. Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SPDES	State Pollutant Discharge Elimination System
VaR	Value at Risk
VIE	Variable Interest Entity

PART I. FINANCIAL INFORMATION

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

DYNEGY INC.

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

	March 31, 2008	December 31, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	$ 429	$ 328
Restricted cash and investments	113	104
Accounts receivable, net of allowance for doubtful accounts of $18 and $20, respectively	383	426
Accounts receivable, affiliates	1	1
Inventory	185	199
Assets from risk-management activities	1,751	358
Deferred income taxes	117	45
Prepayments and other current assets	209	145
Assets held for sale		57
Total Current Assets	3,188	1,663
Property, Plant and Equipment	10,796	10,689
Accumulated depreciation	(1,736)	(1,672)
Property, Plant and Equipment, Net	9,060	9,017
Other Assets		
Unconsolidated investments	71	79
Restricted cash and investments	1,237	1,221
Assets from risk-management activities	96	55
Goodwill	438	438
Intangible assets	481	497
Deferred income taxes	5	6
Accounts receivable, affiliates	4	
Other long-term assets	243	245
Total Assets	$ 14,823	$ 13,221
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 298	$ 292
Accrued interest	127	56
Accrued liabilities and other current liabilities	154	201
Liabilities from risk-management activities	2,030	397
Notes payable and current portion of long-term debt	51	51
Liabilities held for sale		2
Total Current Liabilities	2,660	999

Long-term debt	5,789	5,739
Long-term debt, affiliates	200	200
Long-Term Debt	5,989	5,939
Other Liabilities		
Liabilities from risk-management activities	220	116
Deferred income taxes	1,222	1,250
Other long-term liabilities	371	388
Total Liabilities	10,462	8,692
Minority Interest	11	23
Commitments and Contingencies (Note 9)		
Stockholders Equity		
Class A Common Stock, $0.01 par value, 2,100,000,000 shares authorized at March 31, 2008 and December 31, 2007; 504,491,825 and 502,819,794 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively	5	5
Class B Common Stock, $0.01 par value, 850,000,000 shares authorized at March 31, 2008 and December 31, 2007; 340,000,000 shares issued and outstanding at March 31, 2008 and December 31, 2007	3	3
Additional paid-in capital	6,468	6,463
Subscriptions receivable	(3)	(5)
Accumulated other comprehensive loss, net of tax	(36)	(25)
Accumulated deficit	(2,016)	(1,864)
Treasury stock, at cost, 2,449,440 and 2,449,259 shares at March 31, 2008 and December 31, 2007, respectively	(71)	(71)
Total Stockholders Equity	4,350	4,506
Total Liabilities and Stockholders Equity	$ 14,823	$ 13,221

See the notes to condensed consolidated financial statements.

DYNEGY INC.

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

	Three Months Ended March 31, 2008 (Restated)	Three Months Ended March 31, 2007
Revenues	$ 545	$ 505
Cost of sales	(451)	(240)
Operating and maintenance expense, exclusive of depreciation and amortization shown separately below	(112)	(79)
Depreciation and amortization expense	(93)	(52)
General and administrative expenses	(39)	(53)
Operating income (loss)	(150)	81
Losses from unconsolidated investments	(9)	
Interest expense	(109)	(67)
Other income and expense, net	20	8
Income (loss) from continuing operations before income taxes	(248)	22
Income tax benefit (expense) (Note 11)	96	(6)
Income (loss) from continuing operations	(152)	16
Loss from discontinued operations, net of tax benefit of $1 and $1, respectively (Notes 3 and 11)		(2)
Net income (loss)	$ (152)	$ 14
Earnings (Loss) Per Share (Note 8):		
Basic earnings (loss) per share:		
Income (loss) from continuing operations	$ (0.18)	$ 0.03
Loss from discontinued operations		
Basic earnings (loss) per share	$ (0.18)	$ 0.03
Diluted earnings (loss) per share:		
Income (loss) from continuing operations	$ (0.18)	$ 0.03
Loss from discontinued operations		
Diluted earnings (loss) per share	$ (0.18)	$ 0.03
Basic shares outstanding	836	496
Diluted shares outstanding	838	498

See the notes to condensed consolidated financial statements.

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DYNEGY INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
See Introductory Note
(unaudited) (in millions)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (152)	$ 14
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	94	57
Losses from unconsolidated investments, net of cash distributions	9	
Risk-management activities	280	3
Deferred income taxes	(95)	3
Legal and settlement charges		17
Other		10
Changes in working capital:		
Accounts receivable	36	(29)
Inventory	14	18
Prepayments and other assets	(55)	(13)
Accounts payable and accrued liabilities	18	(37)
Changes in non-current assets	(7)	(1)
Changes in non-current liabilities	4	2
Net cash provided by operating activities	146	44
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(131)	(34)
Unconsolidated investments	(6)	
Proceeds from asset sales, net	57	
Business acquisitions, net of cash acquired		(1)
(Increase) decrease in restricted cash and restricted investments	(25)	9
Other investing	10	
Net cash used in investing activities	(95)	(26)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings, net	51	
Repayments of long-term borrowings		(19)
Other financing, net	(1)	(1)
Net cash provided by (used in) financing activities	50	(20)
Net increase (decrease) in cash and cash equivalents	101	(2)
Cash and cash equivalents, beginning of period	328	371

Cash and cash equivalents, end of period	$	429	$	369
Other non-cash investing activity:				
Noncash construction expenditures	$	9	$	

See the notes to condensed consolidated financial statements.

DYNEGY INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
See Introductory Note
(unaudited) (in millions)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Net income (loss)	$ (152)	$ 14
Cash flow hedging activities, net:		
Unrealized mark-to-market losses arising during period, net	(26)	(59)
Reclassification of mark-to-market (gains) losses to earnings, net	8	(15)
Changes in cash flow hedging activities, net (net of tax benefit of $5 and $44, respectively)	(18)	(74)
Allocation to minority interest	11	
Total cash flow hedging activities	(7)	(74)
Amortization of unrecognized prior service cost and actuarial loss (net of tax benefit (expense) of zero and zero, respectively)		1
Net unrealized loss on securities, net (net of tax benefit of $3 and zero, respectively)	(4)	
Other comprehensive loss, net of tax	(11)	(73)
Comprehensive loss	$ (163)	$ (59)

See the notes to condensed consolidated financial statements.

DYNEGY HOLDINGS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
See Introductory Note
(unaudited) (in millions)

	March 31, 2008	December 31, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	$ 396	$ 292
Restricted cash and investments	113	104
Accounts receivable, net of allowance for doubtful accounts of $15 and $15, respectively	385	428
Accounts receivable, affiliates	1	1
Inventory	185	199
Assets from risk-management activities	1,751	358
Deferred income taxes	99	30
Prepayments and other current assets	209	145
Assets held for sale		57
Total Current Assets	3,139	1,614
Property, Plant and Equipment	10,796	10,689
Accumulated depreciation	(1,736)	(1,672)
Property, Plant and Equipment, Net	9,060	9,017
Other Assets		
Unconsolidated investments	8	18
Restricted cash and investments	1,237	1,221
Assets from risk-management activities	96	55
Goodwill	438	438
Intangible assets	481	497
Deferred income taxes	5	6
Accounts receivable, affiliates	4	
Other long-term assets	241	241
Total Assets	$ 14,709	$ 13,107
LIABILITIES AND STOCKHOLDER S EQUITY		
Current Liabilities		
Accounts payable	$ 298	$ 291
Accrued interest	127	56
Accrued liabilities and other current liabilities	155	202
Liabilities from risk-management activities	2,030	397
Notes payable and current portion of long-term debt	51	51
Liabilities held for sale		2
Total Current Liabilities	2,661	999
Long-term debt	5,789	5,739
Long-term debt, affiliates	200	200
Long-Term Debt	5,989	5,939

Other Liabilities				
Liabilities from risk-management activities		220		116
Deferred income taxes		1,023		1,052
Other long-term liabilities		367		381
Total Liabilities		10,260		8,487
Minority Interest		11		23
Commitments and Contingencies (Note 9)				
Stockholder s Equity				
Capital Stock, $1 par value, 1,000 shares authorized at March 31, 2008 and December 31, 2007				
Additional paid-in capital		5,684		5,684
Affiliate receivable		(820)		(825)
Accumulated other comprehensive loss, net of tax		(36)		(25)
Accumulated deficit		(390)		(237)
Total Stockholder s Equity		4,438		4,597
Total Liabilities and Stockholder s Equity	$	14,709	$	13,107

See the notes to condensed consolidated financial statements.

DYNEGY HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
See Introductory Note
(unaudited) (in millions)

	Three Months Ended March 31,	
	2008	**2007**
	(Restated)	
Revenues	$ 545	$ 505
Cost of sales	(451)	(240)
Operating and maintenance expense, exclusive of depreciation and amortization shown separately below	(112)	(79)
Depreciation and amortization expense	(93)	(52)
General and administrative expenses	(39)	(36)
Operating income (loss)	(150)	98
Losses from unconsolidated investments	(5)	
Interest expense	(109)	(67)
Other income and expense, net	20	4
Income (loss) from continuing operations before income taxes	(244)	35
Income tax benefit (expense) (Note 11)	91	(11)
Income (loss) from continuing operations	(153)	24
Loss from discontinued operations, net of tax benefit of $1 and $1, respectively (Notes 3 and 11)		(2)
Net income (loss)	$ (153)	$ 22

See the notes to condensed consolidated financial statements.

DYNEGY HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
See Introductory Note
(unaudited) (in millions)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (153)	$ 22
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	94	57
Earnings from unconsolidated investments, net of cash distributions	5	
Risk-management activities	280	3
Deferred income taxes	(90)	9
Other	(1)	9
Changes in working capital:		
Accounts receivable	36	(29)
Inventory	14	18
Prepayments and other assets	(55)	(13)
Accounts payable and accrued liabilities	19	(35)
Changes in non-current assets	(6)	(1)
Changes in non-current liabilities	3	3
Net cash provided by operating activities	146	43
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(131)	(34)
Proceeds from asset sales, net	57	
(Increase) decrease in restricted cash and restricted investments	(25)	9
Affiliate transactions	1	(8)
Other investing	6	
Net cash used in investing activities	(92)	(33)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings, net	51	
Repayments of long-term borrowings		(19)
Dividend to affiliate		(50)
Other financing, net	(1)	(1)
Net cash provided by (used in) financing activities	50	(70)
Net increase (decrease) in cash and cash equivalents	104	(60)
Cash and cash equivalents, beginning of period	292	242

Cash and cash equivalents, end of period	$	396	$	182
Other non-cash investing activity:				
Noncash construction expenditures	$	9	$	

See the notes to condensed consolidated financial statements.

DYNEGY HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
See Introductory Note
(unaudited) (in millions)

	Three Months Ended March 31,	
	2008	**2007**
Net income (loss)	$ (153)	$ 22
Cash flow hedging activities, net:		
Unrealized mark-to-market losses arising during period, net	(26)	(59)
Reclassification of mark-to-market (gains) losses to earnings, net	8	(15)
Changes in cash flow hedging activities, net (net of tax benefit of $5 and $44, respectively)	(18)	(74)
Allocation to minority interest	11	
Total cash flow hedging activities	(7)	(74)
Amortization of unrecognized prior service cost and actuarial loss (net of tax benefit (expense) of zero and zero, respectively)		1
Net unrealized loss on securities, net (net of tax benefit of $3 and zero, respectively)	(4)	
Other comprehensive loss, net of tax	(11)	(73)
Comprehensive loss	$ (164)	$ (51)

See the notes to condensed consolidated financial statements.

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited and Restated)

For the Interim Periods Ended March 31, 2008 and 2007

PLEASE NOTE THAT THESE FINANCIAL STATEMENTS AND THE NOTES THERETO DO NOT REFLECT EVENTS OCCURRING AFTER MAY 8, 2008 (THE DATE OF THE ORIGINAL FILING). FOR A DESCRIPTION OF THESE EVENTS, PLEASE READ OUR EXCHANGE ACT REPORTS FILED SINCE MAY 8, 2008, INCLUDING OUR CURRENT REPORTS ON FORM 8-K AND ANY AMENDMENTS THERETO.

Introductory Note

On July 25, 2008, we filed a Current Report on Form 8-K announcing a restatement of our previously issued financial statements included in our Quarterly Report on Form 10-Q for the period ended March 31, 2008. The restatement relates to a $229 million overstatement of both revenues and cost of sales. The financial information in this amendment has been revised to reflect the effects of such restatement.

In accordance with EITF Issue 03-11, Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133 and Not Held for Trading Purposes as Defined in Issue No. 02-3, we present all mark-to-market gains and losses on energy trading contracts net in the income statement. In order to conform to this accounting standard, on a quarterly basis, we calculate our net mark-to-market gains and losses on energy trading contracts and adjust our revenues and cost of sales accordingly. During the first quarter 2008, we inadvertently excluded certain amounts from the calculation.

The restatement of our previously issued financial statements did not change our previously reported operating loss, net loss or loss per share for the three months ended March 31, 2008, nor did the restatement change our unaudited condensed consolidated statements of cash flows or our unaudited condensed consolidated statements of comprehensive loss for the three months ended March 31, 2008 or our unaudited condensed consolidated balance sheet as of March 31, 2008.

The table below summarizes the effects to both Dynegy and DHI of the correction to revenues and cost of sales (in millions):

	For the Three Months Ended March 31, 2008				
	Power Generation				
	GEN-MW	GEN-WE	GEN-NE	Other	Total
Revenues					
As previously reported in Original Filing	$ 319	$ 205	$ 251	$ (1)	$ 774
Adjustment	(155)	(74)			(229)
As restated	$ 164	$ 131	$ 251	$ (1)	$ 545
Cost of Sales					
As previously reported in Original Filing	$ (279)	$ (197)	$ (213)	$ 9	$ (680)
Adjustment	155	74			229
As restated	$ (124)	$ (123)	$ (213)	$ 9	$ (451)

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited and Restated)

For the Interim Periods Ended March 31, 2008 and 2007

Note 1 Accounting Policies

Basis of Presentation

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

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

Accounting Principles Adopted

SFAS No. 157. On September 15, 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). Please read Note 4 Risk Management Activities, Derivatives and Financial Instruments for further discussion.

SFAS No. 159. On February 15, 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. We adopted SFAS No. 159 on January 1, 2008 but have not elected the fair value option to measure eligible items. Accordingly, this statement had no impact on our financial statements.

DYNEGY INC. and DYNEGY HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited and Restated)

For the Interim Periods Ended March 31, 2008 and 2007

Accounting Principles Not Yet Adopted

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

SFAS No. 160. On December 4, 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS No. 160). SFAS No. 160 requires ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent s equity; the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; changes in a parent s ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently; and any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. We are currently evaluating the impact of this statement on our financial statements.

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

Note 2 Acquisitions and Contributions

LS Power Business Combination. On April 2, 2007, Dynegy acquired entities that owned ten power plants, a power plant under construction (the Contributed Entities) and 50 percent interests in DLS Power Holdings, LLC (DLS Power Holdings), a development joint venture, and DLS Power Development Company, LLC (DLS Power Development) from LSP Gen Investors, L.P., LS Power Partners, L.P., LS Power Equity Partners PIE I, L.P., LS Power Equity Partners, L.P. and LS Power Associates, L.P. (the Merger). The aggregate purchase price was comprised of (i) $100 million cash, (ii) 340 million shares of the Class B common stock of Dynegy, (iii) the issuance of a promissory note in the aggregate principal amount of $275 million (the Note) (which was simultaneously issued and repaid in full without interest or prepayment penalty), (iv) the issuance of an additional $70 million of project-related debt (the Griffith Debt) (which was simultaneously issued and repaid in full without interest or prepayment penalty) via an indirect wholly owned subsidiary, and (v) transaction costs of approximately $52 million, approximately $8 million of which were paid in 2006. The Class B common stock issued by Dynegy was valued at $5.98 per share, which represents the average closing price of Dynegy s common stock on the New York Stock Exchange for the two days prior to, including, and two days subsequent to the September 15, 2006 public announcement of the Merger, or approximately $2,033 million. Dynegy funded the cash payment and the

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repayment of the Note and the Griffith Debt using cash on hand and borrowings by DHI (and subsequent permitted distributions to Dynegy) of (i) an aggregate $275 million under the revolving portion of our Fifth Amended and Restated Credit Facility and (ii) an aggregate $70 million under a senior secured term loan facility. Please see Note 15 Debt Fifth Amended and Restated Credit Facility in Dynegy s and DHI s Form 10-K for discussion of DHI s borrowings. We paid a premium over the fair value of the net tangible and identified intangible assets acquired due to the (i) scale and diversity of assets acquired in key regions of the United States; (ii) financial benefits of such assets; and (iii) proven nature of the asset development platform that was subsequently contributed to DLS Power Holdings and DLS Power Development.

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

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

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

Cash	$ 16
Restricted cash and investments (including $37 million current)	91
Accounts receivable	52
Inventory	37
Assets from risk management activities (including $11 million current)	37
Prepaids and other current assets	12
Property, plant and equipment	4,223
Intangible assets (including $9 million current)	224
Goodwill	486
Unconsolidated investments	83
Other	35
Total assets acquired	$ 5,296
Current liabilities and accrued liabilities	$ (92)
Liabilities from risk management activities (including $14 million current)	(75)
Long-term debt (including $32 million current)	(1,898)
Deferred income taxes	(627)
Other	(96)
Minority interest	22
Total liabilities and minority interest assumed	$ (2,766)
Net assets acquired	$ 2,530

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

Dynegy s and DHI s results of operations include the results of the acquired entities for the period beginning April 2, 2007. The following table presents unaudited pro forma information for 2007, as if the acquisition had occurred on January 1, 2007:

	Dynegy Inc.		Dynegy Holdings Inc.	
	Three Months Ended March 31, 2007		Three Months Ended March 31, 2007	
	Actual	Pro Forma	Actual	Pro Forma
	(in millions, except per share amounts)			
Revenue	$ 505	$ 794	$ 505	$ 794
Income (loss) before cumulative effect of a change in accounting principal	14	(34)	22	(23)
Net income (loss) applicable to common stockholders	14	(34)	22	(23)
Basic and diluted earnings (loss) per share before cumulative effect of accounting change	$ 0.03	$ (0.04)	N/A	N/A
Basic and diluted earnings (loss) per share	0.03	(0.04)	N/A	N/A

These unaudited pro forma results, based on assumptions deemed appropriate by management, have been prepared for informational purposes only and are not necessarily indicative of Dynegy s and DHI s results for the three months ended March 31, 2007 if the Merger had occurred on January 1, 2007. Pro forma adjustments to the results of operations include the effects on depreciation and amortization, interest expense, interest income and income taxes. The unaudited pro forma condensed consolidated financial statements reflect the Merger in accordance with SFAS No. 141 and SFAS No. 142.

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

In April 2007, Dynegy Illinois contributed to DHI all of its interest in New York Holdings Inc. (New York Holdings), together with its indirect interest in the subsidiaries of New York Holdings. New York Holdings, together with its wholly owned subsidiaries, owns the Sithe Assets. The Sithe Assets primarily consist of the Independence power generation facility. This contribution was accounted for as a transaction between entities under common control. As such, the assets and liabilities of New York Holdings were recorded by DHI at Dynegy s

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historical cost on Dynegy s date of acquisition, January 31, 2005. In addition, DHI s historical financial statements have been adjusted in all periods presented to reflect the contribution as though DHI had owned New York Holdings beginning January 31, 2005.

Note 3 Discontinued Operations

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

In accordance with SFAS No. 144, we discontinued depreciation and amortization of CoGen Lyondell s property, plant and equipment during the second quarter 2007. Depreciation and amortization expense related to CoGen Lyondell totaled approximately $4 million in the three month period ended March 31, 2007. Also pursuant to SFAS No. 144, we are reporting the results of CoGen Lyondell s operations in discontinued operations for all periods presented.

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

In accordance with SFAS No. 144, we discontinued depreciation and amortization of Calcasieu s property, plant and equipment during the first quarter 2007. Depreciation and amortization expense related to Calcasieu totaled zero and less than a million dollars in the three month periods ended March 31, 2008 and 2007, respectively. Also pursuant to SFAS No. 144, we are reporting the results of Calcasieu s operations in discontinued operations for all periods presented.

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

Three Months Ended March 31, 2008		
Loss on sale before taxes	$	(1)
Loss on sale after taxes		
Three Months Ended March 31, 2007		
Revenues	$	69
Loss from operations before taxes		(3)
Loss from operations after taxes		(2)

Note 4 Risk Management Activities, Derivatives and Financial Instruments

The nature of our business necessarily involves market and financial risks. Specifically, we are exposed to commodity price variability related to our power generation business. Our commercial team manages these commodity price risks by entering into financial instrument contracts in an attempt to mitigate or eliminate these various risks. These risks and our strategy for mitigating them are more fully described in Note 6 Risk Management Activities and Financial Instruments of Dynegy s and DHI s Form 10-K. Consistent with our commodity risk management policy, our commercial team also uses a limited amount of financial instruments to capture the benefit of fluctuations in market prices in the geographic regions where our assets operate.

Cash Flow Hedges. We enter into financial derivative instruments that qualify, and that we may elect to designate, as cash flow hedges.

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Interest rate swaps have been used to convert floating interest rate obligations to fixed interest rate obligations. Instruments related to our GEN business, which are entered into for purposes of hedging future fuel requirements and sales commitments and securing commodity prices we consider favorable under the circumstances, have also historically been designated as cash flow hedges. Beginning on April 2, 2007, we chose to cease designating such instruments related to our GEN business as cash flow hedges, and thus apply mark-to-market accounting treatment prospectively. Accordingly, as fair values fluctuate from period to period due to market price volatility, fair value changes are reflected in the unaudited condensed consolidated statements of operations. Pursuant to EITF Issue 02-3, Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities (EITF Issue No. 02-3), all gains and losses on third party energy trading contracts, whether realized or unrealized, are presented net in the unaudited condensed consolidated statements of operations. The balance in Other comprehensive loss at April 2, 2007 related to these instruments will be reclassified to future earnings contemporaneously with the related purchases of fuel and sales of electricity. As of March 31, 2008, the remaining balance was a $7 million pre-tax loss.

During the three months ended March 31, 2008, we recorded no income related to ineffectiveness from changes in the fair value of cash flow hedge positions and no amounts were excluded from the assessment of hedge effectiveness related to the hedge of future cash flows. During the three months ended March 31, 2007, we recorded $5 million of income related to ineffectiveness from changes in fair value of cash flow hedge positions and no amounts were excluded from the assessment of hedge effectiveness related to the hedge of future cash flows. During the three months ended March 31, 2008 and 2007, no amounts were reclassified to earnings in connection with forecasted transactions that were no longer considered probable of occurring.

The balance in cash flow hedging activities, net at March 31, 2008, is expected to be reclassified to future earnings when the hedged transaction impacts earnings. Of this amount, after-tax losses of approximately $4 million are currently estimated to be reclassified into earnings over the 12-month period ending March 31, 2009. The actual amounts that will be reclassified into earnings over this period and beyond could vary materially from this estimated amount as a result of changes in market conditions and other factors.

Fair Value Hedges. We also enter into derivative instruments that qualify, and that we designate, as fair value hedges. We use interest rate swaps to convert a portion of our non-prepayable fixed-rate debt into floating-rate debt. During the three months ended March 31, 2008 and 2007, there was no ineffectiveness from changes in the fair value of hedge positions and no amounts were excluded from the assessment of hedge effectiveness. During the three months ended March 31, 2008 and 2007, no amounts were recognized in relation to firm commitments that no longer qualified as fair value hedges.

Fair Value Measurements. On September 15, 2006, the FASB issued SFAS No. 157, which defines fair value, establishes a framework for measuring fair value and expands disclosure requirements for fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, SFAS No. 157 does not require any new fair value measurements; however, for some entities the application of SFAS No. 157 will change current practice. The provisions of SFAS No. 157 are to be applied prospectively, except for the initial impact on three specific items: (i) changes in fair value measurements of existing derivative financial instruments measured initially using the transaction price under EITF No. 02-3, (ii) existing hybrid financial instruments measured initially at fair value using the transaction price and (iii) blockage factor discounts. We adopted SFAS No. 157 effective January 1, 2008 and did not record a cumulative effect upon the adoption.

On February 12, 2008, the FASB issued FASB Staff Position No. FAS 157-2, which defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, with respect to non-financial assets and non-

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financial liabilities which are not recognized or disclosed at fair value in the financial statements on a recurring basis. Therefore, we have deferred application of SFAS No. 157 to such non-financial assets and non-financial liabilities until January 1, 2009.

Fair value, as defined in SFAS No. 157, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). However, as permitted under SFAS No. 157, we utilize a mid-market pricing convention (the mid-point price between bid and ask prices) as a practical expedient for valuing the majority of our assets and liabilities measured and reported at fair value. Where appropriate, valuation adjustments are made to account for various factors, including the impact of our credit risk, our counterparties credit risk and bid-ask spreads. We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. We primarily apply the market approach for recurring fair value measurements and endeavor to utilize the best available information. Accordingly, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. We are able to classify fair value balances based on the observability of those inputs. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy defined by SFAS No. 157 are as follows:

Level 1 Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives, listed equities and U.S. government treasury securities.

Level 2 Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include non-exchange-traded derivatives such as over the counter forwards, options and repurchase agreements.

Level 3 Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management s best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to our needs as well as financial transmission rights. At each balance sheet date, we perform an analysis of all instruments subject to SFAS No. 157 and include in Level 3 all of those whose fair value is based on significant unobservable inputs.

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The following table sets forth by level within the fair value hierarchy our financial assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2008. These financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	Fair Value as of March 31, 2008			
	Level 1	Level 2	Level 3	Total
	(in millions)			
Assets:				
Assets from risk management activities	$	$ 1,835	$ 12	$ 1,847
Other		14		14
Total	$	$ 1,849	$ 12	$ 1,861
Liabilities:				
Liabilities from risk management activities	$	$ 2,180	$ 70	$ 2,250
Total	$	$ 2,180	$ 70	$ 2,250

The determination of the fair values above incorporates various factors required under SFAS No. 157. These factors include not only the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits, letters of credit and priority interests), but also the impact of our nonperformance risk on our liabilities.

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

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

	2008
	(in millions)
Balance at December 31, 2007	$ (16)
Realized and unrealized gains (losses)	(42)
Balance at March 31, 2008	$ (58)
Change in unrealized gains (losses) relating to instruments still held as of March 31, 2008	$ (22)

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 are generally hedging our generation portfolio

Transfers in and/or out of Level 3 represent existing assets or liabilities that were either previously categorized as a higher level for which the inputs to the model became unobservable or assets and liabilities that were previously classified as Level 3 for which the lowest significant input became observable during the period. There were no transfers in or out of Level 3 during the three months ended March 31, 2008.

Note 5 Accumulated Other Comprehensive Loss

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

	March 31, 2008	December 31, 2007
	(in millions)	
Cash flow hedging activities, net	$ (46)	$ (39)
Foreign currency translation adjustment	27	27
Unrecognized prior service cost and actuarial loss	(25)	(25)
Available for sale securities	8	12
Accumulated other comprehensive loss, net of tax	$ (36)	$ (25)

Note 6 Variable Interest Entities

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

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Variable Interest Entities Hydroelectric Generation Facilities in Dynegy s and DHI s Form 10-K for discussion of these entities.

PPEA Holding Company LLC. On April 2, 2007, in connection with the completion of the Merger, we acquired a 70 percent interest in PPEA Holding Company LLC (PPEA). On December 13, 2007, we sold a portion of our interest in PPEA, reducing our ownership interest in PPEA to 37 percent. PPEA owns and operates Plum Point Energy Associates, LLC (Plum Point). Plum Point is constructing a 665 MW coal fired power generation facility (the Project), located in Mississippi County, Arkansas, in which it owns an approximate 57 percent undivided interest. These assets consist primarily of $371 million of plant construction in progress at March 31, 2008. As of March 31, 2008, we have posted a $15 million letter of credit to support our equity contribution to the Project. See Note 15 Debt Plum Point Credit Agreement Facility for discussion of Plum Point s borrowings in Dynegy s and DHI s Form 10-K. PPEA meets the definition of a VIE, and we have determined we are the primary beneficiary of this entity. As such, we have consolidated it in accordance with the provisions of FIN No. 46(R).

DLS Power Holdings and DLS Power Development. On April 2, 2007, in connection with the transactions consummated by the Merger, Dynegy acquired a 50 percent interest in DLS Power Holdings and DLS Power Development. The purpose of DLS Power Development is to provide services to DLS Power Holdings and the project subsidiaries related to power project development and to evaluate and pursue potential new development projects. DLS Power Holdings and DLS Power Development meet the definition of VIEs, as they will require additional subordinated financial support from their owners to conduct normal on-going operations. However, Dynegy is not the primary beneficiary of the entities and, in accordance with the provisions of FIN No. 46(R), has not consolidated them. Dynegy accounts for its investments in DLS Power Holdings and DLS Power Development as equity method investments pursuant to APB No. 18, The Equity Method of Accounting for Investments in Common Stock . We believe that Dynegy s maximum exposure to economic loss from this VIE is limited to $63 million, which represents its equity investment in these entities at March 31, 2008.

Sandy Creek. Dynegy Sandy Creek Holdings, LLC (the Dynegy Member), an indirectly wholly owned subsidiary of Dynegy and DHI, and LSP Sandy Creek Member, LLC (the LSP Member) each own a 50 percent interest in Sandy Creek Holdings LLC (SCH), which owns all of Sandy Creek Energy Associates, LP (SCEA). SCEA owns an approximate 75 percent undivided interest in the Sandy Creek Energy Station (the Project), which is an 898 MW facility under construction in McLennan County, Texas. In addition, Sandy Creek Services, LLC (SC Services) was formed to provide services to SCH. Dynegy Power Services and LSP Sandy Creek Services LLC each own a 50 percent interest in SC Services.

SCH and SC Services both meet the definition of a VIE, as they will require additional subordinated financial support to conduct their normal on-going operations. However, we are not the primary beneficiary of the entities, and, in accordance with FIN No. 46(R), do not consolidate them. We account for our investments in SCH and SC Services as equity method investments pursuant to APB 18. We believe that our maximum exposure to economic loss from these VIEs is limited to $335 million, which represents our $8 million equity investment in these entities at March 31, 2008, a note receivable of approximately $4 million and letters of credit totaling $323 million supporting our funding commitment.

Note 7 Related Party Transactions

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

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Other. On March 30, 2007, DHI paid a dividend of $50 million to Dynegy.

Note 8 Dynegy s Earnings (Loss) Per Share

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

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

	Three Months Ended March 31,	
	2008	**2007**
	(in millions, except per share amounts)	
Income (loss) from continuing operations for basic and diluted earnings (loss) per share	$ (152)	$ 16
Basic weighted-average shares	836	496
Effect of dilutive securities:		
Stock options and restricted stock	2	2
Diluted weighted-average shares	838	498
Earnings (loss) per share from continuing operations:		
Basic	$ (0.18)	$ 0.03
Diluted (1)	$ (0.18)	$ 0.03

(1) When an entity has a net loss from continuing operations, SFAS No. 128, Earnings per Share, prohibits the inclusion of potential common shares in the computation of diluted per-share amounts. Accordingly, Dynegy has utilized the basic shares outstanding amount to calculate both basic and diluted loss per share for the three months ended March 31, 2008.

Note 9 Commitments and Contingencies

PLEASE NOTE THAT THE INFORMATION CONTAINED IN THIS NOTE 9, WHICH WAS PRESENTED IN OUR FIRST QUARTER 2008 FORM 10-Q ORIGINALLY FILED WITH THE SEC ON MAY 8, 2008 IN ORDER TO REFLECT THE

MATERIAL CHANGES IN OR UPDATES TO OUR MATERIAL LEGAL PROCEEDINGS SINCE THE ORIGINAL FILING OF OUR ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2007, DOES NOT REFLECT EVENTS OCCURRING AFTER MAY 8, 2008. FOR A DESCRIPTION OF THESE EVENTS, INCLUDING MATERIAL CHANGES IN, OR UPDATES TO, OUR MATERIAL LEGAL PROCEEDINGS, PLEASE READ OUR REPORTS FILED SINCE MAY 8, 2008, INCLUDING OUR CURRENT REPORTS ON FORM 8-K AND ANY AMENDMENTS THERETO.

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Legal Proceedings

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

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

In October 2007, we, on behalf of ourselves and our former joint venture affiliate West Coast Power, entered into a confidential memorandum of understanding to settle the fourteen cases comprising the California-based gas index litigation. In February 2008, a formal settlement agreement was executed and funding occurred shortly thereafter. Dismissals with prejudice were entered by the court in March 2008. The settlement is without admission of wrongdoing, and we continue to deny plaintiffs allegations.

In February 2008, the United States District Court in Las Vegas, Nevada granted defendants motion for summary judgment in a Colorado class action which had been transferred to Nevada through the multi-district litigation process thereby dismissing the case and all of plaintiffs claims. Plaintiffs have moved for reconsideration of the dismissal.

The remaining six cases, three of which seek class certification, are also pending in the Nevada federal district court. Five of the cases were transferred through multi-district litigation from other states, including Kansas, Wisconsin, Missouri and Illinois. All of the cases contain similar claims that individually and in conjunction with other energy companies, we engaged in an illegal scheme to inflate natural gas prices by providing false information to natural gas index publications. The complaints rely heavily on prior FERC and CFTC investigations into and reports concerning index manipulation in the energy industry. The lawsuits seek actual and punitive damages, restitution and/or expenses.

We continue to analyze the Gas Index Pricing Litigation and are vigorously defending the remaining individual matters. Due to the uncertainty of litigation, we cannot predict whether we will incur any liability in connection with these lawsuits. However, given the nature of the claims, an adverse result in these proceedings could have a material adverse effect on our financial condition, results of operations and cash flows.

California Market Litigation. We and various other power generators and marketers were defendants in numerous lawsuits alleging rate and market manipulation in California s wholesale electricity market during the California energy crisis several years ago. The complaints generally alleged unfair, unlawful and deceptive trade practices in violation of the California Unfair Business Practices Act and sought injunctive relief, restitution and unspecified actual and treble damages. All of these cases have been dismissed on grounds of federal preemption and affirmed on appeal. Plaintiffs in one case, which was dismissed by the district court and recently affirmed by the Ninth Circuit, sought rehearing by the appellate court. In January 2008, the Ninth Circuit denied plaintiffs motion and the deadline for plaintiffs to seek Supreme Court review recently passed. Accordingly, no California Market Litigation matters are pending.

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

New York Attorney General Subpoena. On September 17, 2007, Dynegy and four other companies received a subpoena from the Office of the New York Attorney General. The subpoena seeks information and documents related to, among other things: Dynegy s evaluation, analysis and projections regarding climate change; the impact of climate change on Dynegy s operations; development opportunities through Dynegy s joint venture with LS Power; and alleged deficiencies in Dynegy s SEC disclosures related to the foregoing. We are reviewing the subpoena and discussing its contents with the New York Attorney General s office in anticipation of our responding as appropriate.

Illinova Arbitration. In June 2000, Dynegy s subsidiary, Illinova Generating Company (IGC), sold a minority interest it held in a Cleburne, Texas generating plant to Ponderosa Pine Energy (PPE). Brazos Electric Cooperative, Inc. (Brazos), the party to an offtake agreement from the plant, brought legal action against PPE alleging that PPE s purchase did not comply with the terms of Brazos offtake agreement. Brazos received a favorable arbitration award against PPE, which in turn sought recovery from IGC and the other former owners of the plant for indemnification. In May 2007, the panel in PPE s arbitration action ruled that IGC and the other former owners of the plant must indemnify PPE for the Brazos arbitration award, with IGC s portion being defined as approximately $17 million. Dynegy recognized a legal settlement charge of approximately $17 million in the first quarter 2007 relating to this adverse ruling. In May 2007, Dynegy paid the judgment under protest. PPE moved to enforce the arbitration award in state district court and the defendants have filed a motion to vacate the arbitration award. A hearing on these motions was held in December 2007, with a ruling expected in the third quarter 2008.

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

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A formal evidentiary hearing was held in November and December 2005. The Deputy Commissioner s decision directing that the NYSDEC staff issue the revised Draft Danskammer SPDES Permit was issued in May 2006. In June 2006, the NYSDEC issued the revised Danskammer SPDES Permit with conditions generally favorable to us. While the revised Danskammer SPDES Permit does not require installation of a closed cycle cooling system, it does require aquatic organism mortality reductions resulting from NYSDEC s determination of BTA requirements under its regulations. In July 2006, two of the petitioners filed suit in the Supreme Court of the State of New York seeking to vacate the Deputy Commissioner s decision and the revised Danskammer SPDES Permit. On March 26, 2007, the Court transferred the lawsuit to the Third Department Appellate Division. The case will now proceed as a normal appeal from a final agency decision and the decision will be based on whether there is substantial evidence in the record to support the agency decision. On December 21, 2007, petitioners filed their Brief for Appellants. Our Respondent s Brief was filed on March 26, 2008. Petitioner s Reply brief was filed on April 18, 2008. We expect a decision in the summer of 2008. We believe that the decision of the Deputy Commissioner is well reasoned and will be affirmed. However, in the event the decision is not affirmed and we ultimately are required to install a closed cycle cooling system, this could have a material adverse effect on our financial condition, results of operations and cash flows.

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

In July 2005, a public hearing was held to receive comments on the Draft Roseton SPDES Permit. Three environmental organizations filed petitions for party status in the permit renewal proceeding. The petitioners are seeking to impose a permit requirement that the Roseton plant install a closed cycle cooling system in order to reduce the volume of water withdrawn from the Hudson River, thus reducing aquatic organism mortality. The petitioners claim that only a closed cycle cooling system meets the Clean Water Act s requirement that the cooling water intake structures reflect the BTA for minimizing adverse environmental impacts. In September 2006, the administrative law judge issued a ruling admitting the petitioners to full party status and setting forth the issues to be adjudicated in the permit renewal hearing. Various holdings in the ruling have been appealed to the Commissioner of NYSDEC by us, NYSDEC staff, and the petitioners. We expect that the adjudicatory hearing on the Draft Roseton SPDES Permit will occur in 2008. We believe that the petitioners claims are without merit, and we plan to oppose those claims vigorously. Given the high cost of installing a closed cycle cooling system, an adverse result in this proceeding could have a material adverse effect on our financial condition, results of operations and cash flows.

Moss Landing National Pollutant Discharge Elimination System Permit. The California Regional Water Quality Control Board (Water Board) issued a NPDES permit for the Moss Landing Power Plant in 2000 in connection with modernization of the plant and the California Energy Commission s licensing of that project. A local environmental group sought review of the permit in Superior Court in Monterey County in July 2001 claiming that the permit was not supported by sufficient analysis of the BTA for cooling water intake structures as required under the Clean Water Act. Petitioner contends that the once-through, seawater-cooling system at Moss Landing should be replaced with a closed cycle cooling system.

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

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intakes. On April 14, 2008, the U.S. Supreme Court granted petitions for certiorari to consider whether cost benefit comparisons are authorized in determining BTA for cooling water intake structures.

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

Native Village of Kivalina and City of Kivalina v. ExxonMobil Corporation, et al. In February 2008, the Native Village of Kivalina and the City of Kivalina, Alaska initiated an action in federal court in the Northern District of California against DHI and 23 other companies in the energy industry. Plaintiffs claim that defendants emissions of greenhouse gases including carbon dioxide contribute to climate change and have caused significant damage to a native Alaskan Eskimo village through increased vulnerability to waves, storm surges and erosion. An initial schedule requires defendants to answer or otherwise respond to Plaintiffs complaint in late June 2008. We believe the plaintiffs suit lacks merit and we intend to oppose their claims vigorously.

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

Regulatory Matters

We are subject to regulation by various federal, state and local agencies, including extensive rules and regulations governing transportation, transmission and sale of energy commodities as well as the discharge of materials into the environment or otherwise relating to environmental protection. Compliance with these regulations requires general and administrative, capital and operating expenditures including those related to monitoring, pollution control equipment, emission fees and permitting at various operating facilities and remediation obligations.

Illinois Resource Procurement. In January 2006, the ICC approved a reverse power procurement auction as the process by which utilities would procure power beginning in 2007. The initial auction occurred in September 2006, and we subsequently entered into two supplier forward contracts with subsidiaries of Ameren Corporation to provide capacity, energy and related services. The Illinois legislature passed legislation in 2007 as part of the Illinois rate relief package that significantly altered the power procurement process in Illinois. The interim process (before a new state agency implements a permanent process) was approved by the ICC and implemented in Spring 2008 with the two major Illinois utilities procuring capacity and energy for the period June 2008- May 2009 through a request for proposal process. Separately, we continue to make our required payments under the rate relief package.

Mercury Emissions. In December 2006, the Illinois Pollution Control Board approved a state rule for the control of mercury emissions from coal-fired power plants that required additional capital and O&M expenditures at each of our Illinois coal-fired plants beginning in 2007. In January 2007, the State of New York also approved a mercury rule that will likely require additional capital and operating costs at our Danskammer plant.

FERC Market-Based Rate Authority. FERC s market-based rate authority allows the sale of power at negotiated rates through the bilateral market or within an organized energy market, conditioned on periodic re-review. In June 2007, the FERC finalized a series of fundamental reforms to its market-based rate program intended to strengthen competitive markets and protect consumers by reinforcing regulations for just and reasonable wholesale electric power sales by protecting consumers from an electric power seller s exercise of market power.

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Our next triennial market power update will be an analysis of our Northeast assets and is due between June 1, 2008 and June 30, 2008.

Guarantees and Indemnifications

In the ordinary course of business, we routinely enter into contractual agreements that contain various representations, warranties, indemnifications and guarantees. Examples of such agreements include, but are not limited to, service agreements, equipment purchase agreements, engineering and technical service agreements, and procurement and construction contracts. Some agreements contain indemnities that cover the other party s negligence or limit the other party s liability with respect to third party claims, in which event we will effectively be indemnifying the other party. Virtually all such agreements contain representations or warranties that are covered by indemnifications against the losses incurred by the other parties in the event such representations and warranties are false. While there is always the possibility of a loss related to such representations, warranties, indemnifications and guarantees in our contractual agreements, and such loss could be significant, in most cases management considers the probability of loss to be remote.

West Coast Power Indemnities. In connection with the sale of our 50 percent interest in West Coast Power to NRG on March 31, 2006, an agreement was executed to allocate responsibility for managing certain litigation and provide for certain indemnities with respect to such litigation. The agreement states that we will manage the Gas Index Pricing Litigation described above for which NRG could suffer a loss subsequent to the closing and that we would indemnify NRG for all costs or losses resulting from such litigation, as well as from other proceedings based on similar acts or omissions, which formed the basis of such litigation. Upon execution of the California Gas Index Pricing Litigation settlement discussed above, West Coast Power will no longer be a party to any active Gas Index Pricing Litigation matters subject to this indemnity. The agreement further states that we will manage the California Market Litigation described above for which NRG could suffer a loss subsequent to the closing, and that we and NRG would each be responsible for 50 percent of any costs or losses resulting from that power litigation, as well as from other proceedings based on similar acts or omissions which formed the basis of such litigation. The agreement provides that NRG will manage other active litigation and indemnify us for any resulting losses, subject to certain conditions. Maximum recourse under these matters is not limited by the agreement or by the passage of time with the exception of the California Department of Water Resources matter in which NRG has a specified indemnity obligation. The damages claimed by the various plaintiffs in these matters are unspecified as of March 31, 2008.

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

Illinois Power Indemnities. As a condition of Dynegy s 2004 sale of Illinois Power and its interest in Electric Energy Inc. s plant in Joppa, Illinois, Dynegy provided indemnifications to third parties regarding environmental, tax, employee and other representations. These indemnifications are limited to a maximum recourse of $400 million. Additionally, Dynegy has indemnified third parties against losses resulting from possible adverse regulatory actions taken by the ICC that could prevent Illinois Power from recovering costs incurred in connection with purchased natural gas and investments in specified items. Although there is no limitation on Dynegy s liability under this indemnity, the amount of the indemnity is limited to 50 percent of any such losses. In August 2007, the ICC issued its final Order in a case, which has been affirmed on appeal. Dynegy has adjusted the amount reserved for the various ongoing cases in light of this and other developments in other cases. Further disallowances and other

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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 disallowances.

Other Indemnities. During 2003, as part of our sales of the Rough and Hornsea natural gas storage facilities and certain natural gas liquids assets, we provided indemnities to third parties regarding tax representations. Maximum recourse under these indemnities is limited to $857 million and $28 million, respectively. We also entered into similar indemnifications regarding environmental, tax, employee and other representations when completing other asset sales such as, but not limited to the Calcasieu, CoGen Lyondell and Rockingham power generating facilities as well as the Hartwell and Commonwealth assets. We have recorded reserves for existing environmental, tax and employee liabilities and have incurred no other expense relating to these indemnities.

Note 10 Employee Compensation, Savings and Pension Plans

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

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

	Pension Benefits		Other Benefits	
	Three Months Ended March 31,			
	2008	2007	2008	2007
	(in millions)			
Service cost benefits earned during period	$ 3	$ 2	$ 1	$ 1
Interest cost on projected benefit obligation	3	3	1	1
Expected return on plan assets	(3)	(3)		
Recognized net actuarial loss		1		
Net periodic benefit cost	$ 3	$ 3	$ 2	$ 2
Additional cost due to curtailment				
Total net periodic benefit cost	$ 3	$ 3	$ 2	$ 2

Contributions. During the three months ended March 31, 2008 and 2007, we made no contributions to our pension plans or other postretirement benefit plans.

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Note 11 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 March 31,	
	2008	**2007**
	(in millions, except rates)	
Income tax benefit (expense)	$ 96	$ (6)
Effective tax rate	39%	27%

For the three months ended March 31, 2008, Dynegy s overall effective tax rate on continuing operations was different than the statutory rate of 35 percent due primarily to state income taxes. For the three months ended March 31, 2007, Dynegy s overall effective tax rate on continuing operations was different than the statutory rate of 35 percent due primarily to state income taxes and adjustments to our reserve for uncertain tax positions.

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

	Three Months Ended March 31,	
	2008	**2007**
	(in millions, except rates)	
Income tax benefit (expense)	$ 91	$ (11)
Effective tax rate	37%	31%

For the three months ended March 31, 2008, DHI s overall effective tax rate on continuing operations was different than the statutory rate of 35 percent due primarily to state income taxes. For the three months ended March 31, 2007, DHI s overall effective tax rate on continuing operations was different than the statutory rate of 35 percent due primarily to state income taxes and adjustments to our reserve for uncertain tax positions.

Note 12 Segment Information

Amounts in this footnote have been restated. Please see the Introductory Note for further discussion.

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

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Reportable segment information for Dynegy, including intercompany transactions accounted for at prevailing market rates, for the three months ended March 31, 2008 and 2007 is presented below:

Dynegy s Segment Data for the Three Months Ended March 31, 2008
(in millions)

	Power Generation				
	GEN-MW	GEN-WE	GEN-NE	Other	Total
Unaffiliated revenues:					
Domestic	$ 164	$ 131	$ 179	$ (1)	$ 473
Other			72		72
Total revenues	$ 164	$ 131	$ 251	$ (1)	$ 545
Depreciation and amortization	$ (53)	$ (24)	$ (13)	$ (3)	$ (93)
Operating loss	$ (59)	$ (46)	$ (21)	$ (24)	$ (150)
Losses from unconsolidated investments		(5)		(4)	(9)
Other items, net			6	14	20
Interest expense					(109)
Loss from continuing operations before income taxes					(248)
Income tax benefit					96
Loss from continuing operations					(152)
Loss from discontinued operations, net of taxes					