SEARS HOLDINGS CORP
Form DEF 14A
April 06, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for use of the Commission Only (as Permitted By Rule 14A-6(E)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to Section 240.14a-12

SEARS HOLDINGS CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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¨ Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

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SEARS HOLDINGS CORPORATION

3333 Beverly Road

Hoffman Estates, Illinois 60179

April 6, 2010

W. BRUCE JOHNSON

Interim Chief Executive Officer and President

Dear Stockholder:

I am pleased to invite you to attend the annual meeting of stockholders of Sears Holdings Corporation (the Company or Sears Holdings) on Tuesday, May 4, 2010. The meeting will begin at 9:00 a.m. (Central time) in the Sears Holdings General Session Room, 3333 Beverly Road, Hoffman Estates, Illinois.

The notice of annual meeting and proxy statement that follow this letter describe the matters to be voted on during the meeting. Your proxy card and the Company s 2009 Annual Report on Form 10-K also are enclosed.

Whether or not you plan to attend the meeting in person, please read the proxy statement and vote your shares. Instructions for Internet and telephone voting are included in your proxy card.

ADMISSION TO THE 2010 ANNUAL MEETING

An admission ticket (or other proof of stock ownership) and some form of government-issued photo identification (such as a valid driver s license or passport) will be required for admission to the annual meeting. Only stockholders who own Sears Holdings common stock as of the close of business on March 8, 2010 will be entitled to attend the meeting. An admission ticket will serve as verification of your ownership.

- If you are a registered stockholder, an admission ticket is attached to your proxy card.

- If your Sears Holdings shares are held in a bank or brokerage account, you can attend the annual meeting if you bring a recent bank or brokerage statement showing that you owned shares of Sears Holdings common stock on March 8, 2010. You may also contact your bank or broker to obtain a written legal proxy.

Registration will begin at 8:30 a.m. and seating will begin at 8:45 a.m. Cameras, recording devices and other electronic devices will not be permitted at the meeting.

Sincerely,

W. Bruce Johnson

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Sears Holdings Corporation

3333 Beverly Road

Hoffman Estates, Illinois 60179

Notice of 2010 Annual Meeting of Stockholders

Date:	May 4, 2010
Time:	9:00 a.m. Central time
Place:	Sears Holdings Corporation General Session Room 3333 Beverly Road Hoffman Estates, Illinois 60179

We invite you to attend the annual meeting of stockholders of Sears Holdings Corporation (Sears Holdings, Company, our company, we, our us) to:

1. Elect seven directors;

2. Ratify the appointment by the Audit Committee of Deloitte & Touche LLP as the Company s independent registered public accounting firm for fiscal year 2010; and

3. Consider any other business that may properly come before the meeting or any adjournments or postponements of the meeting.

The record date for determining stockholders entitled to notice of, and to vote at, this annual meeting is March 8, 2010. Only stockholders of record at the close of business on that date can vote at the meeting.

For more information, please read the accompanying proxy statement.

This notice of 2010 annual meeting of stockholders, as well as the accompanying proxy statement and proxy card, are being mailed to our stockholders commencing on or about April 8, 2010.

It is important that your shares are represented at the meeting. Stockholders may vote their shares (1) in person at the annual meeting, (2) by telephone, (3) through the Internet or (4) by completing and mailing a proxy card. Specific instructions for voting by telephone or through the Internet are included on your proxy card. If you attend and vote at the meeting, your vote at the meeting will replace any earlier vote.

By Order of the Board of Directors

William R. Harker

Senior Vice President, General Counsel and Corporate Secretary

April 6, 2010

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE

2010 ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 4, 2010.

The Company s proxy statement for the 2010 annual meeting of stockholders and the 2009 Annual Report on Form 10-K for the fiscal year ended January 30, 2010 are available at www.proxyvote.com.

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Proxy Statement

This proxy statement and the accompanying proxy card are being mailed to stockholders of Sears Holdings in connection with the solicitation of proxies by the Board of Directors for the 2010 annual meeting of stockholders being held on May 4, 2010.

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QUESTIONS AND ANSWERS

Q: What is a proxy statement?

A: A proxy statement is a document, such as this one, required by the Securities and Exchange Commission (SEC) that, among other things, explains the items on which you are asked to vote on the proxy card.

Q: What am I voting on at the Annual Meeting?

A: At the Sears Holdings 2010 annual meeting (the Annual Meeting), our stockholders are asked to:

- elect seven directors (see page 8);
- ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for fiscal year 2010 (see page 39); and
- consider any other business that may properly come before the meeting or any adjournments or postponements of the meeting.

Q: What does it mean to vote by proxy?

A: It means that you give someone else the right to vote your shares in accordance with your instructions. In this way, you ensure that your vote will be counted even if you are unable to attend the Annual Meeting. If you give your proxy but do not include specific instructions on how to vote, the individuals named as proxies will vote your shares as follows:

- **FOR** the election of the Board s nominees for director; and
- **FOR** the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for fiscal year 2010.

Q: Who is entitled to vote?

A: Only holders of our common stock at the close of business on March 8, 2010 (the Record Date) are entitled to vote at the Annual Meeting. Each outstanding share of common stock is entitled to one vote. There were 114,833,687 shares of common stock outstanding on the Record Date.

Q: How do I cast my vote?

A: If you hold your shares directly in your own name, you are a ***registered stockholder*** and can vote in person at the Annual Meeting or you can complete and submit a proxy through the Internet, by telephone or by mail. If your shares are registered in the name of a broker or other nominee, you are a ***street-name stockholder*** and will receive instructions from your broker or other nominee describing how to vote your shares.

Q: How do I vote by telephone or through the Internet?

A: If you are a registered stockholder, you may vote by telephone or through the Internet following the instructions on the proxy card. If you are a street-name stockholder, your broker or other nominee has provided information for you to use in directing your broker or nominee how to vote your shares.

Q: Who will count the vote?

A: A representative of Broadridge Financial Services, Inc., an independent tabulator, will count the vote and act as the inspector of election.

Q: Can I change my vote after I have voted?

A: A subsequent vote by any means will change your prior vote. For example, if you voted by telephone, a subsequent Internet vote will change your vote. If you are a registered stockholder and wish to change your

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vote by mail, you may do so by requesting, in writing, a proxy card from the Corporate Secretary at Sears Holdings Corporation, Law Department, 3333 Beverly Road, Hoffman Estates, Illinois 60179, Attn: Corporate Secretary. The last vote received prior to the meeting will be the one counted. If you are a registered stockholder, you may also change your vote by voting in person at the Annual Meeting.

Q: Can I revoke a proxy?

A: Yes, registered stockholders may revoke a properly executed proxy at any time before it is exercised by submitting a letter addressed to and received by the Corporate Secretary at the address listed in the answer to the previous question. Street-name stockholders cannot revoke their proxies in person at the Annual Meeting because the actual registered stockholders, the brokers or other nominees, will not be present. Street-name stockholders wishing to change their votes after returning voting instructions to their broker or other nominee should contact the broker or nominee directly.

Q: What does it mean if I receive more than one proxy or voting instruction card?

A: It means your shares are registered differently or are in more than one account. Sign and return all proxy cards, or vote each account by telephone or the Internet, to ensure that all your shares are voted. We encourage you to register all your accounts in the same name and address. Registered stockholders may contact our transfer agent, Computershare Trust Company, N.A., at P.O. Box 43078, Providence, Rhode Island 02940-3078 (1-800-732-7780). Street-name stockholders holding shares through a broker or other nominee should contact their broker or nominee and request consolidation of their accounts.

Q: What shares are included on my proxy card?

A: Your proxy card includes all shares registered to your account in the same social security number and address, including any full and fractional shares you own under one or more of the following plans:

- the Sears Holdings 401(k) Savings Plan;
- the Lands End, Inc. Retirement Plan;
- the Sears Puerto Rico Savings Plan;
- the Kmart Retirement Savings Plan for Puerto Rico Employees; or
- the 2006 Associate Stock Purchase Plan.

We refer to the Sears Holdings 401(k) Savings Plan, the Lands End, Inc. Retirement Plan, the Sears Puerto Rico Savings Plan and the Kmart Retirement Savings Plan for Puerto Rico Employees collectively as the 401(k) Plans.

Q: How do I vote if I hold my shares through the 401(k) Plans?

A: If you participate in the 401(k) Plans, you may direct the trustee how to vote your shares of common stock that you hold through the 401(k) Plans through the Internet, by telephone, or by U.S. mail. If you do not vote shares that you hold through the 401(k) Plans (or you submit your proxy card with an unclear voting designation or with no voting designation at all), then the plan trustee will vote the shares in your account in proportion to the way other participants in the 401(k) Plans vote their shares, unless contrary to the Employee Retirement Income Security Act of 1974. To allow sufficient time for the trustees of the 401(k) Plans to tabulate the vote of the 401(k) Plan shares, you must vote by telephone or internet or return your proxy card so that it is received by 5:00 p.m. Eastern Time on April 30, 2010. Because shares of common stock held in our 401(k) Plans are registered in the name of the 401(k) Plan trustee, participants in the Company s 401(k) Plans cannot vote 401(k) Plan shares or revoke prior voting instructions at the Annual Meeting.

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Q: What makes a quorum?

A: Each outstanding share of our common stock as of the Record Date is entitled to one vote at the Annual Meeting. A majority of the outstanding shares entitled to vote, being present or represented by proxy at the meeting, constitutes a quorum. Both abstentions and broker non-votes (described below) are counted for the purpose of determining the presence of a quorum. A quorum is necessary to conduct the Annual Meeting.

Q: How does the voting work?

A: For each item, voting works as follows:

Item 1: The director nominees will be elected by a plurality of the votes cast by the shares of common stock entitled to vote at the Annual Meeting and present in person or represented by proxy. This means that the seven nominees who receive the most affirmative votes will be elected as directors.

Item 2: Ratification of the appointment of the independent registered public accounting firm requires the affirmative vote of a majority of those shares present in person or represented by proxy and entitled to vote on those proposals at the Annual Meeting.

If you hold shares beneficially in street name and do not provide your broker with voting instructions, your shares may constitute broker non-votes. Generally, broker non-votes occur on a matter when a broker is not permitted to vote on that matter without instructions from the beneficial owner and instructions are not given. Unlike previous years, a broker who holds shares in your name will no longer have the ability to cast votes with respect to the election of directors unless the broker has received instructions from you. In tabulating the voting result for any particular proposal, shares that constitute broker non-votes are not considered votes cast on that proposal. Thus, broker non-votes will not affect the outcome of any matter being voted on at the meeting, assuming that a quorum is obtained.

With regard to the election of directors, votes may be cast in favor or withheld; votes that are withheld will be excluded and have no effect. Abstentions may be specified on all other proposals (but not on the election of directors). Abstentions occur when stockholders are present at the Annual Meeting, but fail to vote. Since the ratification of Deloitte & Touche LLP as our independent registered public accounting firm requires the approval of a majority of the outstanding shares, abstentions will have the effect of a negative vote.

Q: Who may attend the Annual Meeting?

A: Any stockholder as of the Record Date may attend. Seating and parking are limited and admission is on a first-come basis. If you are a registered stockholder, an admission ticket is attached to your proxy card. Each stockholder may be asked to present valid picture identification (for example, a driver s license or passport). If you are a street-name stockholder, you will need to bring a copy of a brokerage statement, proxy or letter from the broker or other nominee confirming ownership of Sears Holdings shares as of the Record Date.

Q: Can I access future annual meeting materials through the Internet rather than receiving them by mail?

A: Yes. *Registered stockholders* can sign up for electronic delivery at www.proxyvote.com. If you vote through the Internet, you can also sign up for electronic delivery. Just follow the instructions that appear after you finish voting. You will receive an e-mail next year containing our 2010 Annual Report on Form 10-K and the proxy statement for our 2011 annual meeting. *Street-name stockholders* may also have the opportunity to receive copies of these documents electronically. Please check the information provided in the proxy materials mailed to you by your broker or other nominee regarding the availability of this service. This procedure reduces the printing costs and fees our company incurs in connection with the solicitation of proxies.

Q: What is householding ?

A: Sears Holdings has adopted a procedure called householding, which has been approved by the SEC. Under this procedure, stockholders of record who have the same address and last name and do not receive proxy materials electronically will receive a single set of proxy materials, unless one or more of these stockholders notifies the company that they wish to continue receiving individual copies. Stockholders who participate in householding will continue to receive separate proxy cards. This procedure can result in significant savings to our company by reducing printing and postage costs. If a single set of proxy materials was delivered to an address that you share with another stockholder, at your written or oral request we will promptly deliver a separate copy.

Q: How do I revoke my consent to the householding program?

A: If you are a holder of record and share an address and last name with one or more other holders of record, and you wish to continue to receive separate annual reports, proxy statements and other disclosure documents, you may revoke your consent by writing to Householding Department, 51 Mercedes Way, Edgewood, New York 11717. You may also revoke your consent by contacting Sears Holdings householding agent by calling toll free at 1-800-542-1061 and following the voice prompts. You will be removed from the householding program within 30 days of receipt of the revocation of your consent.

If you are receiving multiple copies of annual reports and proxy statements at an address shared with another stockholder, you may contact us to participate in the householding program by writing to Householding Department, 51 Mercedes Way, Edgewood, New York 11717.

A number of brokerage firms have instituted householding. If you hold your shares in street name, please contact your bank, broker or other holder of record to request information about householding.

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CORPORATE GOVERNANCE

Corporate Governance Practices

Our Board of Directors (the Board) is committed to effective corporate governance. The Board has approved and adopted Corporate Governance Guidelines that provide the framework for governance of our company. The Nominating and Corporate Governance Committee reviews and assesses the Corporate Governance Guidelines annually and recommends changes to the Board as appropriate. The Corporate Governance Guidelines, along with the charters of all Board committees, our Code of Conduct and our Board of Directors Code of Conduct are available on our website at www.searsholdings.com under the heading Corporate Governance.

Among other things, the Corporate Governance Guidelines provide that

- A majority of the members of the Board must be independent directors to the extent required by the securities laws and the NASDAQ listing rules.
- Independent directors are to meet regularly, at least twice a year, in executive session without management present.
- The Board and its committees have the power to engage at the Company s expense independent legal, financial or other advisors as deemed necessary, without consulting or obtaining the approval of the Company s officers in advance.
- The Board conducts an annual evaluation to assess whether it and its committees are functioning effectively.

Director Independence

Based on the review and recommendation by the Nominating and Corporate Governance Committee, the Board of Directors analyzed the independence of each director and affirmatively determined that the following directors meet the standards of independence under our Corporate Governance Guidelines and the applicable NASDAQ listing rules, including that each member is free of any relationship that would interfere with his or her individual exercise of independent judgment:

William C. Kunkler, III

Steven T. Mnuchin

Ann N. Reese

Emily Scott

Thomas J. Tisch

In addition, the Board has also determined that all members of the Audit Committee meet additional, heightened independence criteria applicable to audit committee members under the NASDAQ listing rules. The Board of Directors has further determined that Ann N. Reese, the chair of the Audit Committee, and William C. Kunkler, III are audit committee financial experts, as defined in Item 407(d)(5) of Regulation S-K promulgated by the SEC.

Memorandum of Understanding

On March 19, 2010, the Company, the Company s directors and plaintiffs in consolidated shareholder derivative lawsuits proceeding under the caption *Robert F. Booth Trust v. William C. Crowley, et al.* (No. 09-C-5314, USDC, Northern District of Illinois), entered into a Memorandum of Understanding concerning the lawsuits. Plaintiffs alleged that by nominating for re-election to the Company s Board Mr. Crowley and Ms. Reese while they were also members of the boards of AutoNation, Inc. (Mr. Crowley), AutoZone, Inc. (Mr. Crowley), and Jones Apparel

Group, Inc. (Ms. Reese), the defendant directors violated Section 8 of the

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Clayton Act prohibiting interlocking directorships and breached their fiduciary duty to the Company. Although the Company believed the lawsuit was without merit, the Company agreed to settle the litigation to avoid the cost of litigation. Pursuant to the Memorandum of Understanding, Mr. Crowley will not stand for re-election as a director at the Annual Meeting, and he will resign from the Company as an executive officer, though he may act as a consultant or advisor to the Company. In addition, the Company has agreed to enhance and maintain procedures that will prevent (1) Ms. Reese from participating in any Board discussions regarding the operations of the Company s women s apparel or footwear business and (2) Mr. Lampert from participating in any Board discussions regarding the operations of the Company s automotive parts or service business. The Company has also agreed to add at least one additional independent director at or before the 2011 annual meeting of stockholders. Finally, the Memorandum of Understanding provides, among other things, for the Company to review and, if necessary, enhance its corporate governance procedures to ensure compliance with Section 8 of the Clayton Act by the Board and its committees. The final settlement agreement is subject to approval by the United States District Court for the Northern District of Illinois.

ITEM 1. ELECTION OF DIRECTORS

Item 1 is the election of seven nominees to our Board of Directors. If elected, seven nominees will hold office until the next annual meeting or until their successors are elected and qualified. The persons named in the proxy card (the proxies) will vote FOR the election of all of the nominees listed below, unless otherwise instructed.

The number of directors constituting the entire Board of Directors is currently fixed at eight. Two of our current directors, William C. Crowley and Kevin B. Rollins, will not stand for re-election to the Board at the Annual Meeting. Messrs. Crowley and Rollins have indicated that they will serve the remainder of their terms as directors until the Annual Meeting. In light of the departures of Mr. Crowley and Mr. Rollins, the Board will evaluate reducing the size of the Board from eight members to seven. You may not vote for a greater number of persons than the number of nominees named in this proxy statement.

William C. Kunkler, III was elected to our Board of Directors on September 14, 2009. Mr. Kunkler was known to, and recommended to the Nominating and Governance Committee by a non-management director. The Board has approved the recommendation of the Nominating and Corporate Governance Committee that W. Bruce Johnson, our company s interim Chief Executive Officer and President, be nominated for election as a director at the Annual Meeting. All other candidates have previously been elected by stockholders.

The Board of Directors expects all nominees to be available for election. If any of nominee should become unavailable to serve as a director for any reason prior to the Annual Meeting, the Board may substitute another person as a nominee. In that case, your shares will be voted for that other person.

All of the current members of our Board of Directors except Emily Scott and William C. Kunkler, III have served as directors since at least the consummation of the merger transaction involving Kmart Holding Corporation and Sears, Roebuck and Co. on March 24, 2005 (the Merger). Ms. Scott and Mr. Kunkler were elected to our Board of Directors in May 2007 and September 2009, respectively.

THE BOARD RECOMMENDS THAT YOU VOTE FOR ELECTION

OF THE SEVEN NOMINEES FOR DIRECTOR.

The biographies of each of the nominees below contains information regarding the person s service as a director, business experience, director positions held currently or at any time during the last five years, information regarding involvement in certain legal or administrative proceedings, if applicable, and the experiences, qualifications, attributes or skills that caused the Nominating and Corporate Governance Committee and the Board to determine that the person should serve as a director for the Company.

W. Bruce Johnson, 58, has served as the Company s interim Chief Executive Officer and President since February 2008. He was previously the Company s Executive Vice President, Supply Chain and Operations since the Merger. He joined Kmart in October 2003 as Senior Vice President, Supply Chain and Operations. In addition to his time with the Company, Mr. Johnson has extensive knowledge of retail company operations from his many years of experience working for companies such as Carrefour SA and Colgate-Palmolive Company. Mr. Johnson has also developed a strong understanding of the Company, its operations and the issues facing the Company through his years of service with the Company.

William C. Kunkler, **III,** 53, is the Executive Vice President-Operations of CC Industries, Inc., an affiliate of Henry Crown and Company, and has served in that position, as well as other officer positions, since 1994. CC Industries, Inc. is a private equity firm focused on manufacturing companies and real estate investments. Mr. Kunkler has extensive manufacturing company experience and a thorough understanding of business operations, including finance and accounting principles and functions as well as operational methodologies,

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garnered from his experience as an executive officer and director of various companies. He also has strong ties to the Chicago area, the location of Sears Holdings Corporation s corporate headquarters.

Edward S. Lampert, 47, Chairman of our Board of Directors, is the Chairman and Chief Executive Officer of ESL Investments, Inc., which he founded in April 1988. Mr. Lampert has extensive experience in business and finance, and he has invested in many retail companies. He also served as Chairman of the Board of Kmart Holding Corporation, a company that emerged from bankruptcy in 2003 and was transformed into a profitable business prior to its merger with Sears, Roebuck and Co. in 2005.

Steven T. Mnuchin, 47, has served as Chairman and Chief Executive Officer of One West Bank Group LLC, the holding company of OneWest Bank, since January 2009. Mr. Mnuchin is also Chairman and Chief Executive Officer of Dune Capital Management LP, a private investment firm, and he has served in that or a similar capacity since September 2004. Mr. Mnuchin is a trustee of the Whitney Museum, The Museum of Contemporary Art, Los Angeles, and New York Presbyterian Hospital. Mr. Mnuchin brings extensive experience in investment strategy and finance to the Sears Holdings Board. He also gained extensive information technology experience during his tenure as the Chief Information Officer of Goldman, Sachs & Co. He served as a director of Kmart Holding Corporation, a company that emerged from bankruptcy in 2003 and was transformed into a profitable business prior to its merger with Sears, Roebuck and Co. in 2005.

Ann N. Reese, 56, co-founded the Center for Adoption Policy Studies in New York in 2001 and serves as its Executive Director. Prior to co-founding the Center, Ms. Reese served as a Principal with Clayton, Dubilier & Rice, a private equity investment firm, in 1999 and 2000. From 1995 to 1998, she was Executive Vice President and Chief Financial Officer of ITT Corp., a hotel and gaming company. Ms. Reese is a director of Xerox Corporation and Jones Apparel Group, Inc. Ms. Reese served as a director of Merrill Lynch & Co., Inc. from July 2004 until its acquisition by Bank of America Corporation in January 2009. Ms. Reese also served as director of CBS Corporation from November 2005 to October 2006. Ms. Reese has extensive executive experience in corporate finance, financial reporting and strategic planning through her position as a public company chief financial officer as well as corporate governance expertise gained from her experience on other public company boards. Ms. Reese also served as a director of Kmart Holding Corporation, a company that emerged from bankruptcy in 2003 and was transformed into a profitable business prior to its merger with Sears, Roebuck and Co. in 2005.

Emily Scott, 48, is a founding partner and director of Plum TV, LLC, a television station network operating in select resort markets. Ms. Scott served as a director until December 2006, Chairman of the Board of Directors of J. Crew from 1997 to 2003 and had previously served as Vice Chairman and other roles since the company founding in 1983. Ms. Scott brings extensive retail and apparel experience to the Sears Holdings Corporation Board.

Thomas J. Tisch, 55, has served as the Managing Partner of Four Partners, a private investment firm, since 1992. He has served as the Chancellor of Brown University since July 2007, and he is also a trustee of New York University Medical Center. Mr. Tisch served as a director of Anteon International Corporation from February 2002 until October 2005. Mr. Tisch brings financial and general business expertise to the Sears Holdings Board. Mr. Tisch also served as a director of Kmart Holding Corporation, a company that emerged from bankruptcy in 2003 and was transformed into a profitable business prior to its merger with Sears, Roebuck and Co. in 2005.

The Nominating and Corporate Governance Committee of our Board of Directors is responsible for reviewing the qualifications and independence of members of the Board and its various committees on a periodic basis, as well as the composition of the Board as a whole. This assessment includes members qualification as independent and their economic interest in the Company through meaningful share ownership, as well as consideration of diversity, age, skills and experience in relation to the needs of the Board. Director nominees will be recommended to the Board by the Nominating and Corporate Governance Committee in accordance with the policies and principles in its charter. The ultimate responsibility for selection of director nominees resides with the Board of Directors.

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While the Company does not have a formal diversity policy, as mentioned above, the Board considers diversity in identifying director nominees. The Nominating and Corporate Governance Committee discusses the diversity of the Board annually.

The Board met six times during fiscal 2009 (the fiscal year ended January 30, 2010). A majority of the directors attended 100% of the Board meetings and the meetings of the committees on which they served, and all directors attended at least 75% of such Board meetings and committee meetings. Our Corporate Governance Guidelines provide that directors are expected to attend the annual meeting of stockholders. All directors who stood for re-election at the 2009 annual meeting attended the 2009 annual meeting.

Committees of the Board of Directors

The Board has standing Audit, Compensation, Finance, and Nominating and Corporate Governance Committees. All members of the Audit, Compensation, and Nominating and Corporate Governance Committees are independent, as defined in the NASDAQ listing rules.

The table below reflects the current membership of each committee and the number of meetings held by each committee in fiscal 2009.

	Audit	Compensation	Finance	Nominating and Corporate Governance
E. Lampert			X*	
W. Crowley			X	
W. Kunkler	X			X
S. Mnuchin			X	X*
K. Rollins	X			
A. Reese	X*	X		
E. Scott		X		X
T. Tisch	X	X*		
2009 Meetings	13	6	2	4

* Committee chair

Each committee operates under a written charter. The charters are available on our corporate website, www.searsholdings.com, under the heading Corporate Governance. The principal functions of each Committee are summarized below.

Audit Committee

Responsible for compensation and oversight of the work of the independent registered public accounting firm in connection with the annual audit report

Hires, subject to stockholder ratification, the independent registered public accounting firm to perform the annual audit

Reviews the Company s annual and quarterly financial statements, including disclosures made in management s discussion and analysis of results of operations and financial condition

Reviews the reports prepared by the independent registered public accounting firm and management s responses thereto

Pre-approves audit and permitted non-audit services performed by the independent registered public accounting firm

Reviews financial reports, internal controls and risk exposures

Reviews management s plan for establishing and maintaining internal controls

Reviews the scope of work performed by the internal audit staff

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Compensation Committee

- Reviews recommendations for and approves, subject to Board approval, the compensation of senior executive officers
- Reviews and approves corporate goals and objectives relevant to CEO compensation, evaluates the CEO s performance and recommends to the Board the CEO s overall compensation level
- Reviews and approves employment agreements, severance arrangements and change in control arrangements affecting the CEO and other senior executives
- Reviews compensation discussion and analysis for inclusion in the Company s proxy statement
- Evaluates whether the risks arising from the Company s compensation policies and practices for its employees would be reasonably likely to have a material adverse effect on the Company

The Company has a standing Stock Plan Committee, the sole member of which is William C. Crowley. The Compensation Committee has delegated authority to the Stock Plan Committee to approve restricted stock awards of up to $150,000 to employees below the level of Senior Vice President, excluding officers who are subject to Section 16 of the Securities Exchange Act of 1934. The Compensation Committee also has delegated authority to the Stock Plan Committee and to the Senior Vice President and President, Talent and Human Capital Services, to approve increases in base salary of up to 10% and/or annual incentive plan award increases of up to 10% to officers at the level of Senior Vice President and above. The Stock Plan Committee acted solely by written consent in fiscal 2009.

Finance Committee

- Establishes and oversees matters related to capital allocation and expenditure policies and budgets
- Establishes policies and procedures related to our company s share repurchase programs
- Oversees financial, capital and insurance risk
- Reviews our annual business plan
- Reviews policies and investments related to retirement plans, including our pension and savings plans
- Reviews operating performance metrics and investment rates of return

Nominating and Corporate Governance Committee

- Reports annually to the full Board with an assessment of the Board s performance

- Recommends to the full Board the nominees for directors
- Reviews recommended compensation arrangements for the Board
- Reviews and reassesses the adequacy of our Corporate Governance Guidelines

Communications with the Board of Directors

You may contact any non-employee director, or the entire Board, at any time, subject to the exceptions described below. Your communication should be sent to the Sears Holdings Corporation Board of Directors Non-employee directors, c/o Corporate Secretary, Sears Holdings Corporation, Law Department, 3333 Beverly Road, Hoffman Estates, Illinois 60179. Additional information regarding our policies on communicating with the Board of Directors can be found in our Corporate Governance Guidelines, located in the Corporate Governance section of our website, www.searsholdings.com.

Communications are distributed to the Board, or any Board member as appropriate, depending on the facts and circumstances outlined in the communication. Certain items that are unrelated to the duties and responsibilities of the Board will be excluded, such as

- spam and other junk mail;

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- product and service complaints or inquiries;
- new product suggestions;
- resumes and other job inquiries;
- surveys; and
- business solicitations or advertisements.

Material that is unduly hostile, threatening, illegal or similarly unsuitable will also be excluded. We will make available to any director any excluded communication, at that director s request.

Board Leadership Structure

We separate the roles of Chief Executive Officer and Chairman of the Board. Our interim Chief Executive Officer is responsible for the day to day leadership and performance of the Company, while the Chairman of the Board provides guidance to our interim Chief Executive Officer and senior management and sets the agenda for Board meetings and presides over Board meetings. In carrying out his responsibilities, the Chairman preserves the distinction between management and oversight, maintaining the responsibility of management to develop corporate strategy and the responsibility of the Board to review and express its views on corporate strategy.

The Board s Role in Risk Oversight

The Board is actively involved in oversight of risks that could affect the Company. This oversight is conducted primarily through committees of the Board, as disclosed in the descriptions of the Audit Committee, Compensation Committee and the Finance Committee above and in the charters of the Audit Committee, the Compensation Committee and the Finance Committee. The full Board, however, has retained responsibility for general oversight of risks. The Board satisfies this responsibility through full reports by each committee chair regarding the committee s considerations and actions, as well as through regular reports directly from officers responsible for oversight of particular risks within the Company, including our Senior Vice President and Chief Financial Officer and our Senior Vice President, General Counsel and Corporate Secretary.

Nomination of Director Candidates

Directors may be nominated by the Board of Directors or by stockholders in accordance with our By-Laws. The Nominating and Corporate Governance Committee will, when appropriate, actively seek individuals qualified to become Board members, and solicit input on director candidates from a variety of sources, including current directors. As a matter of course, the Committee will evaluate a candidate s qualifications and review all proposed nominees for the Board of Directors, including those proposed by stockholders, in accordance with its charter and our Corporate Governance Guidelines. This will include a review of the person s qualifications and independence, economic interest in the Company through meaningful share ownership, as well as consideration of diversity, age, skills and experience in the context of the needs of the Board. While the Committee has the ability to retain a third party to assist in the nomination process, the Company did not pay a fee to any third party to identify or assist in identifying or evaluating potential nominees in fiscal 2009.

Director nominees recommended by the Nominating and Corporate Governance Committee are expected to be committed to representing the long-term interests of our stockholders. The Committee believes that it is important to align the interests of directors with those of our stockholders, and therefore encourages each director and director nominee to own shares of our common stock in an amount that is meaningful to that individual. Board members should possess a high degree of integrity and have broad knowledge, experience and mature judgment. In addition to a meaningful economic commitment to our company as expressed in share ownership, directors and nominees should have predominately business backgrounds, have experience at policy-making levels in business and/or technology, and bring a diverse set of business experiences and perspectives to the Board.

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You can nominate a candidate for election to the Board by complying with the nomination procedures in our By-Laws. For an election to be held at an annual meeting of stockholders, nomination by a stockholder must be made by notice in writing delivered to the Corporate Secretary not later than 90 days in advance of such meeting. However, if the annual meeting is not held on or within eight days of the fourth Tuesday in May of a year, and if the Company provides stockholders with less than 100 days notice or public disclosure of the meeting date, the stockholder notice must be given not later than the 10th day following the notice or public disclosure of the meeting date. For an election to be held at a special meeting of stockholders, notice by a stockholder must be given not later than the 10th day following the date on which the Company first provides stockholders with notice or public disclosure of the meeting date.

A stockholder s notice to the Corporate Secretary must be in writing and be delivered to Sears Holdings Corporation, Law Department, 3333 Beverly Road, Hoffman Estates, IL 60179, Attn: Corporate Secretary, and must include:

- the name and address of the stockholder;
- the name, age and business address of each nominee proposed in the notice;
- such other information concerning each nominee as must be disclosed with respect to director nominees in proxy solicitations under the proxy rules of the SEC; and
- the written consent of each nominee to serve as a director if so elected.

The chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedures. A stockholder s compliance with these procedures will not require the Company to include information regarding a proposed nominee in the Company s proxy solicitation materials.

Amount and Nature of Beneficial Ownership

Security Ownership of Directors and Management

The following table sets forth information with respect to the beneficial ownership of our common stock as of March 9, 2010 by:

- each of our directors;
- each named executive officer (as defined under Summary Compensation Table); and
- all of our directors and executive officers as a group.

Name of Beneficial Owner(1)	Common Stock(2)	Percent of Class(3)
M. Collins	23,228	*
W. Crowley	73,185(4)	*
S. Freidheim	50,000	*
J. Goodman	42,597	*
K. Holt	4,757	*
W. Bruce Johnson	28,517(5)	*
W. Kunkler	24,720(6)	*

E. Lampert	65,313,147(7)	56.9%
S. Mnuchin	27,387(8)(9)	*
S. Reed	3,790	*
A. Reese	10,000	*
K. Rollins		*
E. Scott	106	*
T. Tisch	3,848,258(10)	3.3%
Directors and Executive Officers as a group (16 persons)	69,468,474	60.5%

* Less than 1%

(1) The address of each beneficial owner is c/o Sears Holdings Corporation, 3333 Beverly Road, Hoffman Estates, Illinois 60179.

(2) Ownership is as of March 9, 2010 and includes:

shares in which the director or executive officer may be deemed to have a beneficial interest; and

for executive officers, shares held as nontransferable restricted shares, which are subject to forfeiture under certain circumstances.

Unless otherwise indicated, the directors and executive officers listed in the table have sole voting and investment power with respect to the common stock listed next to their respective names. Information is provided for reporting purposes only and should not be construed as an admission of actual beneficial ownership.

(3) There were 114,843,587 shares of our common stock outstanding as of March 9, 2010.

(4) These shares are held by Tynan, LLC, a limited liability company of which Mr. Crowley is the sole member.

(5) Includes 1,895 shares credited to Mr. Johnson s 401(k) Plan account.

(6) Includes 3,147 Mr. Kunkler has pledged as security for a loan to JPMorgan Chase Bank, N.A and 1,573 shares held by his spouse. Mr. Kunkler disclaims beneficial ownership of the shares held by his spouse.

(7) Please see footnotes (b) and (c) to the Security Ownership of 5% Beneficial Owners on this page and page 15.

(8) Includes 8,000 shares owned by the Steven T. Mnuchin 2002 Family Trust and 600 shares owned by other family trusts and custodial accounts, the beneficial interests of which are owned by members of Mr. Mnuchin s immediate family.

(9) Does not include (1) 200 common shares held by the Trust fbo Michael Paul Mortara 1992, (2) 200 common shares held by the Trust fbo Matthew Peter Mortara 1992, (3) 14,800 common shares held by the Virginia Mortara 2007 Annuity Trust, and (4) 16,000 common shares held by the Mortara Trust U Article 6th. Mr. Mnuchin acts as trustee for each of these trusts and has no pecuniary interest in the holdings or transactions of such trusts.

(10) Includes 2,723,146 shares owned by Andrew H. Tisch, Daniel R. Tisch and James S. Tisch, brothers of Thomas J. Tisch, or by trusts of which they are the managing trustees and beneficiaries, in respect of which Thomas J. Tisch has sole voting power and 45,810 owned by two foundations over which Mr. Tisch exercises shared voting power. Thomas J. Tisch disclaims beneficial ownership of these shares.

Security Ownership of 5% Beneficial Owners

The following table sets forth information with respect to beneficial ownership of our common stock by persons known by us to beneficially own 5% or more of our outstanding common stock.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership(a)	Percent of Class
ESL Investments, Inc. and related entities, as a group(b) 200 Greenwich Ave. Greenwich, CT 06830	65,313,147(c)	56.9%(d)
Fairholme Capital Management, L.L.C.(e). 4400 Biscayne Boulevard, 9th Floor Miami, FL 33137	15,018,239(f)	13.1%(d)

(a) Information is provided for reporting purposes only and should not be construed as an admission of actual beneficial ownership.

(b) The group consists of ESL Investments, Inc., a Delaware corporation (ESL); Edward S. Lampert; ESL Institutional Partners, L.P., a Delaware limited partnership (Institutional); CRK Partners, LLC, a

Delaware limited liability company (CRK LLC); ESL Partners, L.P., a Delaware limited partnership (Partners); and ESL Investors L.L.C., a Delaware limited liability company (Investors). Mr. Lampert is the sole shareholder, chief executive officer and director of ESL. ESL is the general partner of RBS Partners, L.P, a Delaware limited partnership (RBS), the sole member of CRK LLC and the manager of RBS Investment Management, L.L.C., a Delaware limited liability company (RBSIM). RBS is the general partner of Partners and the managing member of Investors. RBSIM is the general partner of Institutional.

(c) Beneficial ownership is based on publicly available information. The aggregate amount of our common stock owned by ESL entities and Mr. Lampert includes: 51,338,633 shares held by Partners; 10,059,240 shares held by Investors; 10,230 shares held by Institutional; 747 shares held CRK; 79,150 shares held in a grantor retained annuity trust, of which Mr. Lampert is the trustee; and 3,825,147 held by Mr. Lampert directly.

(d) There were 114,843,587 shares of our common stock outstanding as of March 9, 2010. The Percent of Class for each of the ESL group and Fairholme Capital Management, L.L.C. was calculated by using the disclosed number of beneficially owned shares as the numerator, respectively, and the number of the Company s outstanding common shares as of March 9, 2010 as the denominator.

(e) Beneficial ownership is based on the Schedule 13G filed by Fairholme Capital Management, L.L.C. reporting its ownership as of December 31, 2009.

(f) The shares of common stock are owned, in the aggregate, by various investment vehicles managed by Fairholme Capital Management, L.L.C. (FCM), of which 13,279,671 shares are owned by Fairholme Funds, Inc. FCM disclosed shared voting power as to 13,948,771 shares and shared dispositive power as to 15,018,239 shares. Fairholme Funds, Inc. disclosed shared voting power and shared dispositive power as to 13,279,671 shares. Because Mr. Bruce R. Berkowitz, in his capacity as the Managing Member of FCM or as President of Fairholme Funds, Inc., has voting or dispositive power over all shares beneficially owned by FCM, he is deemed to have beneficial ownership of all of the shares.

Certain Relationships and Transactions

Our Board has delegated authority to direct investment of our surplus cash to Edward S. Lampert, subject to various limitations that have been or may be from time to time adopted by the Board of Directors and/or the Finance Committee of the Board of Directors. Mr. Lampert is Chairman of our Board of Directors and our Finance Committee and is the Chairman and Chief Executive Officer of ESL Investments, Inc. (together with its affiliated funds, ESL). Neither Mr. Lampert nor ESL will receive compensation for any such investment activities undertaken on our behalf. ESL beneficially owned 56.9% of our outstanding common stock as of March 9, 2010.

Further, to clarify the expectations that the Board of Directors has with respect to the investment of our surplus cash, the Board has renounced, in accordance with Delaware law, any interest or expectancy of the Company associated with any investment opportunities in securities that may come to the attention of Mr. Lampert or any employee, officer, director or advisor to ESL and its affiliated investment entities who also serves as an officer or director of the Company (each, a Covered Party) other than (a) investment opportunities that come to such Covered Party s attention directly and exclusively in such Covered Party s capacity as a director, officer or employee of the Company, (b) control investments in companies in the mass merchandising, retailing, commercial appliance distribution, product protection agreements, residential and commercial product installation and repair services and automotive repair and maintenance industries and (c) investment opportunities in companies or assets with a significant role in our company s retailing business, including investment in real estate currently leased by us or in suppliers for which we are a substantial customer representing over 10% of such companies revenues, but excluding investments of ESL that were existing as of May 23, 2005.

Our company employs certain employees of ESL. William C. Crowley is a director and our Executive Vice President, Chief Administrative Officer, while continuing his role as President and Chief Operating Officer of ESL. As discussed in the section entitled Memorandum of Understanding beginning on page 6 of this proxy statement, Mr. Crowley will not stand for re-election as a director at the Annual Meeting, and he will resign as an executive officer of our company, though he may act as a consultant or advisor to the Company. Our Senior Vice President of Real Estate is also employed by ESL.

Sears Holdings, through its subsidiaries, engages in commercial transactions with AutoZone, Inc. (AutoZone) in the ordinary course of business. In fiscal 2009, we paid AutoZone approximately $20,260,835 for automotive parts and accessories and $400,000 for subscription-based repair information provided to Sears technicians. ESL owns approximately 40.5% of the outstanding common stock of AutoZone (based on publicly available data as of March 9, 2010), and Mr. Crowley serves as a director of AutoZone.

Sears Holdings, through its subsidiaries, engages in commercial transactions with AutoNation, Inc. and its affiliates (collectively, AutoNation) in the ordinary course of business. We paid AutoNation, Inc. approximately $64,000 for automotive parts, accessories and services, and AutoNation, Inc. paid us approximately $230,000 for automotive parts and accessories. ESL owns approximately 47% of the outstanding common stock of AutoNation, Inc. (based on publicly available data as of March 9, 2010), and Mr. Crowley serves as a director of AutoNation.

In fiscal 2009, the Audit Committee reviewed and pre-approved sales of commercial paper issued by Sears Roebuck Acceptance Corp. (an indirect wholly owned subsidiary of Sears Holdings) to ESL, including Edward S. Lampert, from time to time, subject to certain conditions. On March 15, 2010, ESL and Edward S. Lampert purchased $100,000,000 and $50,000,000, respectively, in principal amount of 30-day unsecured commercial paper issued by Sears Roebuck Acceptance Corp. under its commercial paper program. The commercial paper purchased by ESL and Mr. Lampert bears interest at a rate of 1.9%, and the commercial paper purchases were made in the ordinary course of business on substantially the same terms, including the interest rate, as terms prevailing for comparable transactions with other persons, and did not present features unfavorable to the Company.

Review and Approval of Transactions with Related Persons

The Company s Audit Committee charter requires that the Audit Committee review and approve all related party transactions required to be disclosed pursuant to SEC rules. In doing so, the Audit Committee takes into account, among other factors it deems appropriate, whether the transaction is on terms that are no less favorable to the Company than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related person s interest in the transaction.

The Company also has a Contract Approvals Policy which applies to all of the Company s employees and officers. The Contract Approvals Policy requires Audit Committee approval for entry into or exit from any related party transaction.

The related party transactions described in this proxy statement have been approved or ratified by the Audit Committee.

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EXECUTIVE COMPENSATION

Compensation, Discussion and Analysis

Executive Compensation Philosophy and Objectives

Sears Holdings believes that the long-term success of the Company is directly related to our ability to attract, motivate and retain highly talented associates who are committed to our company s vision, mission and values. These values, which we believe support our adaptive organization and culture of learning, accountability and cross-functional collaboration, include focusing on the customer, building and aligning teams and knowing how to make money. Our vision and values are supported by five key pillars of our strategy: creating lasting relationships with customers by empowering them to manage their lives; attaining best in class productivity and efficiency; building our brands; reinventing the company continuously through technology and innovation; and reinforcing The SHC Way by living our values every day.

The Compensation Committee has developed a pay-for-performance compensation philosophy for our executive officers. Total annual compensation paid to the executive officers identified in the Summary Compensation Table (the named executive officers) generally depends on company financial performance, the level of job responsibility and individual performance. The total compensation package provided to the named executive officers generally includes both annual and long-term incentive programs designed to motivate and encourage employees to drive performance and achieve superior results for our company and our company s stockholders. The Compensation Committee also believes that compensation should reflect the value of the job in the marketplace.

Competitive Pay Practices

Our experience demonstrates that in order to attract qualified external candidates and retain valuable executive officers, we must offer executive compensation packages that are competitive with the packages offered by companies with which Sears Holdings competes for talent. In making compensation recommendations for the named executive officers we analyze internal compensation and external market data. We gather market data with a focus, where possible, on retail-specific organizations. We do not benchmark against a set list of competitors or a peer group. We believe that our competitive pay analyses provide a reference point in validating proposed or recommended compensation, thereby assuring that we are offering competitive pay packages to the named executive officers.

Executive Compensation Program: Key Elements

The key elements of our compensation program for the named executive officers include base salary and incentive opportunities. Incentive opportunities include annual and long-term performance-based programs designed to drive long-term decision making while also incentivizing correct short-term decision making. In addition, time-based equity awards (i.e., equity that vests with the passage of time) are made to provide additional motivation and encourage retention.

Rewarding Short-Term Performance

Base Salary Base salary is the fixed element of each named executive officer s cash compensation.

Annual Incentive Program Our annual incentive program is a pay-for-performance program providing for annual cash awards to eligible employees based on achievement of financial performance goals relating to a specific fiscal year. The purpose of our annual incentive program is to motivate our named executive officers to achieve financial performance goals by making their cash incentive award variable and dependent upon Sears Holdings or the respective business unit s annual financial performance.

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Rewarding Long-Term Performance

Long-Term Performance-Based Programs Our long-term incentive programs are designed to motivate our executive officers to focus on long-term company performance through cash or common stock awards based on three-year or longer performance periods and reinforce accountability by linking executive compensation to aggressive performance goals. Sears Holdings believes that these programs are an important instrument in aligning the goals of the named executive officers with our company s strategic direction and initiatives, which our company believes will result in increased stockholder returns.

Time-Based Equity Compensation Awards of time-based equity awards encourage retention and provide alignment with stockholders as value received will be consistent with return to stockholders.

We believe that the compensation of our most senior executive officers, who have the greatest ability to influence our financial performance, should be predominantly performance-based. When making individual compensation decisions for our named executive officers, the Compensation Committee takes many factors into account, including the individual s performance and experience; the performance of the Company overall; any retention concerns; the responsibilities, impact and importance of the position within our company; the individual s expected future contributions to our company; the individual s historical compensation; and internal pay equity (meaning the relative pay differences for different positions within our company). There is not a pre-established policy or target for the allocation between annual and long-term incentive compensation. Instead, the Compensation Committee takes a holistic approach to executive compensation and balances the compensation elements for each named executive officer individually.

Kevin R. Holt did not participate in the Company s annual or long-term compensation programs because he had an employment agreement with a specific term. Mr. Holt served as Executive Vice President, Store Operations and President, Store Operations Business Unit through the end of the Company s fiscal year, and his employment relationship with the Company ceased on February 26, 2010. Under the terms of his employment agreement, Mr. Holt received a base salary of $500,000 and a restricted stock award of 20,731 shares, which vested in three equal installments prior to his departure. Please see Potential Payments Upon Termination of Employment beginning on page 33 of this proxy statement for additional details regarding Mr. Holt s employment agreement.

Mr. Goodman joined the Company in November 2009 and, therefore, did not participate in the 2009 Long-Term Incentive Program.

How Elements Are Used to Achieve Our Compensation Objectives

In 2009, the Compensation Committee sought to achieve the objectives of our compensation program through the grant of annual and long-term incentive awards to our participating named executive officers. The 2009 annual incentive awards entitle participating named executive officers to cash compensation based upon EBITDA and, in certain cases, business unit financial performance during the fiscal year, and, therefore, reward our participating named executive officers for achieving a short-term financial performance target. The Compensation Committee also granted performance-based cash awards that vest at the end of a three-year performance cycle upon achievement of a cumulative EBITDA financial target for the three-year performance cycle. The 2009 long-term awards are designed to motivate our participating named executive officers to focus on long-term company performance.

The Compensation Committee also believes that the most fair and effective way to motivate the Company s named executive officers to produce the best results for its stockholders is to increase the proportion of an executive officer s total compensation that is performance-based as the executive s ability to affect those results increases. As a result, the size of the annual and long-term performance awards granted to executive officers, relative to total compensation, increases based upon the executive officer s relative level of responsibility and

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potential to affect the Company s or a business unit s financial performance. Additionally, the Compensation Committee believes that the payouts for incentive compensation can be achieved only if the Company and/or its business units perform well in a given fiscal year. Under our incentive compensation structure, the highest amount of compensation can be achieved through consistent superior performance over sustained periods of time. This provides incentive to manage our company for the long term, while minimizing excessive risk taking in the short term.

The annual incentive awards granted to the Company s participating named executive officers in fiscal 2009 were calculated based on a multiple of base salary. The multiple, which ranged from 0.75 to 1.0, is based upon the participating named executive officer s relative level of responsibility and potential to affect the Company s overall performance, excluding Mr. Freidheim. Mr. Freidheim s annual incentive opportunity for fiscal 2009 is 0.25 of his base salary because he received a guaranteed bonus payment in the amount of $400,000 in order to induce him to join our company. The performance-based long-term cash awards granted to the Company s named executive officers in fiscal year 2009 were calculated based on a multiple of base salary. The multiple, which ranged from 1.5 to 2.0, is based upon the executive officer s relative level of responsibility and potential to affect the Company s overall performance. The Compensation Committee also considers the executive officer s performance and experience; the executive officer s expected future contributions to our company; and internal pay equity. Annual incentive program opportunities for the named executive officers are generally established when the Compensation Committee approves an annual incentive plan or at the time the Compensation Committee otherwise approves a compensation package for a named executive officer. Due to the fact that the named executive officer s base salary is determined, in part, on his or her past performance, an award that is based on a multiple of that base salary also reflects, in part, his or her past performance.

The Compensation Committee determines whether the applicable financial performance targets have been attained under our annual and long-term incentive compensation plans. The Compensation Committee has not exercised its discretion to adjust performance targets or payout amounts for any of our named executive officers. While the Committee can exercise both positive and negative discretion in relation to the annual and long-term incentive compensation awards granted to our named executive officers, the Compensation Committee historically has considered the requirements of Internal Revenue Code Section 162(m) (Section 162(m)). The impact of Section 162(m) on compensation awarded to our named executive officers is described in Certain Tax Consequences on page 27 of this proxy statement.

Fiscal 2009 Compensation Decisions

The Compensation Committee worked with our Senior Vice President and President, Talent and Human Capital Services, our Senior Vice President, General Counsel and Corporate Secretary and, in selected cases, the Chairman, in determining named executive officers total compensation. Our Senior Vice President and President, Talent and Human Capital Services and our Senior Vice President, General Counsel and Corporate Secretary presented recommendations to the Compensation Committee regarding an executive officer s total compensation for review and final approval. As appropriate, our Chairman and our interim Chief Executive Officer generally played an advisory role to the Compensation Committee during this process. The Compensation Committee reviewed our interim Chief Executive Officer s compensation and was responsible for evaluating his performance in consultation with the Nominating and Corporate Governance Committee and the Board of Directors.

Due to the difficulty in achieving performance targets under the Company s recent annual and long-term incentive plans, the Company removed the cap on the maximum amount that may be paid to a named executive officer if the maximum financial performance target is obtained in fiscal 2009. The Compensation Committee believes that the ability of the named executive officers to earn large awards if a performance target based on the Company s EBITDA is exceeded should motivate our named executive officers to work to achieve superior results for the Company in challenging economic times.

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Base Salary

We set base salaries to reflect a named executive officer s performance and experience; the individual s expected future contributions to our company; the responsibilities, impact and importance of the position within our company; internal pay equity; and competitive pay research. The timing and amount of base salary increases depend on the named executive officer s past performance, promotion or other change in responsibilities, expected future contributions to our company and current market competitiveness.

In response to cost reduction efforts the Company undertook in January 2009, Mr. Johnson volunteered to temporarily reduce his base salary from $900,000 to $850,000 during fiscal 2009. The base salary of Mr. Goodman was set when he joined the Company. The Compensation Committee reviewed the base salaries of the other named executive officers and no changes were approved during fiscal 2009. Please see Fiscal 2010 Compensation Decisions on page 26 for additional information.

2009 Annual Incentive Compensation

The 2009 Annual Incentive Plan (AIP) is a cash-based program that is intended to reward associates including our named executive officers (other than Mr. Holt) for their contributions to the achievement of certain EBITDA (earnings before interest, taxes, depreciation and amortization) goals and, in the case of Messrs. Goodman and Reed, business unit operating profit (BOP) goals for fiscal 2009.

SHC EBITDA is defined as total earnings of our company, other than Sears Canada Inc., for the performance period, determined before interest, taxes, depreciation and amortization and excluding:

- significant litigation or claim judgments or settlements;
- the effect of purchase accounting and changes in accounting methods;
- gains, losses and costs associated with store closings, impairments and certain acquisitions and divestitures; and
- restructuring activities.

We continue to use SHC EBITDA as a performance goal because it is a key metric used by management to measure business performance. We also believe that it accurately reflects our compensation philosophy of encouraging growth and creating increased stockholder value through the efficient use of corporate assets. In 2009, we added a BOP goal for certain business units within the Sears Holdings organizational structure. BOP is defined as earnings before interest, taxes, and depreciation for each business unit as reported on the Company s domestic internal operating statements, and generally consists of merchandise gross profit, vendor allowances/subsidy included in margin, return-to-vendor mark-outs, allocated zero percent (0%) finance promotion costs, product quality costs, inventory shrink, margin on service revenue, and business-specific expenses such as marketing, rent, logistics, information technology projects, store and payroll and other intra-company expenses. We believe that BOP performance goals support our financial goals by reinforcing responsibility and accountability at the business unit level.

In establishing financial business goals for the fiscal year to be approved by the Compensation Committee, factors such as our prior fiscal year financial business results, our competitive situation, our evaluation of market data, as well as the general state of the economy and our business all are considered. For fiscal 2009, threshold, target and maximum performance goals were established for SHC EBITDA and threshold and target goals were established for BOP. Threshold levels of performance vary between 80% and 90% of the financial plan for fiscal 2009. For both the SHC EBITDA and BOP performance goals, threshold levels of performance generate payouts at 60% of incentive opportunity and target levels of performance generate payouts of 100% of incentive opportunity. If the maximum SHC EBITDA performance level is achieved, for each 1% SHC EBITDA exceeds the target performance measure, such named executive officer will receive a 2% increase in his award. The

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amount of the annual cash incentive award ultimately received depends on the achievement of performance goals. The Grants of Plan-Based Awards table on page 31 shows the range of possible payments to each of our named executive officers under the AIP in fiscal year 2009.

Under the AIP, achievement of the SHC EBITDA goal accounted for 100% of Messrs. Johnson, Collins and Freidheim annual incentive opportunity. Consistent with our pay-for-performance philosophy, the Company s performance in fiscal 2009 resulted in no payments to Messrs. Johnson, Collins and Freidheim under the AIP because the threshold performance level was not achieved. Mr. Freidheim received a special incentive award in the amount of $400,000 payable outside of the AIP payment and without regard to company performance in order to induce him to join our company.

For Mr. Goodman, achievement of the BOP goals for the apparel and home business units each accounted for 50% of his annual incentive opportunity, respectively. Consistent with our pay-for-performance philosophy, the performance in the apparel and home business units in fiscal 2009 resulted in no payment to Mr. Goodman under the AIP because the threshold performance levels were not achieved.

For Mr. Reed, achievement of the BOP goal for the home services business unit accounted for 100% of his annual incentive opportunity. Mr. Reed will receive an annual incentive payout of $475,605 as a result of the achievement of 103% of the BOP target level of performance for the home services business unit in fiscal 2009.

Mr. Holt did not participate in the 2009 AIP.

Long-Term Compensation Opportunities

Beginning in 2005, long-term performance awards have been granted every year to our named executive officers and others. The Summary Compensation Table and Grants of Plan-Based Awards tables on pages 28 and 31 of this proxy statement contain information regarding the long-term performance-based compensation opportunities for fiscal 2009. These opportunities consist of a potential payment under the Sears Holdings Corporation 2007 Executive Long-Term Incentive Plan (the 2007 LTIP) and a grant of performance-based cash award under the 2009 Long-Term Incentive Program (the 2009 LTIP) awarded to our named executive officers in April 2009. Certain named executive officers also are participating in the 2008 Long-Term Incentive Program (the 2008 LTIP), a performance-based cash program dependent upon the achievement of company financial goals during our 2008 through 2010 fiscal years. Any payment under the 2008 LTIP will vest in fiscal 2010 and has no impact on long-term performance-based compensation for the named executive officers in fiscal 2008.

In making compensation decisions, no formal weighting formula is used in determining award amounts under our long-term incentive programs. Instead, the Compensation Committee considers the named executive officer s relative level of responsibility and potential to affect the Company s overall performance when it awards long-term performance-based compensation.

Each of our long-term incentive programs contains a different EBITDA performance goal. The reason why we use EBITDA as a performance measure is described under 2009 Annual Incentive Compensation above. Over the course of the past three years, the Company has not achieved the threshold EBITDA performance target under its long-term incentive programs.

Mr. Freidheim s offer letter provided for a long-term special incentive award consisting of a restricted stock component and a cash component. The restricted stock component consists of 50,000 shares of restricted stock and the cash component is $1,504,500. Both components vest in four equal annual installments. In fiscal 2009, 12,500 shares of Mr. Freidheim s restricted stock award vested and $376,125 of the cash component of his award vested and was paid. Mr. Freidheim received this award in order to induce him to join the Company and in recognition of his expected future contributions to our company.

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2007 Executive LTIP

The 2007 Executive LTIP was amended, effective March 12, 2009, by the Compensation Committee to convert the performance-based restricted stock awards previously granted under the 2007 Executive LTIP to a cash incentive award. The amendment to the 2007 Executive LTIP is designed to preserve the value of the awards granted under the 2007 Executive LTIP, and it released the stock awarded under the 2007 Executive LTIP for future grants under our company s incentive plans. Mr. Johnson is the only named executive officer that participates in the 2007 Executive LTIP. Under the amended 2007 Executive LTIP, the cash incentive award consists of a number of units equal to the number of shares performance-based restricted stock originally awarded to Mr. Johnson. Each unit has a value equal, as of any date, to the value of a share of restricted stock on that date. Payment of the cash incentive award is subject to the achievement of an EBITDA performance goal. Each cash incentive award is expected to be satisfied by a distribution in cash to the participant, provided, however, that, at the discretion of the Compensation Committee, the Company may elect to satisfy such cash incentive award by payment of shares of the Company s common stock in lieu of cash, or a combination of cash and shares of the Company s common stock. In the event of Mr. Johnson s retirement, death, disability or termination without cause before the payment date of his award, a prorated payment will be made if the Company has achieved the 2007 Executive LTIP milestones. On March 12, 2009, Mr. Johnson surrendered 19,667 shares of performance-based restricted stock to the Company in exchange for 19,667 units. The Company has concluded that the EBITDA performance target established in connection with the 2007 Executive LTIP is unlikely to be achieved. Mr. Johnson forfeited half of his units at the end of fiscal 2009, and it is expected that Mr. Johnson will forfeit the remaining units at the end of fiscal 2010.

2008 LTIP

The 2008 LTIP provides for the grant of incentive awards to employees at the level of divisional vice president and above for a three-year performance period (fiscal years 2008-2010). Awards under the 2008 LTIP represent the right to receive cash or, at the discretion of the Compensation Committee, shares of the Company s common stock in lieu of cash, or a combination of cash and shares. The issuance of common stock under the 2008 LTIP is contingent on the availability of shares of stock under a shareholder approved plan of the Company providing for the issuance of shares in satisfaction of 2008 LTIP awards. Threshold, target and maximum performance goals were established for the EBITDA performance goals under the 2008 LTIP. A threshold level of performance generates payouts at 60% of plan, target levels of performance generate payouts of 100% of plan, and if maximum levels of performance are achieved, for each 1% 2008 LTIP EBITDA exceeds the target performance measure, such named executive officer will receive a 2% increase in his or her award.

The named executive officers that participate in the 2008 LTIP are Messrs. Johnson, Collins and Reed.

In the event of a participant s death or disability before the payment date for his or her award, a payment will be made with respect to that participant in an amount equal to his or her prorated target cash incentive award, but only if the Company has achieved the 2008 LTIP s performance milestones and the participant has been employed by us for 12 months. In the event of voluntary termination or termination with cause (as defined in the 2008 LTIP) before the payment date for his or her award, the participant will forfeit all of his or her LTIP award.

During fiscal 2009, the Company concluded that the EBITDA performance target established in connection with the 2008 LTIP was unlikely to be achieved. Accordingly, the Company ceased recording expense and reversed all prior expense recognized in connection with the 2008 LTIP awards. Payments to our executive officers under the 2008 LTIP at the end of the three-year performance period are not likely to occur.

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2009 LTIP

The 2009 LTIP provides for the grant of incentive awards to employees at the level of divisional vice president and above for a three-year performance period (fiscal years 2009-2011). Awards under the 2009 LTIP represent the right to receive cash or, at the discretion of the Compensation Committee, shares of the Company s common stock in lieu of cash, or a combination of cash and shares. The issuance of common stock under the 2009 LTIP is contingent on the availability of shares of stock under a shareholder approved plan of the Company providing for the issuance of shares in satisfaction of 2009 LTIP awards.

	Threshold for Payment	Target	Maximum
Performance Result	80% of LTIP EBITDA	100% of LTIP EBITDA	No cap
LTIP Award	60% of Target Payout	100% of Target Payout	Over 100%, for each 1% LTIP EBITDA exceeds Target an additional 2% increase in award

Performance measures under the 2009 LTIP are based on LTIP EBITDA (which, as defined in the 2009 LTIP, generally means earnings of the Company and its subsidiaries (other than Sears Canada) before interest, taxes, depreciation and amortization for the performance period computed as operating income for the applicable reporting period, less depreciation and amortization and gains/(losses) on sales of assets. In addition, LTIP EBITDA is adjusted to exclude significant litigation or claim judgments or settlements (defined as matters which are $1 million or more) including the costs related thereto; the effect of purchase accounting and changes in accounting methods; gains, losses and costs associated with acquisitions, divestitures and store closures; integration costs that are disclosed as merger related; and restructuring activities for the relevant three-year period.

The named executive officers that participate in the 2009 LTIP are Messrs. Johnson, Collins, Freidheim and Reed.

In the event of a participant s death or disability before the payment date for his or her award, a payment will be made with respect to that participant in an amount equal to his or her prorated target cash incentive opportunity, but only if the Company has achieved the 2009 LTIP s performance milestones and the participant has been employed by us for 12 months. In the event of voluntary termination or termination with cause (as defined in the 2009 LTIP) before the payment date for his or her award, the participant will forfeit all of his or her LTIP award.

Our ability to achieve the 2009 LTIP performance target is dependent upon a number of factors. Given our recent operating performance and current retail market conditions, there is substantial uncertainty with respect to achieving the 2009 LTIP performance target in the performance period, and payments to our executive officers under the 2009 LTIP at the end of the three-year performance period are not likely to occur.

Time-Based Equity Compensation

Time-based equity (i.e., equity that vests with the passage of time) compensation assists Sears Holdings to:

- Attract and retain top executive talent; and
- Link executive and company long-term financial interests of our company, including the growth in value of our company s equity and enhancement of long-term stockholder return.

Time-based equity compensation is intended to complement the three major compensation elements: base salary, annual incentive awards and long-term incentive awards.

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Time-based equity compensation at Sears Holdings is currently awarded in the form of restricted stock. Our practice is to determine the dollar amount of equity compensation and then grant a number of shares of restricted stock having a fair market value equal to that dollar amount on the date of grant. We determine the fair market value based upon the closing price of our stock on the grant date. Individual grant amounts are generally based on factors such as relative job scope, expected future contributions to our company and internal pay equity. Additionally, restricted stock grants are an effective means of offsetting equity awards that executives may lose when they leave a former company to join Sears Holdings.

Our company does not grant restricted stock on a regular basis to our named executive officers. In fiscal 2009 we granted restricted stock to certain of our named executive officers. Mr. Johnson received a restricted stock grant that vests in two equal annual installments in recognition of the responsibilities, impact and importance of his position within our company. Mr. Freidheim received a restricted stock award that vests in four equal annual installments in order to induce him to join the Company (i.e., the restricted stock award component of the long-term special incentive award described above). Mr. Freidheim s restricted stock award agreement also provides that 3,125 shares of his award will vest in the event that the Company appoints a Chief Executive Officer other than Mr. Johnson and Mr. Freidheim s employment with the Company is involuntarily terminated within 12 months following the new Chief Executive Officer s appointment. Mr. Goodman received an initial restricted stock award that vests in four equal annual installments. Mr. Goodman received an additional restricted stock award in connection with his purchase of our common stock, and these restricted shares vest in four equal annual installments. Mr. Goodman received these awards in order to induce him to join the Company and to link his interests with the long-term financial interests of our company.

The Company does not have a stock option plan, as currently stock options are not a key pay component for Sears Holdings.

Other Compensation Elements

Discretionary Bonuses

We pay sign-on, first year guaranteed and other bonuses where determined necessary or appropriate to attract top executive talent from other companies or retain key executives. Executives we recruit often have unrealized value in the form of unvested equity and other forgone compensation opportunities. Sign-on bonuses are an effective means of offsetting compensation opportunities executives may lose when they leave a former company to join Sears Holdings. In fiscal 2009, discretionary bonuses were awarded to two of our named executive officers. As described in 2009 Annual Incentive Compensation and Long-Term Compensation Opportunities in this Compensation, Discussion and Analysis, under his offer letter Mr. Freidheim was awarded a fiscal 2009 guaranteed bonus and long-term special cash bonus that vest with the passage of time and are payable without regard to Company performance. In fiscal 2009, Mr. Freidheim earned (1) a guaranteed bonus in the amount of $400,000 payable outside of the 2009 AIP and (2) the first installment of the cash component of a long-term special incentive award in the amount of $376,125. These discretionary bonuses were awarded to Mr. Freidheim in order to induce him to join the company and in recognition of the impact and importance of his position within our company. Mr. Goodman was awarded a sign-on bonus in the amount of $250,000 in order to induce him to join our company.

Perquisites and Other Benefits

Sears Holdings provides its named executive officers with limited perquisites and other personal benefits that the Compensation Committee deems reasonable and consistent with our overall compensation program. In fiscal 2009, Mr. Holt was provided company housing and on one occasion prior to the Company s change in policy discussed below received tax reimbursement for the use of air transportation in connection with personal use of the corporate aircraft. Additional details regarding Mr. Holt s perquisites are contained in the Summary Compensation Table and related footnotes beginning on page 28 of this proxy statement. The Company eliminated reimbursements to cover individual income tax incurred when corporate aircraft are used by executives for commuting, effective April 3, 2009.

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After significantly restricting the use of our corporate aircraft in fiscal 2009, we sold both of our corporate jets.

Retirement Plans

We provide a 401(k) savings plan to allow participants to contribute towards retirement on a pre-tax (including catch-up contributions) and after-tax basis. Generally, we allow pre-tax contributions of up to 50% of eligible compensation (or the limit determined by the Internal Revenue Service) and after-tax contributions of up to 25% of eligible compensation, provided however that in the aggregate these contributions do not exceed 50% of eligible compensation. Notwithstanding the foregoing, effective January 31, 2009, contribution restrictions were imposed on plan participants who were highly compensated employees as defined by the Internal Revenue Code. Each named executive officer is subject to these contribution restrictions. Also effective January 31, 2009, the Company suspended its matching contributions to our 401(k) savings plans.

Severance Benefits

Each of our named executive officers has entered into a severance agreement with the Company. Our company provides severance to the named executive officers as a component of a competitive compensation package and, in most cases, as compensation for the non-competition clause contained in our severance agreements. Additionally, we believe that severance payments provide individuals a window of time to locate a new position in the marketplace. Under the agreement, severance is provided for termination without cause (as defined in the agreement) or if the executive officer s employment is terminated for good reason (as defined in the agreement). Named executive officers (other than Kevin Holt as described below) will receive the following, depending on the form of agreement:

- Severance equal to one year of annual base salary, subject to mitigation for salary or wages earned from another employer, including self-employment; or

- Severance equal to one year of annual base salary and target bonus (separate from any payment under an annual incentive plan), subject to mitigation for salary or wages earned from another employer, including self-employment.

If a named executive officer becomes entitled to benefits under the severance agreement, the named executive officer will receive other company benefits such as continued participation in Sears Holdings medical and dental plans during the salary continuation period. The forms of executive severance agreements do not have specific change-in-control provisions that would give rise to or impact the payment of severance benefits to the executive officers.

Awards under a long-term incentive program are payable in the event of a termination of employment if certain conditions are met, as provided under the applicable long-term incentive program. Please see Long-Term Compensation Opportunities on page 21 and Potential Payments Upon Termination of Employment on page 33 for additional information.

In the event of a named executive officer s death, disability, retirement or involuntary termination, at the discretion of the Compensation Committee, such officer s restricted stock awards may be accelerated. In all other cases, any unvested restricted stock award under the 2006 Stock Plan will be forfeited upon termination of employment.

We had a separate employment agreement with Mr. Holt that included severance benefits. Under the agreement, severance was provided for termination other than cause (as defined in the employment agreement), death or disability. The severance benefit consisted of continued payments of Mr. Holt s base salary for the lesser of six months or the period remaining in his employment term. Additional details regarding the severance payments applicable to Mr. Holt are described in Potential Payments upon Termination of Employment on page 33.

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CEO Compensation

In response to cost reduction efforts in January 2009, Mr. Johnson voluntarily reduced his base salary from $900,000 to $850,000. The temporary reduction of Mr. Johnson s base salary was effective during fiscal 2009. Mr. Johnson received a restricted stock grant in fiscal 2009 in recognition of the responsibilities, impact and importance of his position with our company. These compensation arrangements were approved by our Compensation Committee. Additionally, Mr. Johnson s target long-term incentive awards are set at 100% of his base salary plus his target annual incentive award.

Fiscal 2010 Compensation Decisions

On April 5, 2010, the Compensation Committee approved an increase in Mr. Johnson s annual base salary to $1,000,000, effective April 1, 2010. He also will receive an award of 40,000 shares of restricted stock under the Company s 2006 Stock Plan on April 6, 2010, which will vest in four equal annual installments, provided that he is an employee of the Company on the applicable vesting date. Mr. Johnson s restricted stock award agreement also provides that the first installment of his award (10,000 shares) will vest in the event that the Company appoints a Chief Executive Officer other than Mr. Johnson and thereafter Mr. Johnson s employment with the Company is involuntarily terminated prior to April 6, 2011. Lastly, the Company will make available to Mr. Johnson Company-furnished ground transportation for travel between his primary residence in the Chicago metropolitan area and the Company s corporate headquarters in Hoffman Estates, Illinois, and Mr. Johnson will be responsible for any related taxes.

As previously disclosed, Mr. Collins received, effective January 30, 2010, an increase in base salary from $600,000 to $700,000 and an increase in his annual incentive opportunity from 75% of base salary to 90% of base salary. Mr. Collins also received a restricted stock award under the Company s 2006 Stock Plan in the amount of $500,000, which vests in full on the third anniversary of the grant date, provided that he is an employee of the Company on the vesting date.

The compensation packages of Messrs. Johnson and Collins were revised in recognition of their responsibilities, as well as the impact and importance of their respective positions with our company.

Compensation Committee Role in Executive Compensation Decisions

The Compensation Committee of the Board of Directors of Sears Holdings is appointed by the Board to fulfill the Board s responsibilities relating to compensation of our Chief Executive Officer and our executive officers. The Compensation Committee has overall responsibility for approving and evaluating all compensation plans, our policies and programs as they affect the Chief Executive Officer and the executive officers. The Compensation Committee is an independent committee of the Board and consists of no fewer than two members.

The Compensation Committee has the sole authority to retain or terminate any compensation consultant to be used to assist in the evaluation of Chief Executive Officer or executive officer compensation and has the sole authority to approve the consultant s fees and the terms and conditions of the consultant s retention. Neither the Compensation Committee nor the Company s management retained a consultant that played a role in determining or recommending the amount or form of executive compensation in fiscal 2009. The Compensation Committee also has authority to obtain advice and assistance from internal or external legal, accounting or other advisors.

The Compensation Committee evaluates the Chief Executive Officer s performance in light of corporate goals and objectives. The Compensation Committee also regularly reviews and approves the following as they affect the named executive officers:

- Annual base salaries and annual incentive opportunities;

- All other incentive awards and opportunities, including both cash-based and equity-based awards and opportunities; and

- Employment agreements and severance arrangements.

The Compensation Committee delegated authority to the Company s Chief Administrative Officer and Senior Vice President, Talent and Human Capital Services, to approve increases in base salary and/or annual incentive target awards by up to 10% to officers at the level of senior vice president and above. Any actions taken pursuant to this delegation must be reviewed with the Compensation Committee at its next meeting. One action was taken pursuant to this delegation during fiscal 2009.

The Compensation Committee also receives periodic reports on our compensation programs as they affect all associates. Finally, the Compensation Committee reviews and approves any special or supplemental compensation and benefits for the Chief Executive Officer and the executive officers and persons who formerly served as the Chief Executive Officer and/or as executive officers, including supplemental retirement benefits and the perquisites provided to them during and after employment.

Certain Tax Consequences

In setting an executive officer s compensation package, the Compensation Committee considers the requirements of Section 162(m), which provides that compensation in excess of $1 million paid to certain executive officers is not deductible unless it is performance-based and paid under a program that meets certain other legal requirements. Neither base salary nor restricted stock that vests based solely on continued service qualify as performance-based compensation under Section 162(m). Although a significant portion of each executive officer s compensation will satisfy the requirements for deductibility under Section 162(m), the Compensation Committee retains the ability to evaluate the performance of our executives and to pay appropriate compensation, even if it may result in the non-deductibility of certain compensation under federal tax law.

Compensation Committee Interlocks and Insider Participation

During fiscal 2009, the following directors (none of whom was or had been an officer or employee of the Company or any of its subsidiaries) served on the Company s Compensation Committee: Ann N. Reese, Emily Scott and Thomas J. Tisch. There were no interlocks during 2009 with other companies within the meaning of the SEC s proxy rules.

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Summary Compensation Table

The following table sets forth information concerning the total compensation paid to our Chief Executive Officer, our Chief Financial Officer, our three other most highly compensated executive officers for fiscal 2009 who were executive officers at the end of the fiscal year and to our Senior Vice President and President, Home Services, who served as an executive officer during fiscal 2009 (collectively, the named executive officers).

Name and Principal Position	Year	Salary (a)	Bonus (b)	Stock Awards (c)	Non-Equity Incentive Plan Compensation (d)	All Other Compensation (e)	Total
W. Bruce Johnson	**2009**	$ 850,000		$ 663,400			$ 1,513,400
Interim Chief Executive Officer and President	**2008**	$ 896,538		$ 999,918		$ 9,437	$ 1,905,893
	2007	$ 745,224		$ 3,499,939		$ 9,000	

Note 10 Regulatory Issues

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.

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DYNEGY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

For the Interim Periods Ended March 31, 2007 and 2006

The matters discussed below are material developments since the filing of our Form 10-K. Please see Note 18 Regulatory Issues beginning on page F-53 of our Form 10-K for further discussion.

Illinois Resource Procurement Auction. In January 2006, the ICC approved a reverse power procurement auction as the process by which utilities will procure power beginning in 2007. The 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. There continue to be challenges to the auction process, including an action filed by the IAG at FERC. The ICC has intervened in the proceeding before FERC and has stated in its pleading that it has not found any evidence of collusive behavior or other anticompetitive actions with bidders in the Illinois Auction.

Further, there is a possibility of political, legislative, judicial and/or regulatory actions over the next several months that could substantially alter the parties rights and obligations under or relating to the SFCs. Numerous parties have appealed various aspects of the ICC Orders approving the auctions to the state intermediate appellate courts. The appellate court cases have been consolidated and are in the briefing stage; we anticipate a ruling this year, with the possibility of further review by the Illinois Supreme Court. There is also the possibility that the Illinois General Assembly will consider legislation regarding retail rates and the use of an auction by electric utilities for procuring power and energy. Please see Note 9 Commitments and Contingencies Illinois Auction Complaints for further discussion.

Separately, the ICC has opened a docket to consider changes to the auction and auction process prior to the next auction being held. We have intervened in that docket. Testimony has been filed and following briefing and other steps in the ICC process, we anticipate a final Order in later this year.

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DYNEGY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

For the Interim Periods Ended March 31, 2007 and 2006

Note 11 Employee Compensation, Savings and Pension Plans

We have various defined benefit pension plans and post-retirement benefit plans in which our past and present employees participate, which are more fully described in Note 20 Employee Compensation, Savings and Pension Plans beginning on page F-61 of our Form 10-K.

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

	Pension Benefits		Other Benefits	
	Quarter Ended March 31,			
	2007	2006	2007	2006
	(in millions)			
Service cost benefits earned during period	$ 2	$ 2	$ 1	$ 1
Interest cost on projected benefit obligation	3	2	1	1
Expected return on plan assets	(3)	(2)		
Recognized net actuarial loss	1	1		
Net periodic benefit cost	$ 3	$ 3	$ 2	$ 2
Additional cost due to curtailment		2		
Total net periodic benefit cost	$ 3	$ 5	$ 2	$ 2

Exchange Transaction with Chairman and CEO. On March 17, 2006, we entered into an exchange transaction with our Chairman and CEO. Under the terms of the transaction, the purpose of which was to address uncertainties created by proposed regulations issued in late 2005 pursuant to Section 409A of the Internal Revenue Code (the Code), we cancelled all of the 2,378,605 stock options then held by our Chairman and CEO. As consideration for canceling these stock options, we granted our Chairman and CEO 967,707 stock options at an exercise price of $4.88, which equaled the closing price of our Class A common stock on the date of grant, and made a cash payment to him of approximately $6 million on January 15, 2007 based on the in-the-money value of the vested stock options that were cancelled.

Contributions. No contributions were made to our pension plans or to our postretirement benefits plans during the three months ended March 31, 2007. During the three months ended March 31, 2006, we made less than $1 million in contributions.

Note 12 Income Taxes

Effective Tax Rate. The income taxes included in continuing operations were as follows:

	Three Months Ended March 31,	
	2007	2006
	(in millions, except rates)	

Income tax expense	$ (5)	$ (3)
Effective tax rate	26%	100%

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. For the three months ended March 31, 2007, our overall effective tax rate on continuing operations was different than the statutory rate of 35% due primarily to state income taxes and adjustments to our reserve for uncertain tax positions. For the three months ended March 31, 2006, our overall effective tax rate on continuing operations was different than the statutory rate of 35% due primarily to a reduction of AMT credits due to the settlement of prior year tax audits and state income taxes.

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DYNEGY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

For the Interim Periods Ended March 31, 2007 and 2006

We recorded a $7 million decrease to our accumulated deficit as of January 1, 2007 to reflect the cumulative effect of adopting FIN No. 48. Please see Note 1 Accounting Policies Accounting Principles Adopted FIN No. 48 for further discussion.

Note 13 Segment Information

We report the results of our power generation business as three separate geographical segments in our consolidated financial statements: (i) the Midwest segment (GEN-MW); (ii) the Northeast segment (GEN-NE); and (iii) the South segment (GEN-SO). We also continue to separately report the results of our CRM business because of the diversity of its operations. Results associated with our former NGL segment are included in discontinued operations in Other and Eliminations due to the sale of this business. Our consolidated financial results also reflects corporate-level expenses such as general and administrative interest.

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 in the CRM segment, whether realized or unrealized, are presented net in the consolidated statements of operations. For the purpose of the segment data presented below, intersegment transactions between CRM and our other segments are presented net in CRM intersegment revenues but are presented gross in the intersegment revenues of our other segments, as the activities of our other segments are not subject to the net presentation requirements contained in EITF Issue No. 02-3. If transactions between CRM and our other segments result in a net intersegment purchase by CRM, the net intersegment purchases and sales are presented as negative revenues in CRM intersegment revenues. In addition, intersegment hedging activities are presented net pursuant to SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133).

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DYNEGY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

For the Interim Periods Ended March 31, 2007 and 2006

Reportable segment information, including intercompany transactions accounted for at prevailing market rates, for the three months ended March 31, 2007 and 2006 is presented below:

Segment Data for the Quarter Ended March 31, 2007

(in millions)

	Power Generation GEN-MW	GEN-NE	GEN-SO	CRM	Other and Eliminations	Total
Unaffiliated revenues:						
Domestic	$ 272	$ 200	$ 68	$ 9	$	$ 549
Other		24				24
	272	224	68	9		573
Intersegment revenues						
Total revenues	$ 272	$ 224	$ 68	$ 9	$	$ 573
Depreciation and amortization	$ (42)	$ (6)	$ (5)	$	$ (3)	$ (56)
Operating income (loss)	$ 100	$ 42	$ (5)	$ (2)	$ (57)	$ 78
Other items, net					8	8
Interest expense						(67)
Income from continuing operations before income taxes						19
Income tax expense						(5)
Income from continuing operations						14
Income from discontinued operations, net of taxes						
Net income						$ 14
Identifiable assets:						
Domestic	$ 4,577	$ 1,329	$ 593	$ 325	$ 264	$ 7,088
Other		14	7	98		119
Total	$ 4,577	$ 1,343	$ 600	$ 423	$ 264	$ 7,207
Capital expenditures	$ (23)	$ (3)	$ (5)	$	$ (3)	$ (34)

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DYNEGY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

For the Interim Periods Ended March 31, 2007 and 2006

Segment Data for the Quarter Ended March 31, 2006

(in millions)

	Power Generation				Other and	
	GEN-MW	GEN-NE	GEN-SO	CRM	Eliminations	Total
Unaffiliated revenues:						
Domestic	$ 256	$ 133	$ 111	$ 40	$	$ 540
Other		60				60
	256	193	111	40		600
Intersegment revenues		(1)		1		
Total revenues	$ 256	$ 192	$ 111	$ 41	$	$ 600
Depreciation and amortization	$ (40)	$ (6)	$ (5)	$	$ (8)	$ (59)
Operating income (loss)	$ 98	$ 26	$ (12)	$ 14	$ (47)	$ 79
Earnings from unconsolidated investments			2			2
Other items, net		2		1	17	20
Interest expense						(98)
Income from continuing operations before income taxes						3
Income tax expense						(3)
Income from continuing operations						
Income from discontinued operations, net of taxes						
Cumulative effect of change in accounting principle, net of taxes						1
Net income						$ 1
Identifiable assets:						
Domestic	$ 4,587	$ 1,412	$ 830	$ 608	$ 1,315	$ 8,752
Other		15	5	98		118
Total	$ 4,587	$ 1,427	$ 835	$ 706	$ 1,315	$ 8,870
Unconsolidated investments	$	$	$ 6	$	$	$ 6
Capital expenditures	$ (11)	$ (3)	$ (3)	$	$ (1)	$ (18)

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DYNEGY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

For the Interim Periods Ended March 31, 2007 and 2006

Note 14 Subsequent Events

On April 2, 2007, we completed the Merger Agreement and the transactions contemplated by the Merger Agreement, including the Merger and the establishment of the development joint venture with LS Associates represented by DLS Power Holdings and DLS Power Development. Please see Note 2 LS Power Business Combination for further discussion.

Also, on April 2, 2007, we entered into the Fifth Amended and Restated Credit Facility. The Fifth Amended and Restated Credit Facility amended DHI s former credit facility by increasing the amount of the existing $470 million Revolving Facility to $850 million, increasing the amount of the existing $200 million Term L/C Facility to $400 million and adding a $70 million senior secured Term Loan B. Please see Note 7 Debt Fifth Amended and Restated Credit Facility for further discussion.

In May 2007, we received an adverse arbitration decision relating to a legacy litigation matter. We recognized a legal and settlement charge of approximately $17 million relating to this adverse ruling. Please see Note 9 Commitments and Contingencies Illinova Arbitration for further discussion.

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DYNEGY INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

For the Interim Periods Ended March 31, 2007 and 2006

Item 2 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

GENERAL

We are a holding company and conduct substantially all of our business operations through our subsidiaries. Our current business operations are focused primarily on the power generation sector of the energy industry. Our power generation fleet is diversified by dispatch type, fuel source and geographic location. We report the results of our power generation business as three separate segments in our consolidated financial statements: (i) the Midwest segment (GEN-MW); (ii) the Northeast segment (GEN-NE); and (iii) the South segment (GEN-SO). We also separately report the results of our CRM business, which primarily consists of our remaining power tolling arrangement (excluding the Sithe toll which is in GEN-NE and is an intercompany agreement) as well as our physical gas supply contracts, gas transportation contracts and remaining gas, power and emission trading positions. Our consolidated financial results also reflect corporate-level expenses such as general and administrative, interest and depreciation and amortization. In connection with the Merger Agreement discussed in Note 2 LS Power Business Combination, we will create a new operating segment, GEN-WE, comprised of our newly acquired portfolio of assets located in California and Arizona. In addition, effective April 2, 2007, in conjunction with the completion of the Merger Agreement, our existing GEN-SO segment was combined into the GEN-WE segment.

In addition to our operating generation facilities, we own an approximate 40% undivided interest in Plum Point, a new 665 MW coal-fired plant under construction in Arkansas. Through our interest in DLS Power Holdings, we also own a 50% interest in a portfolio of greenfield development projects totaling more than 7,600 MW of generating capacity and repowering and/or expansion opportunities representing approximately 2,500 MW of generating capacity.

Recent Developments

LS Power. On September 14, 2006, we entered into the Merger Agreement with the LS Contributing Entities, Merger Sub and Dynegy Illinois to, among other transactions, combine the LS Contributing Entities operating generation portfolio with our generation assets, acquire a 50 percent ownership interest in a development joint venture with LS Associates and merge Merger Sub with and into Dynegy Illinois pursuant to the Merger. On March 29, 2007, at a special meeting of the shareholders of Dynegy Illinois, the shareholders of Dynegy Illinois adopted the Merger Agreement and approved the Merger.

Pursuant to the transactions with the LS Contributing Entities contemplated by the Merger Agreement, which were completed on April 2, 2007, the LS Contributing Entities received 340 million shares of our Class B common stock (which are convertible, under the circumstances described in our amended and restated certificate of incorporation, into shares of our Class A common stock), $100 million in cash and a promissory note in the aggregate principal amount of $275 million (which was simultaneously issued and repaid in full without interest or prepayment penalty) in exchange for their contribution of their entire operating generation portfolio and the 50 percent interest in each of DLS Power Holdings and DLS Power Development (together comprising the development joint venture with LS Associates). Dynegy also, via its indirect wholly owned subsidiary Griffith Holdings, LLC, simultaneously issued to the LS Contributing Entities, and repaid in full without interest or prepayment penalty and cancelled, an additional $70 million of project-related debt (the Griffith Debt) in

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connection with the completion of the Merger Agreement transactions. We also assumed approximately $1.8 billion in net debt (debt less restricted cash and investments) from the LS Contributing Entities, and utilized $100 million of cash on hand and borrowings by DHI (and subsequent permitted distributions to Dynegy) of (i) an aggregate $275 million under the Revolving Facility and (ii) an aggregate $70 million under the new Term Loan B in connection with the completion of the Merger Agreement.

Pursuant to the Merger, which was also completed on April 2, 2007, Merger Sub, our then-wholly owned subsidiary, merged with and into Dynegy Illinois. As a result of the Merger, Dynegy Illinois became our wholly owned subsidiary, the then-shareholders of Dynegy Illinois became our stockholders and each Dynegy Illinois shareholder, including Chevron U.S.A. Inc. (Dynegy Illinois then-largest shareholder) (Chevron), received one share of our Class A common stock for each share of Class A common stock or Class B common stock of Dynegy Illinois held by it.

As part of the transactions contemplated by the Merger Agreement, LS Associates transferred its interests in certain power generation development projects to DLS Power Holdings, and contributed 50% of the membership interests in DLS Power Holdings to Dynegy. In addition, immediately after the completion of the Merger, LS Associates and Dynegy each contributed $5 million to DLS Power Holdings as their initial capital contributions, and also contributed their respective interests in certain additional power generation development projects to DLS Power Holdings. LS Associates and Dynegy each now own 50% of the membership interests in DLS Power Development.

In addition, in connection with the completion of the Merger and the other transactions contemplated by the Merger Agreement, our name was changed from Dynegy Acquisition, Inc. to Dynegy Inc. Please see Note 2 LS Power Business Combination for further discussion.

Fifth Amended and Restated Credit Facility. On April 2, 2007, we entered into the Fifth Amended and Restated Credit Facility which amends DHI s former credit facility (the Fourth Amended and Restated Credit Facility, which was last amended on July 11, 2006) by increasing the amount of the existing $470 million revolving credit facility (the Revolving Facility) to $850 million, increasing the amount of the existing $200 million term letter of credit facility (the Term L/C Facility) to $400 million and adding a $70 million senior secured term loan facility (Term Loan B). Please see Note 7 Debt Fifth Amended and Restated Credit Facility for further discussion.

Calcasieu Sale. On January 31, 2007, we entered into an agreement to sell our interest in the Calcasieu power generation facility to Entergy for approximately $57 million, subject to regulatory approval. The transaction is expected to close in early 2008. Please read Note 3 Discontinued Operations Calcasieu for further discussion.

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LIQUIDITY AND CAPITAL RESOURCES

Overview

In this section, we describe our liquidity and capital requirements and our internal and external liquidity and capital resources. Our liquidity and capital requirements are primarily a function of our debt maturities and debt service requirements, collateral requirements, contractual obligations, capital expenditures, regulatory and legal settlements and working capital needs. Examples of working capital needs include prepayments or cash collateral associated with purchases of commodities, particularly natural gas and coal, facility maintenance costs (including required environmental expenditures) and other costs such as payroll. Our liquidity and capital resources are primarily derived from cash flows from operations, cash on hand, borrowings under our financing agreements, asset sale proceeds and proceeds from capital market transactions to the extent we engage in these activities.

Debt Obligations

On April 2, 2007, in connection with the completion of the transactions contemplated by the Merger Agreement, an aggregate $275 million under the Revolving Facility, an aggregate $400 million under the Term L/C Facility (with the proceeds placed in a collateral account to support the issuance of letters of credit) and an aggregate $70 million under Term Loan B (representing all available borrowings under Term Loan B) were drawn. Please read Note 7 Debt Fifth Amended and Restated Credit Facility for further discussion. We assumed approximately $1.8 billion of net debt on April 2, 2007 upon completion of the Merger. Please see Note 2 LS Power Business Combination for further discussion.

Collateral Postings

We continue to use a significant portion of our capital resources, in the form of cash and letters of credit, to satisfy counterparty collateral demands. These counterparty collateral demands reflect our non-investment grade credit ratings and counterparties views of our financial condition and ability to satisfy our performance obligations, as well as commodity prices and other factors. The following table summarizes our consolidated collateral postings to third parties by segment at May 3, 2007, March 31, 2007 and December 31, 2006:

	May 3, 2007	March 31, 2007	December 31, 2006
		(in millions)	
By Segment:			
Generation	$ 1,012	$ 158	$ 134
Customer risk management business	32	45	54
Other	8	8	7
Total	$ 1,052	$ 211	$ 195
By Type:			
Cash (1)	$ 54	$ 41	$ 38
Letters of Credit	998	170	157
Total	$ 1,052	$ 211	$ 195

(1) Cash collateral consists of either cash deposits to cover physical deliveries or liabilities on mark-to-market positions or prepayments for commodities or services that are in advance of normal payment terms.

The increase in collateral postings from December 31, 2006 to March 31, 2007 is primarily due to increased pricing and additional positions of approximately $33 million partially offset by $17 million of collateral returns. The significant increase in collateral postings from March 31, 2007 to May 3, 2007 is primarily due to the completion of the Merger Agreement and incorporation of the letters of credit posted for the collateral requirements of the assets and associated hedges acquired from the LS Contributing Entities.

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Going forward, we expect counterparties collateral demands to continue to reflect changes in commodity prices, including seasonal changes in weather-related demand, as well as their views of our creditworthiness. Considering our credit ratings, current commodity price estimates, specifically as prices relate to fuel purchases and power hedging activities, and the recently completed Merger Agreement, we estimate that collateral requirements will be approximately $1.0 billion at year-end 2007. We believe that we have sufficient capital resources to satisfy counterparties collateral demands, including those for which no collateral is currently posted, for the foreseeable future.

Tax Attributes

For accounting purposes, at January 1, 2007, our NOL deferred tax asset attributable to our previously incurred federal NOL carry-forwards was valued at approximately $695 million. These NOL carry-forwards will begin to expire in the year 2022. As a result of the application of the provisions of Section 382 of the Code, if substantial changes in our ownership should occur there could be annual limitations on our ability to use the NOL carry-forwards to offset our future taxable income. The LS Power combination constituted a substantial change in ownership, although the transaction itself did not result in a limitation on the future use of the NOL carry-forwards.

The magnitude of any such limitation and its effect on us is difficult to assess and depends in part on the market value of our stock at the time of any such ownership change and then-prevailing interest rates. However, we do not expect that any ownership change during the next few months and the resulting annual limitation would have a material impact on our tax liability, due to the application of the built-in gain provisions of Section 382. The ultimate realization of our NOL carry-forwards will be affected, in part, by the tax law in effect at the time.

Disclosure of Contractual Obligations and Contingent Financial Commitments

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

There have been no material changes to our contractual obligations and contingent financial commitments since December 31, 2006 through March 31, 2007.

On April 2, 2007, we assumed certain contractual obligations in conjunction with the completion of the Merger Agreement. Further, upon completion of the Merger Agreement, our obligations under our power tolling arrangement related to the Kendall facility became intercompany obligations. Please see Note 2 LS Power Business Combination for further discussion.

Dividends on Common Stock

Dividend payments on our common stock are at the discretion of our Board of Directors. We did not declare or pay a dividend on our common stock for the first quarter 2007 and do not foresee a declaration of dividends in the near term.

Internal Liquidity Sources

Our primary internal liquidity sources are cash flows from operations, cash on hand and available capacity under our Fifth Amended and Restated Credit Facility, which is scheduled to mature in April 2012.

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Current Liquidity. The following table summarizes our consolidated revolver capacity and liquidity position at May 3, 2007, March 31, 2007 and December 31, 2006:

	May 3, 2007(1)	March 31, 2007	December 31, 2006
		(in millions)	
Total revolver capacity	$ 950	$ 470	$ 470
Borrowings against revolver capacity	(275)		
Total additional letter of credit capacity	1,125	194	194
Outstanding letters of credit under revolving credit facility	(998)	(170)	(157)
Unused credit facility capacity	802	494	507
Cash	271(2)(3)	369(2)	371(2)
Total available liquidity	$ 1,073	$ 863	$ 878

(1) In April 2007, we amended and restated the credit facility. Please see Note 7 Debt Fifth Amended and Restated Credit Facility for further discussion. In April 2007, we completed the Merger Agreement and acquired revolver capacity of $100 million and additional letter of credit capacity of $737 million.

(2) The May 3, 2007, March 31, 2007 and December 31, 2006 amounts include approximately $41 million, $40 million and $46 million, respectively, of cash that remains in Europe and $11 million, $10 million and $10 million, respectively, of cash that remains in Canada.

(3) The decrease in cash balance since March 31, 2007 was primarily due to cash paid in connection with the Merger Agreement and interest payments of approximately $68 million.

Cash Flows from Operations. We had operating cash inflows of $44 million for the three months ended March 31, 2007. This consisted of $140 million in operating cash flows from our power generation business, offset by $6 million of cash outflows relating to our customer risk management business and $90 million of cash outflows relating to corporate-level expenses. Please read Results of Operations Operating Income and Results of Operations Cash Flow Disclosures for further discussion of factors impacting our operating cash flows for the periods presented.

Our future operating cash flows will vary based on a number of factors, many of which are beyond our control, including the price of natural gas and its correlation to power prices, the cost of coal and fuel oil and the value of ancillary services. Additionally, the availability of our plants during peak demand periods will be required to allow us to capture attractive market prices when available. Over the longer term, our operating cash flows also will be impacted by, among other things, our ability to tightly manage our operating costs, including maintenance costs. Our ability to achieve targeted cost savings in the face of industry-wide increases in labor and benefits costs, together with changes in commodity prices, will impact our future operating cash flows. Please read Results of Operations 2007 Outlook for further discussion.

Cash on Hand. At May 3, 2007 and March 31, 2007, we had cash on hand of $271 million and $369 million, respectively, as compared to $371 million at the end of 2006. The decrease in cash balance on May 3, 2007 from March 31, 2007 was primarily due to cash paid in connection with the Merger Agreement and interest payments on our debt of approximately $68 million.

Revolver Capacity. On April 2, 2007, we entered into the Fifth Amended and Restated Credit Facility which replaced our former Fourth Amended and Restated Credit Facility. Please read Note 12 Debt beginning on page F-36 of our Form 10-K for further discussion of our former Fourth Amended and Restated Credit Facility. This Fifth Amended and Restated Credit Facility is our primary credit facility. Please read Note 7 Debt Fifth Amended and Restated Credit Facility for further discussion.

External Liquidity Sources

Our primary external liquidity sources are proceeds from asset sales and other types of capital-raising transactions, including potential debt and equity issuances.

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Asset Sale Proceeds. On January 31, 2007, we entered into an agreement to sell our interest in the Calcasieu power generation facility to Entergy for approximately $57 million, subject to regulatory approval. The transaction is expected to close in early 2008. Please read Note 3 Discontinued Operations Calcasieu for further discussion.

Consistent with industry practice, we regularly evaluate our generation fleet based primarily on geographic location, fuel supply, market structure and market recovery expectations, and consider divestitures of non-core generation assets where the balance of these factors suggests that such assets earnings potential is limited or that the value that can be captured through a divestiture outweighs the benefits of continuing to own and operate such assets. In connection with this review, we are considering options to potentially sell our 614 MW Cogen Lyondell generation facility, our 576 MW Bluegrass generation facility and our 539 MW Heard County generation facility. Although no sale of one or all of these facilities can be guaranteed, market interest in assets of this type has been significant. Moreover, dispositions of one or more other generation facilities could occur in 2007 or beyond. Were any such sale or disposition to be consummated, the disposition could result in accounting charges related to the affected asset(s), and our earnings and cash flows could be affected in 2007 and beyond.

Capital-Raising Transactions. As part of our ongoing efforts to maintain a capital structure that is closely aligned with the cash-generating potential of our asset-based business, which is subject to cyclical changes in commodity prices, we will continuously explore additional sources of external liquidity both in the near- and long-term. The timing of any transaction may be impacted by events, such as strategic growth opportunities, legal judgments or regulatory requirements, which could require us to pursue additional capital in the near-term.

In particular, in connection with the recently completed acquisition of assets from LS Power, we are evaluating various opportunities to streamline our capital structure. These opportunities may include capital markets transactions. The receptiveness of the capital markets to an offering of debt or equity securities cannot be assured and may be negatively impacted by, among other things, our non-investment grade credit ratings, significant debt maturities, long-term business prospects and other factors beyond our control. Any issuance of equity likely would have other effects as well, including shareholder dilution. Our ability to issue equity securities is limited by restrictions contained in certain registration rights agreements. Further, our ability to issue debt securities is limited by our financing agreements, including our Fifth Amended and Restated Credit Facility. Please read Note 7 Debt for further discussion.

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

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

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RESULTS OF OPERATIONS

Overview. In this section, we discuss our results of operations, both on a consolidated basis and, where appropriate, by segment, for the three-month periods ended March 31, 2007 and 2006. At the end of this section, we have included our 2007 outlook for each segment.

We report the results of our power generation business as three separate segments in our unaudited condensed consolidated financial statements: (i) the Midwest segment (GEN-MW); (ii) the Northeast segment (GEN-NE); and (iii) the South segment (GEN-SO). We also separately report results of our CRM business, which primarily consists of our remaining power tolling arrangement as well as the physical gas supply contracts, gas transportation contracts and gas, power and emission trading positions that remain from the third-party trading business that was substantially exited in 2002. The Sithe toll is reported in GEN-NE and is an intercompany agreement. Our unaudited condensed consolidated financial results also reflect corporate-level expenses such as general and administrative, interest and depreciation and amortization.

Summary Financial Information. The following tables provide summary financial data regarding our consolidated and segmented results of operations for the three-month periods ended March 31, 2007 and 2006, respectively:

Quarter Ended March 31, 2007

	Power Generation				Other and	
	GEN-MW	GEN - NE	GEN-SO	CRM	Eliminations	Total
			(in millions)			
Revenues	$ 272	$ 224	$ 68	$ 9	$	$ 573
Cost of sales, exclusive of depreciation and amortization expense shown separately below	(130)	(176)	(68)	(11)	(1)	(386)
Depreciation and amortization expense	(42)	(6)	(5)		(3)	(56)
General and administrative expense					(53)	(53)
Operating income (loss)	$ 100	$ 42	$ (5)	$ (2)	$ (57)	$ 78
Other items, net					8	8
Interest expense						(67)
Income from continuing operations before income taxes						19
Income tax expense						(5)
Income from continuing operations						14
Income from discontinued operations, net of taxes						
Net income						$ 14

Quarter Ended March 31, 2006

	Power Generation GEN-MW	GEN NE	GEN-SO	CRM	Other and Eliminations	Total
	(in millions)					
Revenues	$ 256	$ 192	$ 111	$ 41	$	$ 600
Cost of sales, exclusive of depreciation and amortization expense shown separately below	(118)	(160)	(118)	(12)	(1)	(409)
Depreciation and amortization expense	(40)	(6)	(5)		(8)	(59)
General and administrative expense				(15)	(36)	(51)
Impairment and other charges					(2)	(2)
Operating income (loss)	$ 98	$ 26	$ (12)	$ 14	$ (47)	$ 79
Earnings from unconsolidated investments			2			2
Other items, net		2		1	17	20
Interest expense						(98)
Income from continuing operations before income taxes						3
Income tax expense						(3)
Income from continuing operations						
Income from discontinued operations, net of taxes						
Cumulative effect of change in accounting principle, net of taxes						1
Net income						$ 1

The following table provides summary segmented operating statistics for the three months ended March 31, 2007 and 2006, respectively:

	Quarter Ended March 31, 2007	2006
GEN-MW		
Million Megawatt Hours Generated (1)	5.7	5.4
Average Actual On-Peak Market Power Prices ($/MWh):		
Cinergy (Cin Hub)	$ 56	$ 49
Commonwealth Edison (NI Hub)	$ 54	$ 50
GEN-NE		
Million Megawatt Hours Generated	2.0	1.0
Average Actual On-Peak Market Power Prices ($/MWh):		
New York Zone G	$ 85	$ 76
New York Zone A	$ 63	$ 60
GEN-SO		
Million Megawatt Hours Generated (1)	0.8	1.1
Average Actual On-Peak Market Power Prices ($/MWh):		
Southern	$ 54	$ 55
ERCOT	$ 57	$ 56
Average natural gas price Henry Hub ($/MMBtu) (2)	$ 7.16	$ 7.75

(1) Includes our ownership percentage in the MWh generated by our GEN-SO investment in Black Mountain for the three months ended March 31, 2007 and includes the MWh generated by our GEN-SO investments in West Coast Power and Black Mountain and our GEN-MW investment in Rocky Road for the three months ended March 31, 2006.

(2) Calculated as the average of the daily gas prices for the period.

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The following table summarizes significant items on a pre-tax basis, affecting net loss for the periods presented.

	Quarter Ended March 31, 2007					
	Power Generation					
	GEN-MW	GEN-NE	GEN-SO	CRM	Other & Eliminations	Total
				(in millions)		
Legal and settlement charges	$	$	$	$	$ (17)	$ (17)
Total	$	$	$	$	$ (17)	$ (17)

	Quarter Ended March 31, 2006					
	Power Generation					
	GEN-MW	GEN-NE	GEN-SO	CRM	Other & Eliminations	Total
				(in millions)		
Legal and settlement charges	$	$	$	$ (15)	$	$ (15)
Total	$	$	$	$ (15)	$	$ (15)

Operating Income

Operating income was $95 million for the three months ended March 31, 2007, compared to $79 million for the three months ended March 31, 2006.

Power Generation Midwest Segment. Operating income for GEN-MW was $100 million for the three months ended March 31, 2007, compared to $98 million for the three months ended March 31, 2006.

Results for the three months ended March 31, 2007 improved by $23 million as a result of higher volumes, increased market prices, and improved pricing as a result of the Illinois reverse power procurement auction compared with the three months ended March 31, 2006. However, this improvement was largely offset by $14 million additional net mark-to market losses, a $5 million increase in operating expense, and $2 million of additional depreciation expense.

Generated volumes increased by 6%, up from 5.4 million MWh for the first quarter 2006 to 5.7 million MWh for the same period in 2007. Average actual on-peak prices in the NI Hub/ComEd pricing region increased from $50 per MWh in first quarter 2006 to $54 per MWh for the first quarter 2007.

Beginning January 1, 2007, we began operating under two new energy product supply agreements with subsidiaries of Ameren Corporation through our participation in the Illinois reverse power procurement auction in 2006. Under these new agreements, we provide up to 1,400 MWh around the clock for prices of approximately $65 per MWh.

GEN-MW s results for the first three months of 2007 include mark-to-market losses of $11 million related to forward sales, compared to $3 million of mark-to-market gains for the first three months of 2006. At March 31, 2007, market prices have risen from our original strike prices. Included in the mark-to-market losses of $11 million is a $3 million charge related to hedge ineffectiveness, as price movements at our facilities delivery points were not sufficiently correlated with price movements at the Cinergy hub.

Operating expense increased $5 million for the three months ended March 31, 2007 compared with the same period 2006, largely as a result of the timing of maintenance projects and our 2006 acquisition of NRG s 50% ownership interest in Rocky Road Power LLC.

Depreciation expense increased from $40 million in 2006 to $42 million in 2007 as a result of capital projects placed into service in 2006. This was primarily due to major maintenance projects completed at our Baldwin and Havana facilities in 2006.

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Power Generation Northeast Segment. Operating income for GEN-NE increased significantly to $42 million for the three months ended March 31, 2007, compared to $26 million for the three months ended March 31, 2006.

On peak market prices in New York Zone G and Zone A increased by 12% and 5%, respectively. Spark spreads widened due to higher power prices coupled with lower fuel costs. In addition, cooler weather led to greater run times than the prior year.

Results for our Roseton and Danskammer facilities increased by $13 million to $32 million for the first quarter 2007 compared to $19 million for the first quarter 2006, or 68% period over period, as a result of higher generation volumes due to colder weather, higher on-peak power prices and lower average fuel costs. Generated volumes increased approximately 97% to 1.4 million MWh for the first quarter 2007 compared to 0.7 million MWh for the first quarter 2006. Average on-peak prices for Zone G, the market served by these two facilities, increased 12% from $76 per MWh in 2006 to $85 per MWh in 2007. In the three months ended March 31, 2006, Roseton and Danskammer results were favorably impacted by $10 million by an opportunistic sale of emissions credits that were not required for near-term operations of our facilities. This sale was not repeated in the three months ended March 31, 2007 as the facilities experienced greater run-time.

Independence contributed results of $16 million for the first quarter 2007, compared with $12 million for the first quarter 2006. Generated volumes increased 133% to 0.7 million MWh for the first quarter 2007 compared to 0.3 million MWh for the first quarter of 2006, primarily the result of colder weather period over period.

A net mark-to-market loss of $2 million is included in the results discussed above for the first quarter 2007, related to financial transactions not designated as cash flow hedges. First quarter 2006 results included no significant mark-to-market losses.

Depreciation expense for GEN-NE was $6 million for the three months ended March 31, 2007 and 2006.

Power Generation South Segment. Operating loss for GEN-SO was $5 million for the three months ended March 31, 2007, compared to a loss of $12 million for the three months ended March 31, 2006.

Results from our ERCOT facility increased by $9 million, from a loss of $10 million for the three months ended March 31, 2006 to a loss of $1 million for the three months ended March 31, 2007. Results for the three-month period ended March 31, 2006 were significantly negatively impacted by higher natural gas prices on an electricity and steam contract at our CoGen Lyondell cogeneration facility. We entered into a new 15-year agreement with our customer, Lyondell, effective January 1, 2007. This new contract provides full cost recovery and a market-based margin. Additionally, on peak power prices increased from $56 in 2006 to $57 in 2007.

Our southeast peaker assets contributed $1 million to results for the three months ended March 31, 2006 and 2007. Southeast peaker results are primarily the result of capacity sales from our Heard County facility in 2007 and Rockingham and Heard County facilities in 2006.

Depreciation expense was $5 million for both the periods ended March 31, 2007 and 2006.

CRM. Operating loss for the CRM business was $2 million for the three months ended March 31, 2007, compared to operating income of $14 million for the three months ended March 31, 2006. CRM results for the three months ended March 31, 2007 were primarily from the roll off of legacy power, gas and emissions positions. Income for 2006 was driven primarily by mark-to-market gains on our legacy emissions positions, partially offset by a $15 million increase in legal reserves resulting from additional activities during the period that negatively affected management s assessment of the probable and estimable losses associated with the applicable proceedings.

Other. Other operating loss was $57 million for the quarter ended March 31, 2007, compared to a loss of $47 million for the quarter ended March 31, 2006. The increased operating loss is primarily the result of a $17 million legal reserve offset partially by a decrease in depreciation expense for 2007. General and administrative expense increased to $53 million for the three months ended March 31, 2007 from $36 million for 2006 as a result of the legal charge.

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Earnings from Unconsolidated Investments

For the three months ended March 31, 2007 and 2006, results of zero and $2 million primarily relate to the GEN-SO investment in Black Mountain.

Other Items, Net

Other items, net totaled $8 million of income for the three months ended March 31, 2007, compared to $20 million of income for the three months ended March 31, 2006. The decrease is primarily associated with lower interest income from lower cash balances in 2007.

Interest Expense

Interest expense totaled $67 million for the three months ended March 31, 2007, compared to $98 million for the three months ended March 31, 2006. The decrease is primarily attributable to lower principal amounts outstanding as a result of our 2006 liability management program.

Income Tax Expense

We reported an income tax expense from continuing operations of $5 million for the three months ended March 31, 2007, compared to an income tax expense from continuing operations of $3 million for the three months ended March 31, 2006. The 2007 effective tax rate was 26%, compared to 100% in 2006. Our overall effective tax rate on continuing operations was different than the statutory rate of 35% due primarily to state income taxes and adjustments to our reserve for uncertain tax positions in 2007 and due primarily to a reduction of AMT credits due to the settlement of prior year tax audits and state income taxes in 2006.

Discontinued Operations

Income From Discontinued Operations Before Taxes. Discontinued operations include our Calcasieu generating facility in our GEN-SO segment, DMSLP in our former NGL segment and our U.K. CRM business in the CRM segment. During the three months ended March 31, 2007, we recorded no significant income from discontinued operations. During the three months ended March 31, 2006, pre-tax income from discontinued operations of $1 million (zero after-tax) included $1 million in pre-tax income attributable to NGL.

Income Tax Expense From Discontinued Operations. We recorded an income tax expense from discontinued operations of less than $1 million during the three months ended March 31, 2007, compared to an income tax expense from discontinued operations of $1 million during the three months ended March 31, 2006. These amounts reflect effective rates of zero and 100%, respectively. FIN No. 18, Accounting for Income Taxes in Interim Periods an interpretation of APB Opinion No. 28 (FIN No. 18), prescribes a detailed methodology of allocating income taxes between continuing and discontinued operations. This methodology often results in an effective rate for discontinued operations significantly different from the statutory rate of 35%.

2007 Outlook

Our recently completed combination with LS Power represents the transition from our previous era of self-restructuring to a period of expanded, more diverse operations that provides greater scale and scope in our key markets and stronger positioning for future growth opportunities. As a result of the combination, our generation portfolio is diversified by dispatch type, fuel source and geographic location. Our operating fleet consists of 29 owned or leased power generation facilities, with approximately 19,500 MW of generating capacity, operating in 13 states (excluding the 351 MW Calcasieu facility). We are considering the potential sale of three of these facilities: our 614 MW CoGen Lyondell generation facility, our 576 MW Bluegrass generation facility and our 539 MW Heard County generation facility.

In addition to our operating generation facilities, we own an approximate 40% undivided interest in Plum Point, a new, 665 MW coal-fired plant under construction in Arkansas. Through our interest in DLS Power Holdings and DLS Power Development, we also own a 50% interest in a portfolio of greenfield development

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projects totaling more than 7,600 MW of generating capacity and repowering and/or expansion opportunities, representing approximately 2,500 MW of generating capacity, thus providing us with meaningful organic growth prospects.

The majority of our generating facilities are located in areas served by Independent System Operators (ISOs) including the Midwest Independent System Operator (MISO), PJM Interconnection Association (PJM), the California Independent System Operator (CAISO), the Energy Reliability Council of Texas (ERCOT), the New York Independent System Operator (NYISO) and the New England Independent System Operator (ISO-NE). Certain of our facilities are in areas which are not served by ISOs or regional transmission organizations (RTOs). These include our Arizona facilities which are in the Rocky Mountain/Desert Southwest region of the Western Electricity Coordinating Council (WECC), and our Calcasieu, Heard and Bluegrass facilities that are located in the Entergy, Southern and TVA sub regions, respectively, of the Southeastern Electric Reliability Council (SERC).

Including volumes committed under the contracts resulting from the Illinois resource procurement auction and power and steam delivery commitments from our Independence and ERCOT facilities, a substantial portion of the output from our fleet of power generation facilities is contracted for the balance of 2007, or will be subject to reliability-must-run (RMR) arrangements. The remaining output from our facilities is available for other forward sales opportunities to capture attractive market prices when they are available. To the extent that we choose not to enter into forward sales, the gross margin from our assets is a function of price movements in the coal, natural gas, fuel oil and power commodity markets.

Generally, we expect that our future financial results will continue to reflect sensitivity to fuel and emissions commodity prices, market structure and prices for electric energy, ancillary services and capacity, transportation and transmission logistics, weather conditions and in-market asset availability (IMA). Our commercial team actively manages commodity price risk associated with our unsold power production by entering into forward sales typically for terms of six to twelve months. To the extent we do not choose to forward sell energy from our generation fleet, changes in commodity prices will affect our earnings based on the direction and significance of the commodity price movement.

Our results will also continue to be impacted by environmental regulations and their impact on our financial condition and results of operations. In addition to RGGI, various state and federal programs have been initiated or are being discussed. It is difficult to predict with certainty the precise outcome of these various initiatives and discussions or the resulting impact on our results of operations and financial condition. If some or all of the initiatives are adopted and implemented, Dynegy and similarly situated power generators could incur additional costs to develop, construct and operate power generation facilities, with the magnitude of any such cost increases to be influenced by, among other things:

- the structure and scope of final rules and regulations;
- the ability to recover any associated increases in operating and/or capital costs;
- the demonstration of carbon sequestration and capture technologies and any associated costs; and
- the risk of litigation and related adversary proceedings, particularly with respect to development projects and associated permitting activities.

The following summarizes our outlook for our power generation business by reportable segment.

GEN- MW. We expect our results to continue to be impacted by power prices, fuel prices, fuel availability and unit availability.

In 2007, GEN-MW results will be affected by the delivery obligations resulting from our participation in the Illinois resource procurement auction. The power commodity price under the auction-related agreements is higher than existed under our previous contract. The price Dynegy will receive under the auction contract in 2007 is approximately $65/MWh. Under the auction contract, Dynegy assumes increased costs and penalty risks associated with managing delivered power volumes. The price received by Dynegy under the previous contract averaged

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approximately $42/MWh in 2006, and was a function of the amount of power called on by IP under the previous contract. We anticipate that the revenues generated by our Midwest facilities will continue to benefit in 2007 from the implementation of contracts resulting from the auction and the sale of additional volumes into the MISO wholesale markets at prevailing market prices.

Another factor impacting our results in the Midwest in 2007 will be the regulatory environment in Illinois. Within the Illinois political arena, there continue to be challenges to the auction process. There is a possibility of political, legislative, judicial and/or regulatory actions over the next several months that could alter the auction results substantially. Please read Note 10 Regulatory Issues Illinois Resource Procurement Auction for further discussion.

In 2005, DMG entered into a comprehensive, Midwest system-wide settlement with the EPA and other parties, resolving the environmental litigation related to our Baldwin Energy Complex in Illinois. The settlement involves substantial emission reductions from our Illinois coal-fired power plants and the completion of several supplemental environmental projects in the Midwest. Through March 31, 2007, DMG had achieved all of the emission reductions scheduled to date and was developing plans to install additional emission control equipment to meet future, more stringent emission limits. DMG is in the process of constructing a mercury control project at the Vermilion Power Station that is scheduled for operation by June 30, 2007. Our estimated costs associated with the consent decree projects, which we expect to incur through 2012, are approximately $775 million. This reflects a $100 million increase over our previous estimate of $675 million largely driven by higher costs and increased quantities of materials.

Through 2010, 97% of our Midwest coal requirements are contracted. Additionally, 98% of our coal requirements for 2007 and 2008 are contracted at a fixed price. Our longer term results are sensitive to changes in coal prices to the extent that our current fixed price arrangements expire or are adjusted through contract re-openers or related provisions.

Our results will continue to be affected by IMA. We use IMA to monitor fleet performance over time. This measure quantifies the percentage of generation for each of our 14 major steam units that were available when market prices were favorable for participation. Through our focus on safe and efficient operations, we seek to maximize our IMA and, as a result, our revenue generating opportunities. The IMA for our coal-fired fleet for the three months ended March 31, 2007 was approximately 91%, compared to 86% for the comparable period of 2006. (In 2007, we modified the way we calculate IMA to better reflect the capabilities of the units due to seasonal variations. These changes had minimal effects on the year over year comparison in the first quarter, but could have more pronounced effects as the summer season approaches.) We attempt to schedule maintenance and repair work to minimize downtime during peak demand periods, but only to the extent doing so does not compromise a safe working environment for our employees and contractors.

In connection with the Merger discussed in Note 2 LS Power Business Combination, we acquired assets in Illinois and Pennsylvania. These assets include the 1,200 MW Kendall natural gas-fired facility in Minooka, IL and the 580 MW Ontelaunee natural gas-fired facility in Ontelaunee township, PA. With respect to the Kendall facility, 275 MW of the facility s capacity is committed to a subsidiary of Constellation Energy (Constellation) under a power purchase agreement that extends through 2017. An additional 550 MW of capacity is committed under another agreement with Constellation, which extends through November 2008. These power purchase agreements provide us with predictable contracted revenues, and mitigate the effects of fluctuating market prices for electricity.

The Ontelaunee facility sells its energy, capacity and other ancillary services to wholesale electricity customers directly on the spot market. However, exposure to the market prices of energy has been hedged under a call-option agreement.

Our 576 MW Bluegrass generation facility is being considered for a potential sale. Please read Asset Sale Proceeds for further discussion.

GEN-NE. We expect our results to continue to be impacted by power prices, fuel prices, fuel availability and unit availability. Spreads between power and fuel costs are expected to remain volatile as fuel prices change based on demand and weather. This volatility has significant impact on the run-time for the Roseton unit. All of our coal supply requirements for 2007 are contracted at a fixed price. We continue to maintain sufficient coal and oil inventories and contractual commitments to provide us with a stable fuel supply.

Additionally, our results could be affected by potential changes in New York state environmental regulations, as well as our ability to obtain permits necessary for the operation of our facilities. Please see Note 9 Commitments and Contingencies Danskammer State Pollutant Discharge Elimination System Permit and Note 9 Commitments and Contingencies Roseton State Pollutant Discharge Elimination System Permit, respectively, for further discussion.

In connection with the Merger discussed in Note 2 LS Power Business Combination, we acquired assets in Connecticut and Maine. These assets include the 527 MW Bridgeport natural gas-fired facility in Bridgeport, CT and the 540 MW Casco Bay natural gas-fired facility in Veazie, ME.

The prior owners of the Bridgeport power plant initiated proceedings before the FERC to obtain an RMR agreement with ISO-NE, under which Bridgeport would receive cost-of-service rates from ISO-NE in exchange for selling all of its energy into ISO-NE. The proposed Bridgeport RMR agreement would be in effect commencing on June 1, 2005, and, unless earlier terminated, ending on the earlier of May 31, 2010, or the implementation of ISO-NE s Forward Capacity Market. Bridgeport has been operating pursuant to the terms of the Bridgeport RMR agreement subject to the outcome of ongoing proceedings before the FERC to resolve the question of whether Bridgeport is eligible for an RMR agreement. We estimate the range of potential refund for the period from contract inception through March 2007 would be between approximately $10 million and $29 million, in the event Bridgeport fails to establish eligibility for an RMR.

Effective April 2, 2007, we issued termination notices to General Electric (GE) for LTSA contracts for the Casco Bay, Arlington Valley and Moss Landing facilities. The parties have been addressing issues relating to the termination of the LTSAs, and have entered into a Standstill and Tolling Agreement dated April 16, 2007 which tolls the effective date of the LTSA termination notices, and all related issues between the parties regarding the LTSAs. The parties are currently negotiating new arrangements during this standstill period, which would resolve all issues between the parties related to the LTSAs. If no new arrangements are agreed to, we will seek other parties to provide the services currently covered by the LTSAs and will actively address any other issues that arise in connection with the terminations.

GEN-SO. Our results at the CoGen Lyondell facility will be affected by our contract with Lyondell Chemical Company (Lyondell) which became effective on January 1, 2007. Under this contract, we sell up to approximately 80 MW of energy and 1.5 million pounds per hour of steam from our CoGen Lyondell cogeneration facility to Lyondell for an initial term from January 2007 through December 2021 and subsequent automatic rollover terms of two years each thereafter through December 2046.

Our peaking facilities in the South continue to contribute revenue from sales of capacity mainly to local load-serving entities or wholesale buyers. We currently have the majority of the portfolio capacity committed in the near-term, and a portion of our portfolio capacity committed on an annual basis through 2015.

Our 614 MW CoGen Lyondell and our 539 MW Heard County generation facilities are being considered for a potential sale. Please read Asset Sale Proceeds for further discussion.

In connection with the Merger discussed in Note 2 LS Power Business Combination, we acquired a portfolio of assets in California and Arizona. These assets include six facilities located in California (Moss Landing, Morro Bay, South Bay and Oakland) and Arizona (Arlington Valley and Griffith), with a total capacity of 5,545 MW. Moss Landing, Morro Bay, Oakland and Griffith are subject to certain power purchase agreements under which the buyer pays the power generation facility a fixed monthly payment for the right to call energy, capacity and ancillary services from the power generation facility. The South Bay and Oakland facilities operate under RMR agreements with the CAISO.

Moss Landing, Arlington Valley and Griffith sell energy, capacity and/or other ancillary services to wholesale electricity customers directly in the spot market. Several financially-settled heat rate call-option agreements are in effect that mitigate the exposure of these facilities to changes in the market price of energy.

Subsequent to completion of the Merger, these assets will be included in our GEN-SO business segment, which we will rename as our power generation business West segment, or GEN-WE.

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Cash Flow Disclosures

The following table includes data from the operating section of our unaudited condensed consolidated statements of cash flows and include cash flows from our discontinued operations, which are disclosed on a net basis in discontinued operations, net of tax, in our unaudited condensed consolidated statements of operations:

	Quarters Ended March 31, 2007	2006
	(in millions)	
Operating cash flows from our generation business	$ 140	$ 192
Operating cash flows from our customer risk management business	(6)	(368)
Other operating cash flows	(90)	(135)
Net cash provided by (used in) operating activities	$ 44	$ (311)

Operating Cash Flow. Our cash flow provided by operations totaled $44 million for the quarter ended March 31, 2007. During the quarter, our power generation business provided positive cash flow from operations of $140 million due to positive earnings for the period. Our customer risk management business used approximately $6 million in cash. Other and Eliminations includes a net use of approximately $90 million in cash primarily due to interest payments to service debt and general and administrative expenses.

Our cash flow used in operations totaled $311 million for the quarter ended March 31, 2006. During the quarter, our power generation business provided positive cash flow from operations of $192 million due to positive earnings for the period and changes in working capital primarily due to return of collateral. Our customer risk management business used approximately $368 million in cash primarily due to a $370 million termination payment on our Sterlington tolling contract, offset by other changes in working capital. Other and Eliminations includes a use of approximately $135 million in cash primarily due to interest payments to service debt and general and administrative expenses, partially offset by interest income on cash balances and the receipt of approximately $20 million associated with the resolution of a legal dispute.

Capital Expenditures and Investing Activities. Cash used in investing activities during the quarter ended March 31, 2007 totaled $26 million. Capital spending of $34 million was primarily comprised of $23 million, $3 million, and $5 million in the GEN-MW, GEN-NE, and GEN-SO segments, respectively. The capital spending for the GEN-MW and GEN-SO segments primarily related to maintenance and environmental capital projects. Capital spending in our GEN-NE segment primarily related to maintenance. The remainder of our first quarter capital spending related to corporate information technology projects. Cash outflows associated with capital spending were partly offset by a $9 million decrease in the Independence restricted cash balance.

Cash provided by investing activities during the quarter ended March 31, 2006 totaled $469 million. Capital spending of $18 million was primarily comprised of $11 million, $3 million, and $3 million in the GEN-MW, GEN-NE, and GEN-SO segments, respectively. The capital spending for the GEN-MW segment primarily related to maintenance capital projects, as well as $1 million in development capital associated with the completion of the Vermilion PRB conversion. Capital spending in our GEN-NE and GEN-SO segments primarily related to maintenance and environmental projects. The cost to acquire NRG s 50% ownership interest in Rocky Road, net of cash proceeds, totaled $40 million. The decrease in restricted cash of $322 million related primarily to the return of our $335 million deposit associated with our former cash collateralized facility, offset by a $13 million increase in the Independence restricted cash balance. Net cash proceeds from asset sales of $205 million was due to the sale of our 50% ownership interest in West Coast Power to NRG.

Financing Activities. Cash used in financing activities during the quarter ended March 31, 2007 totaled $20 million, resulting primarily from a principal payment on the Sithe Energies debt.

Cash used in financing activities during the quarter ended March 31, 2006 totaled $16 million, primarily due to a semi-annual dividend payment of $11 million on our then-outstanding Series C convertible preferred stock.

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RISK-MANAGEMENT DISCLOSURES

The following table provides a reconciliation of the risk-management data on the unaudited condensed consolidated balance sheets:

	As of and for the Quarter Ended March 31, 2007 (in millions)
Balance Sheet Risk-Management Accounts	
Fair value of portfolio at January 1, 2007	$ 53
Risk-management losses recognized through the income statement in the period, net	(16)
Cash received related to risk-management contracts settled in the period, net	(9)
Changes in fair value as a result of a change in valuation technique (1)	
Non-cash adjustments and other (2)	(91)
Fair value of portfolio at March 31, 2007	$ (63)

(1) Our modeling methodology has been consistently applied.
(2) This amount consists of changes in value associated with cash flow hedges on forward power sales and fair value hedges on debt.

The net risk management liability of $63 million is the aggregate of the following line items on our condensed consolidated balance sheets: Current Assets Assets from risk-management activities, Other Assets Assets from risk-management activities, Current Liabilities Liabilities from risk-management activities and Other Liabilities Liabilities from risk-management activities.

Risk-Management Asset and Liability Disclosures. The following tables depict the mark-to-market value and cash flow components of our net risk-management assets and liabilities at March 31, 2007 and December 31, 2006. As opportunities arise to monetize positions that we believe will result in an economic benefit to us, we may receive or pay cash in periods other than those depicted below:

Mark-to-Market Value of Net Risk-Management Assets (1)

	Total	2007(3)	2008	2009	2010	2011	Thereafter
	(in millions)						
March 31, 2007 (2)	$ (41)	$ (37)	$ (9)	$	$	$ 1	$ 4
December 31, 2006 (2)	(44)	(45)	(3)			1	3
(Increase) decrease	$ 3	$ 8	$ (6)	$	$	$	$ 1

(1) The table reflects the fair value of our risk-management asset position, which considers time value, credit, price and other reserves necessary to determine fair value. These amounts exclude the fair value associated with certain derivative instruments designated as hedges. The net risk-management liabilities at March 31, 2007 of $63 million on the unaudited condensed consolidated balance sheets include the $41 million herein as well as hedging instruments. Cash flows have been segregated between periods based on the delivery date required in the individual contracts.
(2) Our mark-to-market values at March 31, 2007 and December 31, 2006 were derived solely from market quotations.
(3) Amounts represent April 1 to December 31, 2007 values in the March 31, 2007 row and January 1 to December 31, 2007 values in the December 31, 2006 row.

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Cash Flow Components of Net Risk-Management Asset

	Three Months Ended March 31, 2007	Nine Months Ended December 31, 2007	Total 2007	2008	2009	2010	2011	Thereafter
				(in millions)				
March 31, 2007 (1)	$ 14	$ (37)	$ (23)	$ (9)	$	$	$ 1	$ 6
December 31, 2006			(45)	(4)			1	5
(Increase) decrease			$ 22	$ (5)	$	$	$	$ 1

(1) The cash flow values for 2007 reflect realized cash flows for the three months ended March 31, 2007 and anticipated undiscounted cash inflows and outflows by contract based on the tenor of individual contract position for the remaining periods. These anticipated undiscounted cash flows have not been adjusted for counterparty credit or other reserves. These amounts exclude the cash flows associated with certain derivative instruments designated as hedges.

Accounting rules give us the option to designate derivative transactions that meet certain criteria as cash flow hedges. We enter into commodity transactions, including swaps, options and futures, which meet the criteria to be designated as cash flow hedges. Historically, we designated such transactions as cash flow hedges, and changes in value of these transactions were deferred until the underlying transaction being hedged came to term. Beginning on April 2, 2007, we chose to cease designating the transactions as cash flow hedges, and thus apply mark-to-market accounting treatment prospectively. This creates consistent accounting methodologies between our existing commodity derivative transactions and those we assumed upon completion of the Merger. Therefore, beginning with the second quarter 2007, such transactions will no longer be designated as cash flow hedges. Instead, these transactions will receive mark-to-market accounting treatment. Accordingly, as values fluctuate due to market price volatility, value changes will be reflected on the income statement. This change in accounting has no impact on our current commercial strategy.

UNCERTAINTY OF FORWARD-LOOKING STATEMENTS AND INFORMATION

This Form 10-Q includes statements reflecting assumptions, expectations, projections, intentions or beliefs about future events that are intended as forward-looking statements . All statements included or incorporated by reference in this quarterly report, other than statements of historical fact, that address activities, events or developments that we or our management expect, believe or anticipate will or may occur in the future are forward-looking statements. These statements represent our reasonable judgment on the future based on various factors and using numerous assumptions and are subject to known and unknown risks, uncertainties and other factors that could cause our actual results and financial position to differ materially from those contemplated by the statements. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as anticipate, estimate , project , forecast , plan , may , will , should , expect words of similar meaning. In particular, these include, but are not limited to, statements relating to the following:

anticipated benefits and expected synergies resulting from the completion of the Merger Agreement and related transactions with the LS Contributing Entities and beliefs associated with the integration of operations of the various entities;

projected operating or financial results, including anticipated cash flows from operations, revenues and profitability;

expectations regarding capital expenditures, interest expense and other payments;

beliefs and assumptions about economic conditions and the demand and prices for electricity;

beliefs about commodity pricing and generation volumes;

our focus on safety and our ability to efficiently operate our assets so as to maximize our revenue generating opportunities;

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- strategies to capture opportunities presented by rising commodity prices and strategies to manage our exposure to energy price volatility;
- plans to achieve fuel-related, general and administrative, and other targeted cost savings;
- beliefs and assumptions relating to liquidity, including the ability to satisfy or refinance debt maturities and other obligations before or as they come due;
- strategies to address our substantial leverage, to access the capital markets, or to obtain additional financing on more favorable financing terms;
- measures to compete effectively with industry participants;
- beliefs and assumptions about market competition, fuel supply, power demand, generation capacity and regional supply and demand characteristics of the wholesale power generation market;
- sufficiency of coal, fuel oil and natural gas inventories and transportation, including strategies to deploy coal supplies;
- beliefs about the outcome of legal, regulatory and administrative matters;
- expectations regarding environmental matters, including costs of compliance, availability and adequacy of emission credits, and the impact of ongoing proceedings and potential regulations;
- expectations and estimates regarding the DMG consent decree and the associated costs; and
- efforts to position our power generation business for future growth and pursuing and executing acquisition, disposition or combination opportunities.

Any or all of our forward-looking statements may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks, uncertainties and other factors, many of which are beyond our control, including those set forth under Part II Other Information, Item 1A-Risk Factors.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 1 to the unaudited condensed consolidated financial statements for a discussion of recently issued accounting pronouncements affecting us.

CRITICAL ACCOUNTING POLICIES

Please read Critical Accounting Policies beginning on page 74 of our Form 10-K for a complete description of our critical accounting policies, with respect to which there have been no material changes since the filing of our Form 10-K.

Item 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Please read Item 7A. Quantitative and Qualitative Disclosures About Market Risk beginning on page 81 of our Form 10-K for a discussion of our exposure to commodity price variability and other markets risks, including foreign currency exchange rate risk. Following is a discussion of the more material of these risks and our relative exposures as of March 31, 2007.

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Value at Risk (VaR). The following table sets forth the aggregate daily VaR of the mark-to-market portion of Dynegy s risk-management portfolio primarily associated with the GEN segments and the CRM business.

Daily and Average VaR for Risk-Management Portfolios

	March 31, 2007	December 31, 2006
	(in millions)	
One Day VaR 95% Confidence Level	$ 1	$ 1
One Day VaR 99% Confidence Level	$ 2	$ 1
Average VaR for the Year-to-Date Period 95% Confidence Level	$ 1	$ 3

As a result of our decision to mark-to-market all commodity related derivative securities, we expect that our reported VaR amounts will increase in future periods. In many cases, future production from our generating assets offsets the incremental VaR exposure.

Credit Risk. The following table represents our credit exposure at March 31, 2007 associated with the mark-to-market portion of our risk-management portfolio, on a net basis.

Credit Exposure Summary

	Investment Grade Quality (in millions)
Type of Business:	
Financial Institutions	$ 51
Utility and Power Generators	15
Other	1
Total	$ 67

Interest Rate Risk. We are exposed to fluctuating interest rates related to variable rate financial obligations. As of March 31, 2007, our fixed rate debt instruments as a percentage of total debt instruments was approximately 78%. Based on sensitivity analysis of the variable rate financial obligations in our debt portfolio as of March 31, 2007, it is estimated that a one percentage point interest rate movement in the average market interest rates (either higher or lower) over the 12 months ended March 31, 2008 would either decrease or increase income before taxes by approximately $7 million. Hedging instruments that impact such interest rate exposure are included in the sensitivity analysis. Over time, we may seek to reduce the percentage of fixed rate financial obligations in our debt portfolio through the use of swaps or other financial instruments. Effective April 2, 2007, we assumed additional debt due to the completion of the Merger Agreement.

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Derivative Contracts. The notional financial contract amounts associated with our commodity risk-management, interest rate and foreign currency exchange contracts were as follows at March 31, 2007 and December 31, 2006, respectively:

Absolute Notional Contract Amounts

	March 31, 2007	December 31, 2006
Natural Gas (Trillion Cubic Feet)	0.238	0.309
Electricity (Million Megawatt Hours)	148.083	138.705
Emission Credits (Million Tons) (1)	0.0155	0.0155
Fuel Oil (Million Barrels)	1.635	1.620
Value Hedge Interest Rate Swaps (In Millions of U.S. Dollars)	$ 525	$ 525
Fixed Interest Rate Received on Swaps (%)	4.331	4.331
Rate Risk-Management Contract (In Millions of U.S. Dollars)	$ 231	$ 231
Fixed Interest Rate Paid (%)	5.35	5.35
Interest Rate Risk-Management Contract (In Millions of U.S. Dollars)	$ 206	$ 206
Fixed Interest Rate Received (%)	5.28	5.28

(1) These amounts represent emission credit contracts that we are required to account for as derivatives under SFAS No. 133. These amounts do not include the emission credits that we have recorded in our inventory related to allowances that we utilize in running our power generation fleet.

Item 4 CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). This evaluation included consideration of the various processes carried out under the direction of our disclosure committee in an effort to ensure that information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified by the SEC. This evaluation also considered the work completed as of the end of the first quarter 2007 relating to our compliance with Section 404 of the Sarbanes-Oxley Act of 2002. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2007.

Changes in Internal Controls Over Financial Reporting

There were no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting during the first quarter of 2007.

DYNEGY INC.

PART II. OTHER INFORMATION

Item 1 LEGAL PROCEEDINGS

See Note 9 Commitments and Contingencies to the accompanying unaudited condensed consolidated financial statements for discussion of the material legal proceedings to which we are a party.

Item 1A RISK FACTORS

Additional Risks Related to our Business

Covenants in our financing agreements impose significant restrictions on us. Failure to comply with these covenants may have a material adverse impact on our business, financial condition, results of operations or cash flows.

Financing agreements governing our debt obligations require us to meet specific financial tests in order to issue debt and make restricted payments, among other things. Our ability to comply with the covenants in our financing agreements, as they currently exist or as they may be amended, may be affected by many events beyond our control, and our future operating results may not allow us to comply with the covenants or, in the event of a default, to remedy that default. Our failure to comply with those financial covenants or to comply with the other restrictions in our financing agreements could result in a default, causing our debt obligations under such financing agreements (and by reason of cross-default or cross-acceleration provisions, our other indebtedness) to become immediately due and payable, which could have a material adverse impact on our business, financial condition, results of operations or cash flows. If we are unable to repay those amounts or to otherwise cure the default, the holders of the indebtedness under our secured debt obligations could proceed against the collateral granted to them to secure that indebtedness. If those lenders accelerate the payment of such indebtedness, we cannot assure you that we could pay or refinance that indebtedness immediately and continue to operate our business.

We may not have adequate liquidity to post required amounts of additional collateral.

We use a portion of our capital resources, in the form of cash and letters of credit, to satisfy counterparty collateral demands. These counterparty collateral demands reflect our non-investment grade credit ratings and the counterparties views of our creditworthiness, as well as changes in commodity prices. If commodity prices change substantially, our liquidity could be severely strained by requirements under our commodity agreements to post additional collateral. In certain cases, our counterparties have elected to not require the posting of collateral to which they are otherwise entitled under those agreements. However, those counterparties retain the right to request the posting of such collateral. Factors that could trigger increased demands for collateral include additional adverse changes in our industry, negative regulatory or litigation developments, adverse events affecting us, changes in our credit rating or liquidity and changes in commodity prices for power and fuel. In addition, to the extent we do hedge against volatility in commodity prices and, as a result, our cash flow is less than anticipated, a source of our liquidity resources may be depleted. An increase in demands from our counterparties to post letters of credit or cash collateral may have a material adverse effect on our financial condition, results of operations and cash flows.

Plum Point, which is currently under construction, may not be completed, and the construction of other development projects in which we have an ownership interest via DLS Power Holdings and DLS Power Development may never be initiated or completed.

Pursuant to the Merger Agreement, we acquired all of the LS Power Group s ownership interest in Plum Point, which is currently in the construction phase, with an expected completion date in 2010. We also acquired a 50% ownership interest in DLS Power Holdings and DLS Power Development, which owns the various greenfield projects and expansion and replacement projects contributed to DLS Power Holdings and DLS Power Development by us and the LS Power Group; additional development projects will be contributed to DLS Power Holdings and DLS Power Development from time to time by us and the LS Power Group.

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As a result of economic and other conditions, Plum Point may not be completed, and the development projects may not be pursued or completed, and higher costs than those that are anticipated may be incurred with respect to any of the projects. These projects also generally require various governmental and other approvals, which may not be received. Our inability to complete the Plum Point project, or DLS Power Holdings and DLS Power Development s inability to complete a development project on time or within budget, may adversely affect our financial condition, results of operations and cash flows.

In addition, the development and construction of power generation facilities may be adversely affected by one or more factors commonly associated with large infrastructure projects, including, but not limited to, changes in the forecasted financial viability of new-build generation in a region, shortages of equipment, materials and labor, delays in delivery of equipment and materials, labor disputes, litigation, failure to obtain necessary governmental and regulatory approvals and permits, adverse weather conditions, unanticipated increases in costs, natural disasters, accidents, local and political opposition, unforeseen engineering, design, environmental or geological problems and other unforeseen events or circumstances. Any one of these events could result in delays in, or even the abandonment of, the development of the affected power generation facility. Such events may also result in cost overruns, payments under committed contracts associated with the affected project, and/or the write-off of equity investment in the project. Any such development may materially and adversely affect our financial condition, results of operations and cash flows.

The future operation and performance of the various development projects owned by DLS Power Holdings and DLS Power Development, if completed, are subject to a wide variety of factors and cannot be predicted with certainty at this time.

If a development project is successfully completed by DLS Power Holdings and DLS Power Development, the operation and performance of the completed facility could be affected by many factors, including start-up problems, the breakdown or failure of equipment or processes, the performance of the completed facility below expected levels of output or efficiency, failure to operate at design specifications, labor disputes, changes in law, failure to obtain necessary permits or to meet permit conditions, government exercise of eminent domain power or similar events and catastrophic events including fires, explosions, earthquakes and droughts. The occurrence of such events could significantly reduce or eliminate the revenues from, or significantly increase the expenses associated with, any such completed facility and, as a result, negatively impact our financial condition, results of operations and cash flows.

If we issue a material amount of our common stock in the future or certain of our stockholders, such as Chevron or any of the LS Contributing Entities or their affiliates, sell a material amount of our common stock, our ability to use our federal net operating losses to offset our future taxable income may be limited under Section 382 of the Internal Revenue Code.

Our ability to utilize previously incurred federal net operating losses (NOLs) to offset our future taxable income would be limited if we were to undergo an ownership change within the meaning of Section 382 of the Code. In general, an ownership change occurs whenever the percentage of the stock of a corporation owned by 5-percent shareholders (within the meaning of Section 382 of the Code) increases by more than 50 percentage points over the lowest percentage of the stock of such corporation owned by such 5-percent shareholders at any time over the preceding three years.

Under certain circumstances, sales or other dispositions of our common stock by certain of our stockholders could trigger such an ownership change . Specifically, sales or other dispositions pursuant by any of the selling stockholders of our Class A common stock issuable upon the conversion of our Class B common stock could trigger an ownership change . Moreover, sales or other dispositions of our Class A common stock by Chevron pursuant to a prospectus and any prospectus supplement forming a part of a Registration Statement on Form S-3 that we have filed with the SEC for the benefit of Chevron could also trigger such an ownership change . We will have limited control over the timing of any such sales or dispositions of our common stock. Any such future ownership change could result in limitations, pursuant to Section 382 of the Code, on our utilization of our federal NOLs to offset our future taxable income.

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More specifically, depending on then-prevailing interest rates and the market value of our stock at the time of such future ownership change, an ownership change under Section 382 of the Code would establish an annual limitation which might prevent full utilization of the deferred tax assets attributable to our previously incurred federal NOLs against our total future taxable income for a given year. If such an ownership change were to occur, our ability to raise additional equity capital may be limited.

The magnitude of such limitations and their effect on us is difficult to assess and depends in part on the market value of our stock at the time of any such ownership change and then-prevailing interest rates, as well as the availability of built-in gains which may reduce any such effects. For accounting purposes, at March 31, 2007, our deferred tax asset attributable to our previously incurred federal NOLs was valued at approximately $243 million.

Additional Risks Related to our Class A Common Stock

The stock price of our predecessor, Dynegy Illinois, was volatile, and the trading price of our Class A common stock may also fluctuate significantly.

The trading price of the Class A common stock of Dynegy Illinois was volatile, and our stock price may also be volatile. From January 1, 2004 through March 30, 2007 (*i.e.*, the trading day immediately prior to the completion of the Merger Agreement), the closing price of Dynegy Illinois Class A common stock on the NYSE ranged from $3.23 to $9.58 per share. The trading price of our Class A common stock may fluctuate in response to a number of events and factors, such as quarterly variations in operating or financial results, actions by various regulatory agencies, litigation, market perceptions of our financial reporting, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors may deem comparable to us, news reports relating to us or trends in our industry or general economic conditions.

Provisions of the General Corporation Law of the State of Delaware and our organizational documents may discourage an acquisition of us.

Our organizational documents and the General Corporation Law of the State of Delaware both contain provisions that will impede the removal of our directors and may discourage a third party from making a proposal to acquire us. For example, our board may, without the consent of our stockholders, issue preferred stock with greater voting rights than our Class A common stock. The existence of these provisions may have a negative impact on the price of our Class A common stock.

The interests of the LS Control Group may conflict with your interests and, with respect to DLS Power Holdings and DLS Power Development, our interests.

The LS Control Group (as defined in the Merger Agreement) owns approximately 40% of our voting power and has the right to nominate up to three members of our 11-member board of directors. By virtue of such stock ownership and board representation, the LS Control Group has, as described in the risk factor immediately below, the power to influence our affairs and the outcome of matters required to be submitted to our stockholders for approval. Moreover, by virtue of such stock ownership and board representation and its 50 percent membership interest (via LS Associates) in DLS Power Holdings and DLS Power Development, the LS Control Group has the power to influence the affairs of DLS Power Holdings and DLS Power Development.

The LS Control Group may have interests that differ from those of holders of our Class A common stock, and these relationships could give rise to conflicts of interest, including:

- conflicts between the LS Control Group and our other stockholders, whose interests may differ with respect to the strategic direction or significant corporate transactions of the company; and

- conflicts related to corporate opportunities that could be pursued by us, on the one hand, or by the LS Control Group, on the other hand.

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Likewise, with respect to DLS Power Holdings and DLS Power Development, the LS Control Group may have interests that differ from our interests (as the owner of the remaining 50% membership interest in DLS Power Holdings and DLS Power Development), which may give rise to conflicts of interests.

Further, our amended and restated certificate of incorporation renounces any interest in, and waives, any claim that a corporate or business opportunity taken by the LS Control Group constitutes a corporate opportunity of the company, unless such corporate or business opportunity is expressly offered to one of our directors or officers.

The LS Control Group s significant interest in us could be determinative in matters submitted to a vote by our stockholders. In addition, the rights granted to the LS Shareholders (as defined in the Merger Agreement) under the Shareholder Agreement (as defined in the Merger Agreement) and our amended and restated bylaws provide them significant influence over us. Such influence could result in us either taking actions that our other stockholders do not support or failing to take actions that our other stockholders do support.

The LS Control Group s ownership interest in us, together with its rights under the Shareholder Agreement and our amended and restated bylaws, provides it with significant influence over the conduct of our business. Unless substantially all of our public stockholders vote together on matters presented to our stockholders from time to time, the LS Control Group may have the power to determine the outcome of matters submitted to a vote of all of our stockholders.

Rights granted to the LS Control Group under the Shareholder Agreement and our amended and restated bylaws that provide it with significant influence over our business include:

- the ability to nominate up to three directors to our board of directors based on its percentage ownership interest in us; and
- the requirement that we not pursue any of the following actions if all directors nominated by the LS Control Group present at the relevant board meeting vote against such action:
  - any amendment of our amended and restated certificate of incorporation or amended and restated bylaws;
  - any merger or consolidation of us and certain dispositions of our assets or businesses, certain acquisitions, binding capital commitments, guarantees and investments and certain joint ventures with an aggregate value in excess of a specified amount;
  - our payment of dividends or similar distributions;
  - our engagement in new lines of business;
  - our liquidation or dissolution, or certain bankruptcy-related events with respect to us;
  - our issuance of any equity securities, with certain exceptions for issuances of our Class A common stock;
  - our incurrence of any indebtedness in excess of a specified amount;
  - the hiring, or termination of the employment of, our Chief Executive Officer (other than Bruce A. Williamson);

- our entry into any agreement or other action that limits the activities of any holder of our Class B common stock or any of such holder s affiliates; and
- our entry into other material transactions with a value in excess of a specified amount.

Such influence could result in us either taking actions that our other stockholders do not support or failing to take actions that our other stockholders do support.

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Our stockholders may be adversely affected by the expiration of the transfer restrictions in the Shareholder Agreement, which would enable the LS Control Group to, among other things, transfer a significant percentage of our common stock to a third party.

The transfer provisions in the Shareholder Agreement, subject to specified exceptions, restrict the LS Control Group from transferring shares of our common stock. These restrictions will expire upon the earlier of:

- April 2, 2009;
- the date the stockholders party to the Shareholder Agreement cease to own at least 15% of the total combined voting power of our outstanding securities; and
- subject to certain conditions, the date a third party offer is made to acquire more than 25% of our assets or voting securities.

In addition, if the transfer restrictions in the Shareholder Agreement are terminated, the LS Control Group will be free to sell their shares of our common stock, subject to certain exceptions, to any person on the open market, in privately negotiated transactions or otherwise in accordance with law. These sales or transfers, as well as sales or other dispositions, could create a substantial decline in the price of shares of our common stock, including our Class A common stock.

Item 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Upon vesting of restricted stock awarded by the company to employees, shares are withheld to cover the employees withholding taxes. Information on the company s purchases of equity securities during the quarter follows:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January	297	6.02		N/A
February	196,055	7.47		N/A
March	77,733	8.51		N/A

These were the only repurchases of equity securities made by us during the three months ended March 31, 2007. We do not have a repurchase program.

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Item 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

A special meeting of the shareholders of Dynegy Illinois was held on March 29, 2007. The purpose of the special meeting was to consider and vote on a proposal to adopt the Merger Agreement and to approve the Merger of Merger Sub with and into Dynegy Illinois. The following votes were cast with respect to the proposal, which passed. There were no broker non-votes.

Class A Common Stock (Dynegy Inc., an Illinois corporation)

FOR	AGAINST	ABSTAIN
312,718,633	2,126,935	3,119,106

Class B Common Stock (Dynegy Inc., an Illinois corporation)

FOR	AGAINST	ABSTAIN
96,891,014	0	0

Class A and Class B Common Stock voting together as a single class

FOR	AGAINST	ABSTAIN
409,609,647	2,126,935	3,119,106

Item 6 EXHIBITS

The following documents are included as exhibits to this Form 10-Q:

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Dynegy Inc. (formerly named Dynegy Acquisition, Inc.) (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-8 of Dynegy Inc. filed on April 2, 2007, File No. 333-139221).
3.2	Amended and Restated Bylaws of Dynegy Inc. (formerly named Dynegy Acquisition, Inc.) (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-8 of Dynegy Inc. filed on April 2, 2007, File No. 333-139221).
10.1	First Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan), dated as of October 17, 2003. (incorporated by reference to Exhibit 4.24 to the Registration Statement on Form S-8 of Dynegy Inc. filed on April 2, 2007, File No. 333-139221).
10.2	Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan), dated as of December 23, 2003 (incorporated by reference to Exhibit 4.25 to the Registration Statement on Form S-8 of Dynegy Inc. filed on April 2, 2007, File No. 333-139221).

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Exhibit Number	Description
10.3	Second Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan), dated as of March 31, 2004 (incorporated by reference to Exhibit 4.26 to the Registration Statement on Form S-8 of Dynegy Inc. filed on April 2, 2007, File No. 333-139221).
10.4	Fourth Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan), dated as of September 29, 2004 (incorporated by reference to Exhibit 4.27 to the Registration Statement on Form S-8 of Dynegy Inc. filed on April 2, 2007, File No. 333-139221).
10.5	Fifth Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan), dated as of May 31, 2005 (incorporated by reference to Exhibit 4.28 to the Registration Statement on Form S-8 of Dynegy Inc. filed on April 2, 2007, File No. 333-139221).
10.6	Sixth Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan), dated as of June 7, 2006 (incorporated by reference to Exhibit 4.29 to the Registration Statement on Form S-8 of Dynegy Inc. filed on April 2, 2007, File No. 333-139221).
10.7	Seventh Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan), dated as of December 15, 2006 (incorporated by reference to Exhibit 4.30 to the Registration Statement on Form S-8 of Dynegy Inc. filed on April 2, 2007, File No. 333-139221).
10.8	Eighth Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan, dated as of April 2, 2007 (incorporated by reference to Exhibit 10.40 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.9	First Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement), dated as of October 17, 2003 (incorporated by reference to Exhibit 4.33 to the Registration Statement on Form S-8 of Dynegy Inc. filed on April 2, 2007, File No. 333-139221).
10.10	Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement), dated as of December 23, 2003 (incorporated by reference to Exhibit 4.34 to the Registration Statement on Form S-8 of Dynegy Inc. filed on April 2, 2007, File No. 333-139221).

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Exhibit Number	Description
10.11	Second Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement), dated as of March 31, 2004 (incorporated by reference to Exhibit 4.35 to the Registration Statement on Form S-8 of Dynegy Inc. filed on April 2, 2007, File No. 333-139221).
10.12	Fourth Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement), dated as of September 29, 2004 (incorporated by reference to Exhibit 4.36 to the Registration Statement on Form S-8 of Dynegy Inc. filed on April 2, 2007, File No. 333-139221).
10.13	Fifth Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement), dated as of May 31, 2005 (incorporated by reference to Exhibit 4.37 to the Registration Statement on Form S-8 of Dynegy Inc. filed on April 2, 2007, File No. 333-139221).
10.14	Sixth Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement), dated as of June 7, 2006 (incorporated by reference to Exhibit 4.38 to the Registration Statement on Form S-8 of Dynegy Inc. filed on April 2, 2007, File No. 333-139221).
10.15	Seventh Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement), dated as of December 15, 2006 (incorporated by reference to Exhibit 4.39 to the Registration Statement on Form S-8 of Dynegy Inc. filed on April 2, 2007, File No. 333-139221).
10.16	Eighth Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered Under a Collective Bargaining Agreement, dated as of April 2, 2007 (incorporated by reference to Exhibit 10.41 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.17	Fifth Amended and Restated Credit Agreement, dated as of April 2, 2007, by and among Dynegy Holdings Inc., as borrower, Dynegy Inc. (formerly named Dynegy Acquisition, Inc.) and Dynegy Inc., as parent guarantors, the other guarantors party thereto, the lenders party thereto and various other parties thereto (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.17	Second Amended and Restated Security Agreement, dated April 2, 2007, by and among Dynegy Holdings Inc., as Borrower, the initial grantors party thereto, Wilmington Trust Company, as corporate trustee, and John M. Beeson, Jr., as individual trustee (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).

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Exhibit Number	Description
10.18	First Lien Credit Agreement, dated as of May 4, 2006, by and among LSP Gen Finance Co, LLC, as borrower, and the guarantors, lenders and other parties thereto (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.19	Second Lien Credit Agreement, dated as of May 4, 2006, by and among LSP Gen Finance Co, LLC, as borrower, and the guarantors, lenders and other parties thereto (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.20	$500,000,000 Special Letter of Credit Facility Agreement, dated as of May 4, 2006, by and among LSP Gen Finance Co, LLC, as borrower, and the guarantors, lenders and other parties thereto (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.21	$150,000,000 First Lien Letter of Credit Facility Agreement, dated as of August 3, 2006, by and among LSP Gen Finance Co, LLC, as borrower, and the guarantors, lenders and other parties thereto (incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.22	Credit Agreement, dated as of October 7, 2005, by and among LSP-Kendall Energy, LLC, as borrower, and the lenders and other parties thereto (incorporated by reference to Exhibit 10.7 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.23	Amended and Restated First Lien Credit Agreement, dated as of May 5, 2006, by and among Ontelaunee Power Operating Company, LLC, as borrower, and the lenders and other parties thereto (incorporated by reference to Exhibit 10.8 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.24	Second Lien Credit Agreement, dated as of May 5, 2006, by and among Ontelaunee Power Operating Company, LLC, as borrower, and the lenders and other parties thereto (incorporated by reference to Exhibit 10.9 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.25	Credit Agreement, dated as of March 29, 2007, by and among Plum Point Energy Associates, LLC, as borrower, and the lenders and other parties thereto (incorporated by reference to Exhibit 10.10 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.26	Collateral Agency and Intercreditor Agreement, dated as of March 29, 2007, by and among Plum Point Energy Associates, LLC, as borrower, PPEA Holding Company, LLC, as pledgor, The Bank of New York, as collateral agent, The Royal Bank of Scotland, as administrative agent, AMBAC Assurance Corporation, as loan insurer and the other parties thereto (incorporated by reference to Exhibit 10.11 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.27	Loan Agreement, dated as of April 1, 2006, by and between the City of Osceola, Arkansas and Plum Point Energy Associates, LLC (incorporated by reference to Exhibit 10.12 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).

Exhibit Number	Description
10.28	Trust Indenture, dated as of April 1, 2006, by and between the City of Osceola, Arkansas and Regions Bank, as trustee (incorporated by reference to Exhibit 10.13 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.29	Amended and Restated Limited Liability Company Agreement of DLS Power Holdings, LLC, dated April 2, 2007, by and between LS Power Associates, L.P. and Dynegy Inc. (formerly named Dynegy Acquisition, Inc.) (incorporated by reference to Exhibit 10.14 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.30	Limited Liability Company Agreement of DLS Power Development Company, LLC, dated April 2, 2007, by and between LS Power Associates, L.P. and Dynegy Inc. (formerly named Dynegy Acquisition, Inc.) (incorporated by reference to Exhibit 10.15 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.31	Fourth Amendment to the Second Supplement to the Dynegy Inc. Executive Severance Pay Plan, dated as of March 30, 2007 (incorporated by reference to Exhibit 10.16 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.32	Third Amendment to the Dynegy Inc. Executive Severance Pay Plan, dated as of April 2, 2007 (incorporated by reference to Exhibit 10.17 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.33	Second Amendment to the First Supplemental Plan to the Dynegy Inc. Severance Pay Plan, dated as of March 30, 2007 (incorporated by reference to Exhibit 10.18 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.34	Second Amendment to Dynegy Inc. Severance Pay Plan, dated as of April 2, 2007 (incorporated by reference to Exhibit 10.19 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.35	Second Amendment to the Dynegy Northeast Generation, Inc. Savings Incentive Plan, dated as of December 5, 2005 (incorporated by reference to Exhibit 10.20 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.36	Third Amendment to the Dynegy Northeast Generation, Inc. Savings Incentive Plan, dated as of June 7, 2006 (incorporated by reference to Exhibit 10.21 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.37	Fourth Amendment to the Dynegy Northeast Generation, Inc. Savings Incentive Plan, dated as of December 15, 2006 (incorporated by reference to Exhibit 10.22 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.38	Fifth Amendment to the Dynegy Inc. 401(k) Savings Plan, dated as of January 28, 2005 (incorporated by reference to Exhibit 10.23 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).

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Exhibit Number	Description
10.39	Sixth Amendment to the Dynegy Inc. 401(k) Savings Plan, dated as of February 28, 2005 (incorporated by reference to Exhibit 10.24 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.40	Seventh Amendment to the Dynegy Inc. 401(k) Savings Plan, dated as of May 31, 2005 (incorporated by reference to Exhibit 10.25 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.41	Eighth Amendment to the Dynegy Inc. 401(k) Savings Plan, dated as of December 18, 2006 (incorporated by reference to Exhibit 10.26 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.42	Ninth Amendment to the Dynegy Inc. 401(k) Savings Plan, dated as of June 7, 2006 (incorporated by reference to Exhibit 10.27 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.43	Ninth Amendment to the Dynegy Inc. 401(k) Savings Plan, dated as of December 21, 2006 (incorporated by reference to Exhibit 10.28 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.44	Eleventh Amendment to the Dynegy Inc. 401(k) Savings Plan, dated as of April 2, 2007 (incorporated by reference to Exhibit 10.30 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.45	Ninth Amendment to the Dynegy Inc. Retirement Plan, dated as of April 2, 2007 (incorporated by reference to Exhibit 10.29 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.46	Sixth Amendment to the Dynegy Inc. Comprehensive Welfare Benefits Plan, dated as of April 2, 2007 (incorporated by reference to Exhibit 10.31 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.47	First Amendment to the Dynegy Inc. Incentive Compensation Plan, dated as of April 2, 2007 (incorporated by reference to Exhibit 10.32 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.48	First Amendment to the Dynegy Inc. 1999 Long Term Incentive Plan, dated as of April 2, 2007 (incorporated by reference to Exhibit 10.33 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.49	Second Amendment to the Dynegy Inc. 2000 Long Term Incentive Plan, dated as of April 2, 2007 (incorporated by reference to Exhibit 10.34 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.50	First Amendment to the Dynegy Inc. 2001 Non-Executive Stock Incentive Plan, dated as of April 2, 2007 (incorporated by reference to Exhibit 10.35 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.51	Second Amendment to the Dynegy Inc. 2002 Long Term Incentive Plan, dated as of April 2, 2007 (incorporated by reference to Exhibit 10.36 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).

Exhibit Number	Description
10.52	Third Amendment to the Dynegy Inc. Deferred Compensation Plan for Certain Directors, dated as of April 2, 2007 (incorporated by reference to Exhibit 10.37 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.53	Amendment to the Dynegy Inc. Deferred Compensation Plan, dated as of April 2, 2007 (incorporated by reference to Exhibit 10.38 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.54	Sixth Amendment to the Dynegy Midwest Generation, Inc. Retirement Income Plan for Employees Covered Under a Collective Bargaining Agreement, dated as of April 2, 2007 (incorporated by reference to Exhibit 10.39 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.55	Seventh Amendment to the Dynegy Northeast Generation, Inc. Retirement Income Plan, dated as of April 2, 2007 (incorporated by reference to Exhibit 10.42 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.56	Fifth Amendment to the Dynegy Northeast Generation, Inc. Savings Incentive Plan, dated as of April 2, 2007 (incorporated by reference to Exhibit 10.43 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.57	Eighth Amendment to the Extant, Inc. 401(k) Plan, dated as of April 2, 2007 (incorporated by reference to Exhibit 10.44 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.58	Master Trust Agreement, dated as of January 1, 2002 (Vanguard) (incorporated by reference to Exhibit 10.45 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.59	Agreement and Amendment to Master Trust Agreement, dated as of December 31, 2003 (Vanguard) (incorporated by reference to Exhibit 10.46 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.60	Amendment No. 2 to The Master Trust Agreement, dated as of September 29, 2004 (Vanguard) (incorporated by reference to Exhibit 10.47 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.61	Amendment to Master Trust Agreement, dated as of January 1, 2006 (Vanguard) (incorporated by reference to Exhibit 10.48 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.62	Amendment to Trust Agreement - DMG 401(k) Savings Plan (Vanguard), dated as of September 29, 2004 (incorporated by reference to Exhibit 10.49 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.63	Amendment to Trust Agreement - DMG 401(k) Savings Plan (Vanguard), dated as of January 1, 2006 (incorporated by reference to Exhibit 10.50 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).

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Exhibit Number	Description
10.64	Amendment to Trust Agreement - DMG 401(k) Savings Plan (Vanguard), dated as of April 2, 2007 (incorporated by reference to Exhibit 10.51 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.65	Amendment to Trust Agreement - Dynegy Inc. 401(k) Savings Plan (Vanguard), dated as of January 1, 2006 (incorporated by reference to Exhibit 10.52 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.66	Amendment to Trust Agreement - Dynegy Inc. 401(k) Savings Plan (Vanguard), dated as of April 2, 2007 (incorporated by reference to Exhibit 10.53 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.67	Amendment to Dynegy Inc. Deferred Compensation Plan Trust Agreement (Vanguard), dated as of April 2, 2007 (incorporated by reference to Exhibit 10.54 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.68	Amendment to Master Trust Agreement, dated as of April 2, 2007 (Vanguard) (incorporated by reference to Exhibit 10.55 to the Current Report on Form 8-K of Dynegy Inc. filed on April 6, 2007, File No. 333-139221).
10.69	Asset Purchase Agreement dated January 31, 2007 by and between Dynegy Holdings Inc., Calcasieu Power, LLC and Entergy Gulf States, Inc. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Dynegy Inc. filed on February 2, 2007, File No. 333-139221).
**10.70	Form of Non-Qualified Stock Option Award Agreement Between Dynegy Inc., all of its affiliates and Bruce A. Williamson.
**10.71	Form of Restricted Stock Award Agreement between Dynegy Inc., all of its affiliates and Bruce A. Williamson.
**10.72	Form of Performance Award Agreement between Dynegy Inc., all of its affiliates and Bruce A. Williamson.
**10.73	Form of Non-Qualified Stock Option Award Agreement.
**10.74	Form of Restricted Stock Award Agreement (Managing Director and Above).
**10.75	Form of Restricted Stock Award Agreement (Directors and Below).
**10.76	Form of Performance Award Agreement.
**31.1	Chief Executive Officer Certification Pursuant to Rule 13a-14(a) and 15d-14(a), As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
**31.2	Chief Financial Officer Certification Pursuant to Rule 13a-14(a) and 15d-14(a), As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Chief Executive Officer Certification Pursuant to 18 United States Code Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Chief Financial Officer Certification Pursuant to 18 United States Code Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

** Filed herewith.

Pursuant to Securities and Exchange Commission Release No. 33-8238, this certification will be treated as accompanying this report and not filed as part of such report for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or otherwise subject to the liability of Section 18 of the Exchange Act, and this certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

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DYNEGY INC.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, the thereunto duly authorized.

		DYNEGY INC.
Date: May 9, 2007	By:	/s/ HOLLI C. NICHOLS
		Holli C. Nichols
		Executive Vice President and Chief Financial Officer
		(Duly Authorized Officer and Principal Financial Officer)