

DYNEGY INC.
Form 10-Q
November 09, 2007

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

FORM 10-Q

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

For the quarterly period ended September 30, 2007

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

For the transition period from _____ to _____

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

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

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

**77002
(Zip Code)**

(713) 507-6400

(Registrant's telephone number, including area code)

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

Dynegy Inc. Yes No
Dynegy Holdings Inc. Yes No

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

	Large accelerated filer	Accelerated filer	Non-accelerated filer
Dynegy Inc.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Dynegy Holdings Inc.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

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

Dynegy Inc. Yes No
Dynegy Holdings Inc. Yes No

Indicate the number of shares outstanding of Dynegy Inc.'s classes of common stock, as of the latest practicable date: Class A common stock, \$0.01 par value per share, 500,281,206 shares outstanding as of November 1, 2007; Class B

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common stock, \$0.01 par value per share, 340,000,000 shares outstanding as of November 1, 2007. All of Dynegy Holdings Inc. s outstanding common stock is owned indirectly by Dynegy Inc. This combined Form 10-Q is separately filed by Dynegy Inc. and Dynegy Holdings Inc. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to a registrant other than itself.

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EXPLANATORY NOTE

This report includes the combined filing of Dynegy Inc. (Dynegy) and Dynegy Holdings Inc. (DHI). DHI is the principal subsidiary of Dynegy, providing approximately 100% of Dynegy s total consolidated revenue for the nine-month period ended September 30, 2007 and constituting approximately 100% of Dynegy s total consolidated asset base as of September 30, 2007 except for Dynegy s 50% interest in DLS Power Holdings, LLC and DLS Power Development Company, LLC. Unless the context indicates otherwise, throughout this report, the terms the Company , we , us , our and ours are used to refer to both Dynegy and DHI and their direct and indirect subsidiaries, including Dynegy Illinois Inc. (Dynegy Illinois) before it became a wholly owned subsidiary of Dynegy by way of the merger of Merger Sub Co., then Dynegy s wholly owned subsidiary, with and into Dynegy Illinois. Discussions or areas of this report that apply only to Dynegy or DHI will clearly be noted in such section.

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DEFINITIONS

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

APB	Accounting Principles Board
ARO	Asset retirement obligation
Cal ISO	The California Independent System Operator
CARB	California Air Resources Board
CDWR	California Department of Water Resources
CEC	California Energy Commission
CFTC	Commodity Futures Trading Commission
CO ₂	Carbon Dioxide
CPUC	California Public Utilities Commission
CRA	Canada Revenue Agency
CRM	Our customer risk management business segment
CUSA	Chevron U.S.A. Inc., a wholly owned subsidiary of Chevron Corporation
DGC	Dynegy Global Communications
DHI	Dynegy Holdings Inc., Dynegy's primary financing subsidiary
DMG	Dynegy Midwest Generation, Inc.
DMSLP	Dynegy Midstream Services L.P.
DMT	Dynegy Marketing and Trade
DNE	Dynegy Northeast Generation
DPM	Dynegy Power Marketing Inc.
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EITF	Emerging Issues Task Force
EMA	Energy management agreement
EPA	Environmental Protection Agency
ERCOT	Electric Reliability Council of Texas, Inc.
ERISA	The Employee Retirement Income Security Act of 1974, as amended
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN	FASB Interpretation
FSP	FASB Staff Position
GAAP	Generally Accepted Accounting Principles of the United States of America
GEN	Our power generation business
GEN-MW	Our power generation business Midwest segment
GEN-NE	Our power generation business Northeast segment
GEN-SO	Our power generation business South segment, which was renamed GEN-WE
GEN-WE	Our power generation business West segment
ICC	Illinois Commerce Commission
IMA	In-market asset availability
IP	Illinois Power
IRS	Internal Revenue Service
ISO	Independent System Operator
LNG	Liquefied natural gas
LTSA	Long term service agreement
MISO	Midwest Independent Transmission Operator, Inc.
MMBtu	Millions of British thermal units
MW	Megawatts
MWh	Megawatt hour

NGL	Our former natural gas liquids business segment
NNG	Northern Natural Gas Company
NOL	Net operating loss
NO _x	Nitrogen Oxide
NPDES	National Pollutant Discharge Elimination System
NRG	NRG Energy, Inc.
NYSDEC	New York State Department of Environmental Conservation
PRB	Powder River Basin coal
PUHCA	Public Utility Holding Company Act of 1935, as amended
RGGI	Regional Greenhouse Gas Initiative
SAB	SEC Staff Accounting Bulletin
SEC	U.S. Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SPN	Second Priority Senior Secured Notes
SPDES	State Pollutant Discharge Elimination System
VaR	Value at Risk
VIE	Variable Interest Entity

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Item 1 FINANCIAL STATEMENTS DYNEGY INC. AND DYNEGY HOLDINGS INC.
DYNEGY INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited) (in millions, except share data)

ASSETS	September 30, 2007	December 31, 2006
Current Assets		
Cash and cash equivalents	\$ 638	\$ 371
Restricted cash	140	280
Accounts receivable, net of allowance for doubtful accounts of \$21 and \$48, respectively	386	257
Accounts receivable, affiliates		1
Inventory	197	194
Assets from risk-management activities	509	701
Deferred income taxes	22	93
Prepayments and other current assets	160	92
Assets held for sale (Note 3)	58	
Total Current Assets	2,110	1,989
Property, Plant and Equipment	10,579	6,473
Accumulated depreciation	(1,604)	(1,522)
Property, Plant and Equipment, Net	8,975	4,951
Other Assets		
Unconsolidated investments	96	
Restricted cash and investments	912	83
Assets from risk-management activities	230	16
Goodwill	532	
Intangible assets	321	347
Deferred income taxes	6	12
Other long-term assets	222	139
Total Assets	\$ 13,404	\$ 7,537

LIABILITIES AND STOCKHOLDERS EQUITY

Current Liabilities		
Accounts payable	\$ 307	\$ 172
Accrued interest	130	66
Accrued liabilities and other current liabilities	252	231
Liabilities from risk-management activities	502	629
Notes payable and current portion of long-term debt	53	68
Liabilities held for sale (Note 3)	2	

Total Current Liabilities	1,246	1,166
Long-term debt	5,691	2,990
Long-term debt, affiliates	200	200
Long-Term Debt	5,891	3,190
Other Liabilities		
Liabilities from risk-management activities	220	35
Deferred income taxes	1,087	469
Other long-term liabilities	421	410
Total Liabilities	8,865	5,270
Minority Interest	(14)	
Commitments and Contingencies (Note 11)		
Stockholders Equity		
Class A Common Stock, \$0.01 par value, 2,100,000,000 shares authorized at September 30, 2007; 502,672,821 shares issued and outstanding at September 30, 2007; and no par value, 900,000,000 shares authorized at December 31, 2006; 403,137,339 shares issued and outstanding at December 31, 2006	5	3,367
Class B Common Stock, \$0.01 par value, 850,000,000 shares authorized at September 30, 2007; 340,000,000 shares issued and outstanding at September 30, 2007; and no par value, 360,000,000 shares authorized at December 31, 2006; 96,891,014 shares issued and outstanding at December 31, 2006	3	1,006
Additional paid-in capital	6,457	39
Subscriptions receivable	(7)	(8)
Accumulated other comprehensive income (loss), net of tax	(16)	67
Accumulated deficit	(1,818)	(2,135)
Treasury stock, at cost, 2,448,380 shares at September 30, 2007 and 1,787,004 shares at December 31, 2006, respectively	(71)	(69)
Total Stockholders Equity	4,553	2,267
Total Liabilities and Stockholders Equity	\$ 13,404	\$ 7,537

See the notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Revenues	\$ 1,046	\$ 508	\$ 2,379	\$ 1,427
Cost of sales, exclusive of depreciation shown separately below	(649)	(319)	(1,478)	(907)
Depreciation and amortization expense	(92)	(54)	(232)	(164)
Impairment and other charges		(96)		(107)
Gain on sale of assets, net	4		4	3
General and administrative expenses	(62)	(59)	(163)	(160)
Operating income (loss)	247	(20)	510	92
Earnings from unconsolidated investments	8	4	6	6
Interest expense	(117)	(105)	(268)	(310)
Debt conversion costs		(2)		(249)
Minority interest income (expense)	1		(8)	
Other income and expense, net	16	11	34	41
Income (loss) from continuing operations before income taxes	155	(112)	274	(420)
Income tax (expense) benefit (Note 14)	(59)	41	(95)	150
Income (loss) from continuing operations	96	(71)	179	(270)
Income (loss) from discontinued operations, net of tax expense of \$93, \$8, \$97 and \$1, respectively (Notes 3 and 14)	124	2	131	(6)
Income (loss) before cumulative effect of change in accounting principle	220	(69)	310	(276)
Cumulative effect of change in accounting principle, net of tax expense of zero				1
Net income (loss)	220	(69)	310	(275)
Less: preferred stock dividends				9
Net income (loss) applicable to common stockholders	\$ 220	\$ (69)	\$ 310	\$ (284)
Earnings (Loss) Per Share (Note 10):				
Basic earnings (loss) per share:				
Income (loss) from continuing operations	\$ 0.11	\$ (0.14)	\$ 0.25	\$ (0.63)
Income (loss) from discontinued operations	0.15		0.18	(0.01)
Cumulative effect of change in accounting principle				

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Basic earnings (loss) per share	\$	0.26	\$	(0.14)	\$	0.43	\$	(0.64)
Diluted earnings (loss) per share:								
Income (loss) from continuing operations	\$	0.11	\$	(0.14)	\$	0.25	\$	(0.63)
Income (loss) from discontinued operations		0.15				0.18		(0.01)
Cumulative effect of change in accounting principle								
Diluted earnings (loss) per share	\$	0.26	\$	(0.14)	\$	0.43	\$	(0.64)
Basic shares outstanding		836		495		721		446
Diluted shares outstanding		838		497		723		512

See the notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	September 30,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 310	\$ (275)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	239	206
Impairment and other charges		107
Earnings from unconsolidated investments, net of cash distributions	(6)	(6)
Risk-management activities	(137)	(70)
Gain on sale of assets, net	(214)	(3)
Deferred income taxes	172	(147)
Cumulative effect of change in accounting principle, net of tax		(1)
Legal and settlement charges	29	14
Sithe subordinated debt exchange charge		36
Debt conversion costs		249
Other	22	39
Changes in working capital:		
Accounts receivable	(64)	353
Inventory	(5)	12
Prepayments and other assets	(43)	119
Accounts payable and accrued liabilities	109	(817)
Changes in non-current assets	(45)	11
Changes in non-current liabilities	(1)	(7)
Net cash provided by (used in) operating activities	366	(180)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(236)	(92)
Unconsolidated investments	(7)	
Proceeds from asset sales, net	466	18
Business acquisitions, net of cash acquired	(128)	
Net proceeds from exchange of unconsolidated investments, net of cash acquired		165
Decrease (increase) in restricted cash and restricted investments	(598)	125
Other investing		(3)
Net cash provided by (used in) investing activities	(503)	213
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings, net	2,705	1,071
Repayments of long-term borrowings	(2,300)	(1,780)
Debt conversion costs		(249)
Redemption of Series C Preferred		(400)

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Proceeds from issuance of capital stock	4	183
Dividends and other distributions, net		(17)
Other financing, net	(5)	(2)
Net cash provided by (used in) financing activities	404	(1,194)
Net increase (decrease) in cash and cash equivalents	267	(1,161)
Cash and cash equivalents, beginning of period	371	1,549
Cash and cash equivalents, end of period	\$ 638	\$ 388
Other non-cash investing activity:		
Noncash construction expenditures	\$ 13	\$
Other non-cash financing activity:		
Conversion of Convertible Subordinated Debentures due 2023	\$	\$ 225
Site subordinate debt exchange charge, net		122

See the notes to condensed consolidated financial statements.

