

DYNEGY HOLDINGS INC
 Form 10-Q
 August 07, 2008

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 **June 30, 2008**

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

For the transition period from _____ to _____

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

Entity	Commission File Number	State of Incorporation	I.R.S. Employer Identification No.
Dynegy Inc.	001-33443	Delaware	20-5653152
Dynegy Holdings Inc.	000-29311	Delaware	94-3248415
1000 Louisiana, Suite 5800 Houston, Texas (Address of principal executive offices)	(713) 507-6400 (Registrant's telephone number, including area code)		77002 (Zip 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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
Dynegy Inc.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Dynegy Holdings Inc.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

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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, 502,580,360 shares outstanding as of August 1, 2008; Class B common stock, \$0.01 par value per share, 340,000,000 shares outstanding as of August 1, 2008. 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.

DYNEGY INC. and DYNEGY HOLDINGS INC.

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This report includes the combined filing of Dynergy Inc. (“Dynergy”) and Dynergy Holdings Inc. (“DHI”). DHI is the principal subsidiary of Dynergy, providing approximately 100 percent of Dynergy’s total consolidated revenue for the six month period ended June 30, 2008 and constituting approximately 100 percent of Dynergy’s total consolidated asset base as of June 30, 2008 except for Dynergy’s 50 percent interest in DLS Power Holdings, LLC and DLS Power Development Company, LLC. Unless the context indicates otherwise, throughout this report, the terms “the Company,” “we,” “us,” “our” and “ours” are used to refer to both Dynergy and DHI and their direct and indirect subsidiaries, including Dynergy Illinois Inc. (“Dynergy Illinois”) before it became a wholly owned subsidiary of Dynergy by way of the merger of Merger Sub Co., then Dynergy’s wholly owned subsidiary, with and into Dynergy Illinois. Discussions or areas of this report that apply only to Dynergy or DHI will clearly be noted in such section.

DEFINITIONS

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

APB	Accounting Principles Board
ASM	Ancillary Services Market
BTA	Best technology available
CAIR	Clean Air Interstate Rule
CFTC	Commodity Futures Trading Commission
CO2	Carbon Dioxide
CRM	Our former customer risk management business segment
CUSA	Chevron U.S.A. Inc., a wholly owned subsidiary of Chevron Corporation
DHI	Dynegy Holdings Inc., Dynegy's primary financing subsidiary
DMG	Dynegy Midwest Generation, Inc.
DMSLP	Dynegy Midstream Services L.P.
EITF	Emerging Issues Task Force
EPA	Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN	FASB Interpretation
GAAP	Generally Accepted Accounting Principles of the United States of America
GEN	Our power generation business
GEN-MW	Our power generation business - Midwest segment
GEN-NE	Our power generation business - Northeast segment
GEN-WE	Our power generation business - West segment
ICC	Illinois Commerce Commission
IMA	In-market asset availability
ISO	Independent System Operator

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ISO-NE	Independent System Operator – New England
MISO	Midwest Independent Transmission Operator, Inc.
MMBtu	One million British thermal units
MW	Megawatts
MWh	Megawatt hour
NOx	Nitrogen Oxide
NPDES	National Pollutant Discharge Elimination System
NRG	NRG Energy, Inc.
NYSDEC	New York State Department of Environmental Conservation
OTC	Over the Counter
PJM	PJM Interconnection, LLC
PPEA	PPEA Holding Company LLC
RGGI	Regional Greenhouse Gas Initiative
SCEA	Sandy Creek Energy Associates, LP
SCH	Sandy Creek Holdings LLC
SEC	U.S. Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SO2	Sulfur Dioxide
SPDES	State Pollutant Discharge Elimination System
VaR	Value at Risk
VIE	Variable Interest Entity

PART I. FINANCIAL INFORMATION

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

DYNEGY INC.

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

	June 30, 2008	December 31, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 271	\$ 328
Restricted cash	123	104
Accounts receivable, net of allowance for doubtful accounts of \$18 and \$20, respectively	478	426
Accounts receivable, affiliates	1	1
Inventory	172	199
Assets from risk-management activities	3,363	358
Deferred income taxes	1	45
Prepayments and other current assets	342	145
Assets held for sale (Note 3)	304	57
	<u>5,055</u>	<u>1,663</u>
Total Current Assets		
Property, Plant and Equipment	10,560	10,689
Accumulated depreciation	(1,707)	(1,672)
	<u>8,853</u>	<u>9,017</u>
Property, Plant and Equipment, Net		
Other Assets		
Unconsolidated investments	62	79
Restricted cash and investments	1,173	1,221
Assets from risk-management activities	220	55
Goodwill	438	438
Intangible assets	465	497
Deferred income taxes	5	6
Accounts receivable, affiliates	2	—
Other long-term assets	255	245
	<u>2,555</u>	<u>2,531</u>
Total Assets	<u>\$ 16,528</u>	<u>\$ 13,221</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Accounts payable	\$ 412	\$ 292
Accrued interest	55	56

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Accrued liabilities and other current liabilities	132	201
Liabilities from risk-management activities	3,951	397
Notes payable and current portion of long-term debt	57	51
Liabilities held for sale	—	2
	<u> </u>	<u> </u>
Total Current Liabilities	4,607	999
	<u> </u>	<u> </u>
Long-term debt	5,819	5,739
Long-term debt, affiliates	200	200
	<u> </u>	<u> </u>
Long-Term Debt	6,019	5,939
Other Liabilities		
Liabilities from risk-management activities	489	116
Deferred income taxes	919	1,250
Other long-term liabilities	396	388
	<u> </u>	<u> </u>
Total Liabilities	12,430	8,692
	<u> </u>	<u> </u>
Minority Interest	18	23
Commitments and Contingencies (Note 10)		
Stockholders' Equity		
Class A Common Stock, \$0.01 par value, 2,100,000,000 shares authorized at June 30, 2008 and December 31, 2007; 505,087,481 and 502,819,794 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	5	5
Class B Common Stock, \$0.01 par value, 850,000,000 shares authorized at June 30, 2008 and December 31, 2007; 340,000,000 shares issued and outstanding at June 30, 2008 and December 31, 2007	3	3
Additional paid-in capital	6,476	6,463
Subscriptions receivable	(3)	(5)
Accumulated other comprehensive loss, net of tax	(42)	(25)
Accumulated deficit	(2,288)	(1,864)
Treasury stock, at cost, 2,560,727 and 2,449,259 shares at June 30, 2008 and December 31, 2007, respectively	(71)	(71)
	<u> </u>	<u> </u>
Total Stockholders' Equity	4,080	4,506
	<u> </u>	<u> </u>
Total Liabilities and Stockholders' Equity	\$ 16,528	\$ 13,221
	<u> </u>	<u> </u>

See the notes to condensed consolidated financial statements.

DYNEGY INC.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenues	\$ 323	\$ 828	\$ 868	\$ 1,333
Cost of sales	(456)	(369)	(907)	(609)
Operating and maintenance expense, exclusive of depreciation shown separately below	(125)	(141)	(237)	(220)
Depreciation and amortization expense	(93)	(88)	(186)	(140)
Gain on sale of assets	26	—	26	—
General and administrative expenses	(39)	(48)	(78)	(101)
Operating income (loss)	(364)	182	(514)	263
Losses from unconsolidated investments	(3)	(2)	(12)	(2)
Interest expense	(108)	(84)	(217)	(151)
Minority interest income (expense)	2	(9)	2	(9)
Other income and expense, net	15	10	35	18
Income (loss) from continuing operations before income taxes	(458)	97	(706)	119
Income tax benefit (expense) (Note 12)	186	(30)	282	(36)
Income (loss) from continuing operations	(272)	67	(424)	83
Income from discontinued operations, net of tax benefit (expense) of zero, \$(5), \$1 and \$(4), respectively (Notes 3 and 12)	—	9	—	7
Net income (loss)	\$ (272)	\$ 76	\$ (424)	\$ 90
Earnings (Loss) Per Share (Note 9):				
Basic earnings (loss) per share:				
Income (loss) from continuing operations	\$ (0.32)	\$ 0.08	\$ (0.51)	\$ 0.13
Income from discontinued operations	—	0.01	—	0.01
Basic earnings (loss) per share	\$ (0.32)	\$ 0.09	\$ (0.51)	\$ 0.14
Diluted earnings (loss) per share:				
Income (loss) from continuing operations	\$ (0.32)	\$ 0.08	\$ (0.51)	\$ 0.12
Income from discontinued operations	—	0.01	—	0.01
Diluted earnings (loss) per share	\$ (0.32)	\$ 0.09	\$ (0.51)	\$ 0.13

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Basic shares outstanding	837	828	837	663
Diluted shares outstanding	839	830	839	665

See the notes to condensed consolidated financial statements.

DYNEGY INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited) (in millions)

	Six Months Ended June 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (424)	\$ 90
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	188	146
Losses from unconsolidated investments, net of cash distributions	12	2
Risk-management activities	760	(97)
Gain on sale of assets	(26)	—
Deferred income taxes	(281)	41
Legal and settlement charges	—	11
Other	—	10
Changes in working capital:		
Accounts receivable	(77)	(130)
Inventory	23	(3)
Prepayments and other assets	(178)	(18)
Accounts payable and accrued liabilities	61	119
Changes in non-current assets	(35)	(17)
Changes in non-current liabilities	9	3
	<u> </u>	<u> </u>
Net cash provided by operating activities	32	157
	<u> </u>	<u> </u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(299)	(153)
Unconsolidated investments	(1)	(5)
Proceeds from asset sales, net	84	—
Business acquisitions, net of cash acquired	—	(126)
Decrease (increase) in restricted cash and restricted investments	28	(589)
Other investing	11	—
	<u> </u>	<u> </u>
Net cash used in investing activities	(177)	(873)
	<u> </u>	<u> </u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings, net	111	2,663
Repayments of long-term borrowings	(21)	(1,994)
Proceeds from issuance of capital stock	2	1
Other financing, net	(4)	(2)
	<u> </u>	<u> </u>

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Net cash provided by financing activities	88	668
	<u> </u>	<u> </u>
Net decrease in cash and cash equivalents	(57)	(48)
Cash and cash equivalents, beginning of period	328	371
	<u> </u>	<u> </u>
Cash and cash equivalents, end of period	\$ 271	\$ 323
	<u> </u>	<u> </u>
Other non-cash investing activity:		
Noncash construction expenditures	\$ 34	\$ —
	See the notes to condensed consolidated financial statements.	

DYNEGY INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited) (in millions)

	Three Months Ended June 30,	
	2008	2007
Net income (loss)	\$ (272)	\$ 76
Cash flow hedging activities, net:		
Unrealized mark-to-market gains arising during period, net	20	—
Reclassification of mark-to-market losses to earnings, net	(1)	(13)
Deferred losses on cash flow hedges, net	(2)	—
Changes in cash flow hedging activities, net (net of tax benefit (expense) of (\$5) and \$8, respectively)	17	(13)
Allocation to minority interest	(9)	—
Total cash flow hedging activities	8	(13)
Recognized prior service cost and actuarial loss	1	1
Foreign currency translation adjustment	—	2
Unrealized gain (loss) on securities, net:		
Unrealized gain (loss) on securities	1	(2)
Less: Reclassification adjustments for gain realized in net loss	(9)	—
Net unrealized losses (net of tax benefit of \$5 and \$1, respectively)	(8)	(2)
Unconsolidated investment other comprehensive loss, net (net of tax benefit of \$4)	(7)	—
Other comprehensive loss, net of tax	(6)	(12)
Comprehensive income (loss)	\$ (278)	\$ 64

	Six Months Ended June 30,	
	2008	2007
Net income (loss)	\$ (424)	\$ 90
Cash flow hedging activities, net:		

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Unrealized mark-to-market losses arising during period, net	(6)	(59)
Reclassification of mark-to-market gains (losses) to earnings, net	7	(28)
Deferred losses on cash flow hedges, net	(2)	—
	<u> </u>	<u> </u>
Changes in cash flow hedging activities, net (net of tax benefit (expense) of zero and \$51, respectively)	(1)	(87)
Allocation to minority interest	2	—
	<u> </u>	<u> </u>
Total cash flow hedging activities	1	(87)
Recognized prior service cost and actuarial loss	1	2
Foreign currency translation adjustment	—	2
Unrealized loss on securities, net:		
Unrealized loss on securities	(3)	(2)
Less: Reclassification adjustments for gain realized in net loss	(9)	—
	<u> </u>	<u> </u>
Net unrealized losses (net of tax benefit of \$8 and \$1, respectively)	(12)	(2)
Unconsolidated investment other comprehensive loss, net (net of tax benefit of \$4)	(7)	—
	<u> </u>	<u> </u>
Other comprehensive loss, net of tax	(17)	(85)
	<u> </u>	<u> </u>
Comprehensive income (loss)	\$ (441)	\$ 5
	<u> </u>	<u> </u>

See the notes to condensed consolidated financial statements.

DYNEGY HOLDINGS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited) (in millions)

	June 30, 2008	December 31, 2007
	<u> </u>	<u> </u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 238	\$ 292
Restricted cash	123	104
Accounts receivable, net of allowance for doubtful accounts of \$15 and \$15 respectively	481	428
Accounts receivable, affiliates	1	1
Inventory	172	199
Assets from risk-management activities	3,363	358
Deferred income taxes	—	30
Prepayments and other current assets	342	145
Assets held for sale (Note 3)	304	57
	<u> </u>	<u> </u>
Total Current Assets	5,024	1,614
	<u> </u>	<u> </u>
Property, Plant and Equipment	10,560	10,689
Accumulated depreciation	(1,707)	(1,672)
	<u> </u>	<u> </u>
Property, Plant and Equipment, Net	8,853	9,017
Other Assets		
Unconsolidated investments	—	18
Restricted cash and investments	1,173	1,221
Assets from risk-management activities	220	55
Goodwill	438	438
Intangible assets	465	497
Deferred income taxes	5	6
Accounts receivable, affiliates	2	—
Other long-term assets	256	241
	<u> </u>	<u> </u>
Total Assets	\$ 16,436	\$ 13,107
	<u> </u>	<u> </u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Current Liabilities		
Accounts payable	\$ 412	\$ 291
Accrued interest	55	56
Accrued liabilities and other current liabilities	133	202
Deferred income taxes	7	—
Liabilities from risk-management activities	3,951	397
Notes payable and current portion of long-term debt	57	51
Liabilities held for sale	—	2

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Total Current Liabilities	4,615	999
Long-term debt	5,819	5,739
Long-term debt to affiliates	200	200
Long-Term Debt	6,019	5,939
Other Liabilities		
Liabilities from risk-management activities	489	116
Deferred income taxes	733	1,052
Other long-term liabilities	394	381
Total Liabilities	12,250	8,487
Minority Interest	18	23
Commitments and Contingencies (Note 10)		
Stockholder's Equity		
Capital Stock, \$1 par value, 1,000 shares authorized at June 30, 2008 and December 31, 2007, respectively	—	—
Additional paid-in capital	5,684	5,684
Affiliate receivable	(815)	(825)
Accumulated other comprehensive loss, net of tax	(42)	(25)
Accumulated deficit	(659)	(237)
Total Stockholder's Equity	4,168	4,597
Total Liabilities and Stockholder's Equity	\$ 16,436	\$ 13,107

See the notes to condensed consolidated financial statements.

DYNEGY HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited) (in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenues	\$ 323	\$ 828	\$ 868	\$ 1,333
Cost of sales	(456)	(369)	(907)	(609)
Operating and maintenance expense, exclusive of depreciation shown separately below	(125)	(141)	(237)	(220)
Depreciation and amortization expense	(93)	(88)	(186)	(140)
Gain on sale of assets	26	—	26	—
General and administrative expenses	(39)	(46)	(78)	(82)
Operating income (loss)	(364)	184	(514)	282
Earnings (losses) from unconsolidated investments	3	—	(2)	—
Interest expense	(108)	(84)	(217)	(151)
Minority interest income (expense)	2	(9)	2	(9)
Other income and expense, net	14	12	34	16
Income (loss) from continuing operations before income taxes	(453)	103	(697)	138
Income tax benefit (expense) (Note 12)	184	(21)	275	(32)
Income (loss) from continuing operations	(269)	82	(422)	106
Income from discontinued operations, net of tax benefit (expense) of zero, \$(6), \$1 and \$(5), respectively (Notes 3 and 12)	—	8	—	6
Net income (loss)	\$ (269)	\$ 90	\$ (422)	\$ 112

See the notes to condensed consolidated financial statements.

DYNEGY HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited) (in millions)

	Six Months Ended June 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (422)	\$ 112
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	188	146
Losses from unconsolidated investments, net of cash distributions	2	—
Risk-management activities	760	(97)
Gain on sale of assets, net	(26)	—
Deferred income taxes	(273)	32
Legal and settlement charges	—	11
Other	(2)	10
Changes in working capital:		
Accounts receivable	(78)	(130)
Inventory	23	(3)
Prepayments and other assets	(178)	(18)
Accounts payable and accrued liabilities	61	122
Changes in non-current assets	(35)	(17)
Changes in non-current liabilities	9	3
	<u> </u>	<u> </u>
Net cash provided by operating activities	29	171
	<u> </u>	<u> </u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(299)	(153)
Unconsolidated investments	10	—
Proceeds from asset sales, net	84	—
Business acquisitions, net of cash acquired	—	17
Decrease (increase) in restricted cash and restricted investments	28	(589)
Affiliate transactions	1	(12)
Other investing	7	—
	<u> </u>	<u> </u>
Net cash used in investing activities	(169)	(737)
	<u> </u>	<u> </u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings, net	111	2,663
Repayments of long-term borrowings	(21)	(1,719)

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Dividend to affiliate	—	(342)
Other financing, net	(4)	1
	<u> </u>	<u> </u>
Net cash provided by financing activities	86	603
	<u> </u>	<u> </u>
Net increase (decrease) in cash and cash equivalents	(54)	37
Cash and cash equivalents, beginning of period	292	243
	<u> </u>	<u> </u>
Cash and cash equivalents, end of period	\$ 238	\$ 280
	<u> </u>	<u> </u>
Other non-cash investing activity:		
Noncash construction expenditures	\$ 34	\$ —
	See the notes to condensed consolidated financial statements.	

DYNEGY HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited) (in millions)

**Three Months Ended
June 30,**

2008