DYNEGY INC /IL/
Form 10-Q/A
May 01, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

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

For the quarterly period ended September 30, 2005

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

For the transition period from __________ to __________

Commission file number: 1-15659

DYNEGY INC.

(Exact name of registrant as specified in its charter)

Illinois	**74-2928353**
(State of incorporation)	**(I.R.S. Employer Identification No.)**

1000 Louisiana, Suite 5800

Houston, Texas 77002

(Address of principal executive offices)

(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. Yes x No ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: Class A common stock, no par value per share, 304,810,628 shares outstanding as of November 4, 2005; Class B common stock, no par value per share, 96,891,014 shares outstanding as of November 4, 2005.

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DYNEGY INC. FORM 10-Q/A

INTRODUCTORY NOTE

Dynegy Inc. is filing this Amendment No. 1 on Form 10-Q/A (Amendment No. 1) to reflect the effect of a $13 million decrease to our income from discontinued operations for the nine months ended September 30, 2005 and a $13 million increase to our net deferred tax liability at September 30, 2005 on our historical consolidated financial statements and related information, as reported in our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005, which was originally filed on November 9, 2005 (the Original Filing).

The aforementioned item includes items previously announced by us in our Current Report on Form 8-K dated May 1, 2006 and is discussed in more detail in the Explanatory Note to the accompanying unaudited condensed consolidated financial statements. This Amendment No. 1 also reflects restatements made to our unaudited condensed consolidated balance sheet as of September 30, 2005 and December 31, 2004 as further discussed in the Explanatory Note beginning on page F-10 of our Form 10-K for the year ended December 31, 2005. The following items of the Original Filing are amended by this Amendment No. 1:

Item 1. Condensed Consolidated Financial Statements

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Item 4. Controls and Procedures

Item 6. Exhibits

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

PLEASE NOTE THAT THE INFORMATION CONTAINED IN THIS AMENDMENT NO. 1, INCLUDING THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND THE NOTES THERETO, DOES NOT REFLECT EVENTS OCCURRING AFTER THE DATE OF THE ORIGINAL FILING, WITH THE EXCEPTION OF THE ITEM DISCUSSED ABOVE. SUCH EVENTS INCLUDE, AMONG OTHERS, THE EVENTS DESCRIBED IN OUR ANNUAL REPORT ON FORM 10-K FOR THE PERIOD ENDED DECEMBER 31, 2005 AND OUR CURRENT REPORTS ON FORM 8-K AND ANY AMENDMENTS THERETO. FOR A DESCRIPTION OF THESE EVENTS, PLEASE READ OUR EXCHANGE ACT REPORTS FILED SINCE NOVEMBER 9, 2005.

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DEFINITIONS

As used in this Form 10-Q/A, the abbreviations contained herein have the meanings set forth below. Additionally, the terms Dynegy, we, us and our refer to Dynegy Inc. and its subsidiaries, unless the context clearly indicates otherwise

ARB	Accounting Research Bulletin
ARO	Asset retirement obligation
Cal ISO	The California Independent System Operator
CDWR	California Department of Water Resources
CFTC	Commodity Futures Trading Commission
CPUC	California Public Utilities Commission
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., our primary financing subsidiary
DMG	Dynegy Midwest Generation, Inc.
DMS	Dynegy Midstream Services
DMSLP	Dynegy Midstream Services, Limited Partnership
DNE	Dynegy Northeast Generation
DPM	Dynegy Power Marketing Inc.
EITF	Emerging Issues Task Force
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
GAAP	Generally Accepted Accounting Principles of the United States of America
GCF	Gulf Coast Fractionators
GEN	Our power generation business segment
ICC	Illinois Commerce Commission
ISO	Independent System Operator
KW yr	Kilowatt year
KWh	Kilowatt hour
LNG	Liquefied natural gas
MBbls/d	Thousands of barrels per day
Mcf	Thousand cubic feet
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Millions of British thermal units
MMCFD	Million cubic feet per day
MW	Megawatts
MWh	Megawatt hour
NGL	Our natural gas liquids business segment
NNG	Northern Natural Gas Company
NOL	Net operating loss
NOV	Notice of Violation issued by the EPA
NYISO	New York Independent System Operator
NYSDEC	New York State Department of Environmental Conservation
Original Filing	Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, filed on November 9, 2005
PJM	PJM Interconnection, LLC
POL	Percentage of liquids

POP	Percentage of proceeds
PRB	Powder River Basin coal
REG	Our regulated energy delivery business segment
RMR	Reliability Must Run
RTO	Regional Transmission Organization
SEC	U.S. Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SPDES	State Pollutant Discharge Elimination System
SPE	Special Purpose Entity
SPN	Second Priority Notes
VaR	Value at Risk
VEBA	Voluntary Employees Benefit Association
VESCO	Venice Energy Services Company, LLC
VIE	Variable Interest Entity

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DYNEGY INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

See Explanatory Note

(unaudited) (in millions, except share data)

	September 30, 2005	December 31, 2004
		(Restated)
ASSETS		
Current Assets		
Cash and cash equivalents	$ 187	$ 628
Restricted cash	72	
Accounts receivable, net of allowance for doubtful accounts of $158 and $159, respectively	634	810
Accounts receivable, affiliates	12	14
Inventory	172	233
Assets from risk-management activities	1,259	565
Deferred income taxes	750	62
Prepayments and other current assets	279	428
Assets held for sale (Note 3)	518	
Total Current Assets	3,883	2,740
Property, Plant and Equipment	6,478	7,822
Accumulated depreciation	(1,136)	(1,692)
Property, Plant and Equipment, Net	5,342	6,130
Other Assets		
Unconsolidated investments	291	421
Restricted investments	84	
Intangible assets	403	
Assets from risk-management activities	283	313
Goodwill		15
Deferred income taxes	16	15
Other long-term assets	178	209
Assets held for sale (Note 3)	1,171	
Total Assets	$ 11,651	$ 9,843
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 468	$ 561
Accounts payable, affiliates	15	23
Accrued interest	123	118
Accrued liabilities and other current liabilities	277	450
Liabilities from risk-management activities	1,316	616
Notes payable and current portion of long-term debt	77	34
Liabilities held for sale (Note 3)	251	

Total Current Liabilities	2,527	1,802
Long-term debt	4,824	4,132
Long-term debt to affiliates	200	200
Long-Term Debt	5,024	4,332
Other Liabilities		
Liabilities from risk-management activities	329	395
Deferred income taxes	1,046	499
Other long-term liabilities	388	353
Liabilities held for sale (Note 3)	19	
Total Liabilities	9,333	7,381
Minority Interest	107	106
Commitments and Contingencies (Note 10)		
Redeemable Preferred Securities, redemption value of $400 at September 30, 2005 and December 31, 2004, respectively	400	400
Stockholders Equity		
Class A Common Stock, no par value, 900,000,000 shares authorized at September 30, 2005 and December 31, 2004; 304,595,236 and 285,012,203 shares issued and outstanding at September 30, 2005 and December 31, 2004, respectively	2,947	2,859
Class B Common Stock, no par value, 360,000,000 shares authorized at September 30, 2005 and December 31, 2004; 96,891,014 shares issued and outstanding at September 30, 2005 and December 31, 2004	1,006	1,006
Additional paid-in capital	48	41
Subscriptions receivable	(8)	(8)
Accumulated other comprehensive loss, net of tax	(28)	(13)
Accumulated deficit	(2,086)	(1,861)
Treasury stock, at cost, 1,686,715 shares at September 30, 2005 and 1,679,183 shares at December 31, 2004	(68)	(68)
Total Stockholders Equity	1,811	1,956
Total Liabilities and Stockholders Equity	$ 11,651	$ 9,843

See the notes to condensed consolidated financial statements.

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DYNEGY INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

See Explanatory Note

(unaudited) (in millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
			(Restated)	
Revenues	$ 770	$ 668	$ 1,691	$ 2,124
Cost of sales, exclusive of depreciation shown separately below	(572)	(443)	(1,482)	(1,432)
Depreciation and amortization expense	(56)	(58)	(165)	(183)
Impairment and other charges		(3)	(6)	(78)
Loss on sale of assets, net	(1)	(24)	(1)	(39)
General and administrative expenses	(76)	(75)	(421)	(231)
Operating income (loss)	65	65	(384)	161
Earnings from unconsolidated investments	7	99	14	187
Interest expense	(99)	(115)	(284)	(386)
Other income and expense, net		3	9	10
Minority interest expense		(3)		(4)
Income (loss) from continuing operations before income taxes	(27)	49	(645)	(32)
Income tax benefit (expense) (Note 13)	13	(7)	228	75
Income (loss) from continuing operations	(14)	42	(417)	43
Income from discontinued operations, net of tax benefit (expense) of $(26), $(24), $54, and $(102), respectively (Notes 3 and 13)	43	36	209	113
Net income (loss)	29	78	(208)	156
Less: preferred stock dividends	6	6	17	17
Net income (loss) applicable to common stockholders	$ 23	$ 72	$ (225)	$ 139
Earnings (Loss) Per Share (Note 9):				
Basic earnings (loss) per share:				
Income (loss) from continuing operations	$ (0.05)	$ 0.10	$ (1.13)	$ 0.07
Income from discontinued operations	0.11	0.09	0.54	0.30
Basic earnings (loss) per share	$ 0.06	$ 0.19	$ (0.59)	$ 0.37
Diluted earnings (loss) per share:				
Income (loss) from continuing operations	$ (0.05)	$ 0.09	$ (1.13)	$ 0.07
Income from discontinued operations	0.11	0.07	0.54	0.30

Diluted earnings (loss) per share	$ 0.06	$ 0.16	$ (0.59)	$ 0.37
Basic shares outstanding	390	379	383	378
Diluted shares outstanding	516	504	509	380

See the notes to condensed consolidated financial statements.

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DYNEGY INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

See Explanatory Note

(unaudited) (in millions)

	Nine Months Ended September 30,	
	2005	**2004**
	(Restated)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (208)	$ 156
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	212	279
Impairment and other charges	(1)	83
Earnings from unconsolidated investments, net of cash distributions	47	(82)
Risk-management activities	(11)	(24)
Gain on sale of assets, net	(9)	(14)
Deferred income taxes	(284)	27
Liability associated with gas transportation contracts (Note 3)		(148)
Legal and settlement charges	110	
Independence toll settlement charge	169	
Other	13	8
Changes in working capital:		
Accounts receivable	(199)	150
Inventory	(9)	(70)
Prepayments and other assets	101	(125)
Accounts payable and accrued liabilities	(113)	(123)
Changes in non-current assets	(4)	(17)
Changes in non-current liabilities	8	20
Net cash provided by (used in) operating activities	(178)	120
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(132)	(221)
Proceeds from asset sales, net	106	527
Business acquisition costs, net of cash acquired	(120)	
Net cash provided by (used in) investing activities	(146)	306
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from long-term borrowings		588
Repayments of long-term borrowings	(40)	(520)
Proceeds from issuance of capital stock	2	5
Dividends and other distributions, net	(22)	(22)
Other financing, net	(39)	(27)

Net cash provided by (used in) financing activities	(99)	24
Effect of exchange rate changes on cash		(1)
Net increase (decrease) in cash and cash equivalents	(423)	449
Cash and cash equivalents, beginning of period	628	477
Less: Cash classified as held for sale at end of period (Note 3)	(18)	
Cash and cash equivalents, end of period	$ 187	$ 926

See the notes to condensed consolidated financial statements.

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DYNEGY INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

See Explanatory Note

(unaudited) (in millions)

	Three Months Ended September 30,	
	2005	**2004**
Net income	$ 29	$ 78
Cash flow hedging activities, net:		
Unrealized mark-to-market losses arising during period, net	(60)	(4)
Reclassification of mark-to-market losses to earnings, net	50	4
Changes in cash flow hedging activities, net (net of tax benefit of $5 and zero, respectively)	(10)	
Foreign currency translation adjustments	5	3
Minimum pension liability (net of tax expense of zero and $23, respectively)		39
Other comprehensive income (loss), net of tax	(5)	42
Comprehensive income	$ 24	$ 120

	Nine Months Ended September 30,	
	2005	**2004**
	(Restated)	
Net income (loss)	$ (208)	$ 156
Cash flow hedging activities, net:		
Unrealized mark-to-market losses arising during period, net	(81)	(57)
Reclassification of mark-to-market losses to earnings, net	61	24
Changes in cash flow hedging activities, net (net of tax benefit of $12 and $20, respectively)	(20)	(33)
Foreign currency translation adjustments	5	(12)
Minimum pension liability (net of tax expense of zero and $24, respectively)		41
Other comprehensive loss, net of tax	(15)	(4)
Comprehensive income (loss)	$ (223)	$ 152

See the notes to condensed consolidated financial statements.

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DYNEGY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited and Restated)

For the Interim Periods Ended September 30, 2005 and 2004

PLEASE NOTE THAT THESE FINANCIAL STATEMENTS AND THE NOTES THERETO DO NOT REFLECT EVENTS OCCURRING AFTER NOVEMBER 9, 2005 (THE DATE OF THE ORIGINAL FILING) WITH THE EXCEPTION OF THE ITEM DISCUSSED IN THE EXPLANATORY NOTE BELOW. FOR A DESCRIPTION OF THESE EVENTS, PLEASE READ OUR EXCHANGE ACT REPORTS FILED SINCE NOVEMBER 9, 2005.

EXPLANATORY NOTE

This Amendment No. 1 to our Quarterly Report on Form 10-Q for the period ended September 30, 2005 includes a restatement of our unaudited condensed consolidated financial statements for the nine month period ended September 30, 2005. The restatement relates to our deferred income tax accounts. In the second quarter 2005, we recognized a $125 million tax benefit in anticipation of our sale of DMSLP. This benefit resulted from a reduction in the valuation allowance related to our capital loss carryforwards expected to be used against capital gains generated by the sale of DMSLP. We recently identified that a portion of the capital loss carryforwards had been previously used and therefore was not available for use against those capital gains. Because we mistakenly used these unavailable capital loss carryforwards against capital gains generated by the sale of DMSLP, income from discontinued operations during the second quarter of 2005 was overstated by $13 million, and the net deferred tax liability was understated by $13 million at September 30, 2005.

The restatement effects Note 1 Accounting Policies, Note 3 Discontinued Operations, Dispositions and Contract Terminations, Note 13 Income Taxes and Note 14 Segment Information. The restatement had no effect on our previously reported loss from continuing operations or net cash provided by (used in) operating activities, investing activities or financing activities for the three and nine months ended September 30, 2005. This Amendment No. 1 also reflects restatements made to our unaudited condensed consolidated balance sheet as of September 30, 2005 and December 31, 2004 as further discussed in the Explanatory Note beginning on page F-10 of our Form 10-K for the year ended December 31, 2005. A synopsis of the aggregate financial impact of these restatements on the amounts originally reported in the Original Filing is as follows:

RESTATED SELECTED BALANCE SHEET DATA

	September 30, 2005

	(in millions)
Deferred income taxes	
As previously reported	$ (1,131)
Adjustment (1)	98
Restatement effect	(13)
As restated	$ (1,046)
Total Liabilities	
As previously reported	$ (9,418)
Adjustment (1)	98
Restatement effect	(13)
As restated	$ (9,333)
Stockholders Equity	
As previously reported	$ (1,735)
Adjustment (1)	(89)
Restatement effect	13
As restated	$ (1,811)

(1) Adjustment relates to a prior restatement of the deferred tax liability balances, as further described in the Explanatory Note beginning on page F-10 of our Form 10-K for the year ended December 31, 2005.

RESTATED SELECTED RESULTS OF OPERATIONS DATA

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
	(in millions)	
Income from discontinued operations		
As previously reported	$ 43	$ 222
Restatement effect		(13)
As restated	$ 43	$ 209
Net income (loss)		
As previously reported	$ 29	$ (195)
Restatement effect		(13)
As restated	$ 29	$ (208)
Net income (loss) applicable to common shareholders		
As previously reported	$ 23	$ (212)
Restatement effect		(13)
As restated	$ 23	$ (225)
Net income (loss) per diluted share		

As previously reported	$ 0.06	$ (0.55)
Restatement effect		(0.04)
As restated	$ 0.06	$ (0.59)

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DYNEGY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited and Restated)

For the Interim Periods Ended September 30, 2005 and 2004

Note 1 Accounting Policies

Amounts in this footnote have been restated. For further information, please see the Explanatory Note.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to interim financial reporting as prescribed by the SEC. The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. These interim financial statements should be read together with the consolidated financial statements and notes thereto included in our Form 10-K for the year ended December 31, 2004, which we refer to as our Form 10-K.

The unaudited condensed consolidated financial statements contained in this report include all material adjustments that, in the opinion of management, are necessary for a fair statement of the results for the interim periods. These adjustments are of a normal and recurring nature. The results of operations for the interim periods presented in this Form 10-Q/A are not necessarily indicative of the results to be expected for the full year or any other interim period, however, due to seasonal fluctuations in demand for our energy products and services, changes in commodity prices, timing of maintenance and other expenditures and other factors. The preparation of the unaudited condensed consolidated financial statements in conformity with GAAP requires management to make estimates and judgments that affect our reported financial position and results of operations. These estimates and judgments also impact the nature and extent of disclosure, if any, of our contingent liabilities. We review significant estimates and judgments affecting our consolidated financial statements on a recurring basis and record the effect of any necessary adjustments prior to the publication of such financial statements. Estimates and judgments are based on information available at the time such estimates and judgments are made. Adjustments made with respect to the use of these estimates and judgments often relate to information not previously available. Uncertainties with respect to such estimates and judgments are inherent in the preparation of financial statements. Estimates and judgments are primarily used in (1) developing fair value assumptions, including estimates of future cash flows and discount rates, (2) analyzing tangible and intangible assets for possible impairment, (3) estimating the useful lives of our assets, (4) assessing future tax exposure and the realization of tax assets, (5) determining amounts to accrue for contingencies, guarantees and indemnifications and (6) estimating various factors used to value our pension assets and liabilities. Actual results could differ materially from any such estimates. Certain reclassifications have been made to prior period amounts in order to conform to current year presentation.

Asset Retirement Obligations. At December 31, 2004, our ARO liabilities were $35 million for our GEN segment and $11 million for our NGL segment. These retirement obligations related to activities such as ash pond and landfill capping, closure and post-closure costs, environmental testing, remediation, monitoring and land and equipment lease obligations. We continue to follow the provisions for disclosure and accounting for these AROs under SFAS No. 143, Asset Retirement Obligations. During the three and nine months ended September 30, 2005 and 2004, no material additional AROs were recorded or settled, and our accretion expenses and revisions to estimated cash flows were not material. At September 30, 2005, our ARO liabilities were $38 million for our GEN segment and $10 million for our NGL segment. In anticipation of our sale of DMSLP, the $10 million of ARO liabilities associated with our NGL segment have been reclassified to liabilities held for sale. We sold DMSLP to Targa Resources, Inc. and two of its subsidiaries on October 31, 2005. Please see Note 3 Discontinued Operations, Dispositions and Contract Terminations Discontinued Operations Natural Gas Liquids for further discussion of the sale.

Employee Stock Options. In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based Compensation, and provides alternative methods of transition (prospective, modified prospective or retroactive) for entities that voluntarily change to the fair value-based method of accounting for stock-based employee compensation in a fiscal year beginning before December 16, 2003. SFAS No. 148 requires prominent disclosure about the effects on reported net income of an entity s accounting policy decisions with respect to stock-

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DYNEGY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited and Restated)

For the Interim Periods Ended September 30, 2005 and 2004

based employee compensation. We transitioned to a fair value-based method of accounting for stock-based compensation on January 1, 2003 and are using the prospective method of transition as described under SFAS No. 148.

Under the prospective method of transition, all stock options granted after January 1, 2003 are accounted for on a fair value basis. Options granted prior to January 1, 2003 continue to be accounted for using the intrinsic value method. Accordingly, for options granted prior to January 1, 2003, compensation expense is not reflected for employee stock options unless they were granted at an exercise price lower than market value on the grant date. We have granted in-the-money options in the past and have recognized compensation expense over the applicable vesting periods. No in-the-money stock options have been granted since 1999.

Had compensation cost for all stock options granted prior to January 1, 2003 been determined on a fair value basis consistent with SFAS No. 123, our net income (loss) and basic and diluted earnings (loss) per share amounts would have approximated the following pro forma amounts for the three- and nine-month periods ended September 30, 2005 and 2004, respectively.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(in millions, except per share data)			
Net income (loss) as reported	$ 29	$ 78	$ (208)	$ 156
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects	3	1	5	3
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(3)	(6)	(5)	(22)
Pro forma net income (loss)	$ 29	$ 73	$ (208)	$ 137
Earnings (loss) per share:				
Basic as reported	$ 0.06	$ 0.19	$ (0.59)	$ 0.37
Basic pro forma	$ 0.06	$ 0.18	$ (0.59)	$ 0.32
Diluted as reported	$ 0.06	$ 0.16	$ (0.59)	$ 0.37
Diluted pro forma	$ 0.06	$ 0.15	$ (0.59)	$ 0.28

Accounting Principles Adopted

FIN No. 46(R). In the fourth quarter 2003, we adopted the initial provisions of FIN No. 46(R), Consolidation of Variable Interest Entities An Interpretation of ARB No. 51. FIN No. 46(R) was effective on December 31, 2003 for entities considered SPEs. We adopted the remaining provisions of FIN No. 46(R) on March 31, 2004. These provisions require that we review the structure of non-SPE legal entities in which we have an investment and other legal entities with whom we transact to determine whether such entities are VIEs, as defined by FIN No. 46(R). With respect to each of the VIEs we identified, we assessed whether we were the primary beneficiary, as defined by FIN No. 46(R). We concluded that we were not the primary beneficiary of any of these entities and, therefore, the adoption did not have an impact on our unaudited condensed consolidated financial statements.

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DYNEGY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited and Restated)

For the Interim Periods Ended September 30, 2005 and 2004

FIN No. 46(R) requires additional disclosures for entities that meet the definition of a VIE in which we hold a significant variable interest but are not the primary beneficiary. We own 50% equity interests in two generation facilities, one in Illinois and the other in California, which are accounted for using equity method accounting and are included in unconsolidated investments in our unaudited condensed consolidated balance sheets. We acquired or began involvement with these equity interests in 1997 and 1999, respectively. Total net generating capacity for these facilities totals 165 MW and 902 MW, respectively. As a result of various contractual arrangements into which these entities have entered, we have concluded that they are both VIEs. As we do not absorb a majority of the expected losses or receive a majority of the expected residual returns, we are not considered the primary beneficiary of these entities. Our equity investment balance in the facilities totaled $270 million at September 30, 2005, and one of our affiliates has a loan outstanding to one of these entities, which totaled $19 million at September 30, 2005. As a result, our maximum exposure to loss from these entities was $289 million at September 30, 2005.

On January 31, 2005, we completed the acquisition of ExRes SHC, Inc., the parent company of Sithe Energies, Inc., which we refer to as Sithe Energies, and Sithe/Independence Power Partners, L.P., which we refer to as Independence. ExRes SHC, Inc., which we refer to as ExRes, owns through its subsidiaries four natural gas-fired merchant facilities in New York and four hydroelectric generation facilities in Pennsylvania. The entities owning these facilities meet the definition of VIEs. In accordance with the purchase agreement, Exelon Corporation, which we refer to as Exelon , has the sole and exclusive right to direct our efforts to decommission, sell, bankrupt, or otherwise dispose of the hydroelectric facilities owned through the VIE entities. Exelon is obligated to reimburse ExRes for all costs, liabilities, and obligations of the entities owning these hydroelectric generation facilities, and to indemnify ExRes with respect to the past and present assets and operations of the entities. As a result, we are not the primary beneficiary of the entities, and have not consolidated them in accordance with the provisions of FIN No. 46(R).

With regard to the four natural gas-fired merchant facilities located in New York, we had the option to elect to decommission any or all of these facilities within a 180-day period after the January 31, 2005 closing date. Prior to expiration of the option period, which ended on July 30, 2005, we elected to decommission all four of the natural gas-fired merchant facilities owned by ExRes. Under the terms of the purchase agreement, Exelon will direct the decommissioning, sale, or other disposal of the facilities. Further, Exelon is obligated to indemnify us with respect to all operations prior to February 1, 2005, and subsequent to our election to decommission or sell the facilities and must provide written consent for any payments or actions outside the ordinary course of operations. On June 1 and August 4, 2005, we entered into agreements, as directed by Exelon, to sell our ownership and operating interests in the four natural gas-fired power generation peaking facilities to Alliance Energy Group LLC. The transactions, which were approved by the FERC and the New York Public Service Commission, closed on October 31, 2005 and had no impact on our unaudited condensed consolidated financial statements, as Exelon received the proceeds from the sale. As a result of the rights retained by Exelon with respect to these facilities, we are not the primary beneficiary of these VIEs, and have not consolidated them in accordance with the provisions of FIN No. 46(R). Please see Note 2 Acquisition Sithe Energies for further discussion regarding this acquisition.

The hydroelectric generation facilities have commitments and obligations that are off-balance sheet with respect to Dynegy arising under operating leases for equipment and long-term power purchase agreements with local utilities. As of September 30, 2005, the equipment leases have remaining terms from two to sixteen years and involve future lease payments of $131 million over the terms of the leases. Additionally, each of these facilities is party to a long-term power purchase agreement with a local utility. Under the terms of each of these agreements, a project tracking account, which we refer to as the Tracking Account, was established to quantify the difference between (i) the facility s fixed price revenues under the power purchase agreement and (ii) the respective utility s Public Utility Commission approved avoided costs associated with those power purchases plus accumulated interest on the balance. Each power purchase agreement calls for the hydroelectric facility to return to the utility the balance

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in the Tracking Account before the end of the facility s life through decreased pricing under the respective power purchase agreement. Two of the four hydroelectric facilities are currently in the Tracking Account repayment period of the contract, whereby balances are repaid through decreased pricing. This pricing cannot be decreased below a level sufficient to allow the facilities to recover their operating costs, exclusive of lease or interest costs. The remaining two facilities are anticipated to begin reducing the Tracking Accounts in 2006. The aggregate balance of the Tracking Accounts as of September 30, 2005 was approximately $255 million, and the obligations with respect to each Tracking Account are secured by the assets of the respective facility. The decreased pricing necessary to reduce the Tracking Accounts may cause the facilities to operate at a net cash deficit. As discussed above, the obligations of the four hydroelectric facilities are non-recourse to us. Under the terms of the stock purchase agreement with Exelon, we are indemnified for any net cash outflow arising from ownership of these facilities.

Accounting Principles Not Yet Adopted

SFAS No. 123(R). In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payment, which revises SFAS No. 123. SFAS No. 123(R) is effective for January 1, 2006 for all calendar year-end companies. SFAS No. 123(R) requires companies to expense the fair value of employee stock options and other forms of stock-based compensation. We expect to adopt the provisions of SFAS No. 123(R) on January 1, 2006. SFAS No. 123(R) describes several transition methods, and we expect to apply the modified prospective method of adoption. Under this method, compensation expense will be recognized for the remaining portion of outstanding, unvested awards at the date of adoption.

As noted in Employee Stock Options above, under SFAS No. 148 we previously adopted the prospective method of transition for expensing the fair value of stock options and restricted stock awards granted after January 1, 2003, and as such, we do not expect the guidance under SFAS No. 123(R) to have a material impact on our consolidated statement of operations.

FIN No. 47. In March 2005, the FASB issued Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, which is an interpretation of SFAS No. 143. FIN No. 47 defines a conditional ARO as an ARO for which the timing and/or method of settlement are conditional upon future events that may or may not be within the control of the entity. Uncertainty about the timing and method of settlement for a conditional ARO should be considered in estimating the ARO when sufficient information exists. FIN No. 47 clarifies when sufficient information exists to reasonably estimate the fair value of an ARO. FIN No. 47 is effective for fiscal years ending after December 15, 2005. We will adopt FIN No. 47 on December 31, 2005 and are in the process of evaluating the impact of this guidance.

Note 2 Acquisition

Sithe Energies. On January 31, 2005, we acquired 100% of the outstanding common shares of ExRes, the parent company of Sithe Energies and Independence. The results of the operations of ExRes have been included in our consolidated financial statements since that date. Through this acquisition, we acquired the 1,021 MW Independence power generation facility located near Scriba, New York, as well as four natural gas-fired merchant facilities in New York and four hydroelectric generation facilities in Pennsylvania. We have not consolidated the entities that own these four natural gas-fired facilities and four hydroelectric generation facilities, in accordance with the provisions of FIN No. 46(R). See Note 1 Accounting Policies Accounting Principle Adopted FIN No. 46(R) for additional discussion of these facilities. In addition to these power plants, we acquired the 750 MW firm capacity sales agreement between Independence and Con Edison, a subsidiary of Consolidated Edison, Inc. This agreement, which runs through 2014, will provide us with annual cash receipts of approximately $100 million, subject to the restrictions on distribution under Independence s indebtedness. Independence holds power tolling,

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financial swap and other contracts with other Dynegy subsidiaries. As a result of the acquisition, these contracts have become intercompany agreements, and their financial statement impact has been substantially eliminated. This transaction enabled us to address one of our outstanding power tolling arrangements and to expand our generation capacity in a market where we have an existing presence.

The aggregate purchase price was comprised of (i) $135 million cash, which was reduced by a purchase price adjustment of approximately $2 million; (ii) transaction costs of approximately $16 million, approximately $3 million of which were paid in 2004 and (iii) the assumption of $919 million of face value project debt, which was recorded at its fair value of $797 million as of January 31, 2005. Please see Note 7 Debt Independence Debt for additional information regarding the debt assumed.

The allocation of purchase price to specific assets and liabilities is based, in part, upon outside appraisals using customary valuation procedures and techniques. The acquisition resulted in an excess of the fair value of assets acquired over cost of the acquisition. This excess was then allocated to property plant and equipment and intangible assets acquired, including intangibles arising from contracts with us, on a pro-rata basis**.** The following table summarizes the fair values of the assets and liabilities acquired at the date of acquisition, January 31, 2005 (in millions):

Other current assets	$ 87
Restricted cash and investments	132
Property, plant and equipment	350
Assets from risk-management activities	62
Intangible assets	654
Total assets acquired	$ 1,285
Current liabilities	$ (96)
Deferred income taxes	(184)
Other long-term liabilities	(59)
Long-term debt	(797)
Total liabilities assumed	$ (1,136)
Net assets acquired	$ 149

Included in the assets acquired are restricted cash and investments of approximately $132 million. The restricted investments include Federal Home Loan Bank Bonds, U.S. Treasury Bonds, and high-grade short-term commercial paper. The restricted cash and investments are related to a sinking fund required by Independence s debt instruments, including a major overhaul reserve, a debt service reserve, a principal payment reserve, an interest reserve and a project restoration reserve. Restrictions on the cash and investments are scheduled to be lifted at the end of the project financing term in 2014. For further discussion, please see Note 7 Debt Independence Debt.

Of the $654 million of acquired intangible assets, $485 million was allocated to the firm capacity sales agreement with Con Edison. This asset will be amortized on a straight-line basis over the ten-year remaining life of the contract as a reduction to revenue in our unaudited condensed consolidated statements of operations, through October 2014. In addition, Independence holds a power tolling contract, and a gas supply agreement with another of our subsidiaries, which were valued at $153 million and $16 million, respectively, as of January 31, 2005. Upon completion of our purchase of Independence, the power tolling agreement and the gas supply agreement were effectively settled, which resulted in a 2005 charge equal to their fair values, in accordance with EITF Issue 04-01, Accounting for Pre-existing Contractual Relationships Between the Parties to a Purchase Business Combination.

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As a result, we recorded a first quarter 2005 pre-tax charge of $183 million, which is included in cost of sales on our unaudited condensed consolidated statements of operations. In the three and nine months ended September 30, 2005, we revised the determination of the tax basis of the assets and liabilities acquired, and revised our purchase price allocation, resulting in additional excess of the fair value of the assets acquired over the cost of the acquisition. Accordingly, in the three and nine months ended September 30, 2005, we reversed $1 million and $14 million of the $183 million pre-tax charge recorded in the first quarter, resulting in a net pre-tax charge of $169 million for the nine months ended September 30, 2005 in accordance with EITF Issue 04-01. As a result, we made revisions to our deferred income taxes ($85 million decrease to liabilities), intangible assets ($55 million decrease to assets), and property, plant and equipment balances ($30 million decrease to assets). Upon settlement of the power tolling and gas supply agreements, the firm capacity sales agreement with Con Edison is the only remaining intangible asset associated with the acquisition of ExRes, which is included in intangibles and prepaids and other current assets on our unaudited condensed consolidated balance sheets.

We have exercised our right to require Exelon to decommission, sell, or otherwise dispose of all four natural gas-fired merchant facilities owned by ExRes. Under the terms of the purchase agreement, Exelon will direct the disposition of these facilities, and will indemnify us with respect to all past and present operations. On June 1 and August 4, 2005 we entered into agreements, as directed by Exelon, to sell our ownership and operating interests in the four natural gas-fired power generation peaking facilities in upstate New York to Alliance Energy Group LLC, which includes our 80% interest in an 84 MW plant in Massena and our 85% interest in an 83 MW plant in Ogdensburg. The transactions, which were approved by the FERC and the New York Public Service Commission, closed on October 31, 2005 and had no impact on our unaudited condensed consolidated financial statements as Exelon received the proceeds from the sale. Further, Exelon is entitled to cause us to decommission, sell, or bankrupt any or all of the four hydroelectric facilities owned by ExRes, for which we have been indemnified for any losses.

Note 3 Discontinued Operations, Dispositions and Contract Terminations

Amounts in this footnote have been restated. For further information, please see the Explanatory Note.

Discontinued Operations

Natural Gas Liquids. On October 31, 2005, we consummated the sale of DMSLP, which comprised substantially all of the operations of our NGL segment, to Targa Resources Inc. and two of its subsidiaries, which we refer to as Targa , for $2.445 billion in cash. At closing we received

$2.35 billion in cash proceeds. Targa assumed responsibility for approximately $47 million in letters of credit provided by us for the benefit of DMSLP, with the replacement of those letters of credit to occur within 90 days following the closing. By December 31, 2005, we expect to receive payment of a substantial majority of the balance of the sales proceeds from Targa which represents our cash collateral related to DMSLP. The total amount of cash collateral, approximately $95 million, is lower than our August 2, 2005 estimate of $125 million primarily as a result of less cash collateral posted due to the business interruptions caused by the recent Gulf Coast hurricanes. Please see Note 7 Debt DMSLP for a discussion of the permitted use of proceeds.

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In the second quarter 2005, NGL met the held for sale classification requirements of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets . As of September 30, 2005, NGL continued to meet the held for sale requirements, and is classified as such on our unaudited condensed consolidated balance sheet. The major classes of current and long-term assets and liabilities classified as assets held for sale or liabilities held for sale at September 30, 2005 are as follows (in millions):

Current Assets:	
Cash	$ 18
Accounts receivable, net of allowance for doubtful accounts of $2	395
Inventory	92
Other	13
Total Current Assets	$ 518
Long-Term Assets:	
Property, plant and equipment, net	$ 1,076
Unconsolidated investments	77
Goodwill	15
Other	3
Total Long-Term Assets	$ 1,171
Current Liabilities:	
Accounts payable	$ 151
Other	100
Total Current Liabilities	$ 251
Long-Term Liabilities:	
Other	19
Total Long-Term Liabilities	$ 19

Additionally, the $107 million in minority interest at September 30, 2005 related to NGL will not be included in our unaudited condensed consolidated balance sheets subsequent to the sale. As a result of the sale of DMSLP to Targa, our expected realization of certain deferred tax assets has been accelerated. For further discussion, please see Note 13 Income Taxes Balance Sheet Classification.

SFAS No. 144 also requires that long-lived assets not be depreciated or amortized while they are classified as held for sale. As such, we discontinued depreciation and amortization of NGL s property, plant and equipment, effective June 1, 2005. Depreciation and amortization expense related to NGL totaled $2 million and $37 million in the three- and nine-month periods ended September 30, 2005, compared to $21 million and $66 million in the three- and nine-month periods ended September 30, 2004.

In addition, SFAS No. 144 requires a loss to be recognized if assets held for sale less liabilities held for sale are in excess of fair value less costs to sell. Because the fair value less costs to sell is greater than assets held for sale less liabilities held for sale, we did not recognize a loss in the third quarter 2005. Also, during the second quarter, as a result of the anticipated sale of DMSLP, we reduced the valuation allowance on our deferred tax asset. For further discussion, please see Note 13 Income Taxes Capital Loss Valuation Allowance. We recorded a pre-tax gain of approximately $1.1 billion ($700 million after-tax), subject to post-closing adjustments, upon closing of the transaction.

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Pursuant to SFAS No. 144, we are reporting the results of NGL s operations as a discontinued operation. Accordingly, the results of operations of our NGL segment have been included in discontinued operations for all periods presented. EITF Issue 87-24, Allocation of Interest to Discontinued Operations, requires that interest expense on debt that is required to be repaid upon the sale of DMSLP should be reclassified to discontinued operations. Therefore, interest expense on our term loan scheduled to mature in 2010 and our generation facility debt scheduled to mature in 2007 has been allocated to discontinued operations, as the respective debt instruments were required to be paid upon the sale of DMSLP. Such interest expense, inclusive of amortization of debt issuance costs, totaled $15 million and $10 million for the three months ended September 30, 2005 and 2004, respectively, and $40 million and $16 million for the nine months ended September 30, 2005 and 2004, respectively.

Additionally, results from NGL s operations include revenues and cost of sales arising from intersegment transactions, which, other than the short term arrangement described below, will cease after the sale of DMSLP. NGL processes natural gas and sells this natural gas to CRM for resale to third parties. NGL also purchases natural gas from CRM and electricity from GEN. As the intersegment revenues and cost of sales included in NGL s results were reclassified to discontinued operations, the effects of these intersegment transactions eliminated in consolidation, including the ultimate third party settlement, previously recorded in other segments, have also been reclassified to discontinued operations.

In conjunction with the sale of DMSLP, certain natural gas sales and purchase agreements between DMSLP and CRM were extended through November 30, 2005. Under these agreements, which until the sale were intersegment agreements, CRM purchases natural gas from DMSLP field processing plants or sells natural gas for use as fuel or plant thermal reduction (PTR) replacement in certain of DMSLP s fractionation and non-operated Gulf Coast processing facilities. DMSLP has agreed to pay CRM essentially all costs it incurs in the sale, procurement and provisioning of natural gas under these agreements.

Pursuant to a Master Gas Processing Agreement, DMSLP has the right, subject to several conditions, to process any of Chevron s future gas production in the lower 48 continental United States that is not already included within the committed areas of the existing processing agreements. In August 2005, Chevron provided DMSLP with written notice of termination of this Master Gas Processing Agreement effective as of the expiration of the 10-year primary term, which is August 31, 2006. After that date, DMSLP will no longer have a preferential right to process any gas attributable to future production by Chevron. The termination of the Master Gas Processing Agreement does not modify Chevron s obligations under the existing gas processing agreements with DMSLP.

Other. We sold or liquidated some of our operations during 2003, including our communications business and our U.K. CRM business, which have been accounted for as discontinued operations under SFAS No. 144.

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The following table summarizes information related to all of our discontinued operations, including the NGL operations discussed above:

	U.K. CRM	DGC	NGL	Total
Three Months Ended September 30, 2005				
Revenue	$	$	$ 1,193	$ 1,193
Income (loss) from operations before taxes	(2)		71	69
Income (loss) from operations after taxes	(4)	(2)	49	43
Three Months Ended September 30, 2004				
Revenue	$	$	$ 996	$ 996
Income (loss) from operations before taxes	(1)		61	60
Income (loss) from operations after taxes	(2)		38	36
Nine Months Ended September 30, 2005				
Revenue	$	$	$ 3,172	$ 3,172
Income from operations before taxes	3		152	155
Income (loss) from operations after taxes	(1)		210	209
Nine Months Ended September 30, 2004				
Revenue	$	$	$ 2,663	$ 2,663
Income from operations before taxes	17	3	195	215
Income (loss) from operations after taxes	(9)	2	120	113

In the nine months ending September 30, 2005, we recognized $3 million of pre-tax income primarily associated with U.K. CRM s receipt of a third party bankruptcy settlement offset by foreign currency exchange losses.

In the first quarter 2004, we recognized $17 million of pre-tax income related to translation gains on foreign currency in the U.K. Please see Note 5 Risk Management Activities and Accumulated Other Comprehensive Loss Net Investment Hedges in Foreign Operations for further discussion. Also in the first quarter 2004, we recognized $3 million of pre-tax income associated with DGC s receipt of $3 million from a third party in settlement of a prior contractual claim. In the second quarter 2004, we recognized a tax expense of $20 million in U.K. CRM related to charges resulting from the conclusion of prior year tax audits. Please see Note 13 Income Taxes Prior Year Tax Audits for further discussion.

Dispositions and Contract Terminations

Sale of Illinois Power. On September 30, 2004, we sold all of our outstanding common and preferred shares of Illinois Power Company, which formerly comprised our REG segment, as well as our 20% interest in the Joppa power generation facility, to Ameren Corporation for $2.3 billion. The $2.3 billion sale price consisted of Ameren s assumption of $1.8 billion of Illinois Power s debt and preferred stock obligations, cash proceeds of approximately $375 million and an additional $100 million of cash placed in escrow, which we received on July 27, 2005.

During the first quarter 2005, we paid approximately $5 million to Ameren for a final working capital purchase price adjustment. As a result of an adjustment to the contingent liabilities identified as part of the Illinois Power sale, we recorded a $12 million charge in the second quarter of 2005. On July 27, 2005, we paid $8 million in partial satisfaction of such contingent liabilities. For further discussion, please see Note 10 Commitments and Contingencies Guarantees and Indemnification. The adjustment to the contingent liabilities resulted in an increase to our capital loss carryforward, and a corresponding increase to the deferred tax valuation allowance of $4 million.

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Further, on September 30, 2004, we entered into a two-year power purchase agreement with Illinois Power, now known as AmerenIP. Under the terms of this agreement, which became effective January 1, 2005, we have agreed to provide Illinois Power with up to 2,800 MWs of capacity at $48 per KW-yr and up to 11.5 million MWh of energy each year at a fixed price of $30 per MWh. We also agreed to sell 300 MW of capacity in 2005 and 150 MW of capacity in 2006 to Illinois Power at a fixed price of $16 per KW-yr with an option to purchase energy at market-based prices.

During the first quarter 2004, Illinois Power met the held for sale classification requirements of SFAS No. 144, and continued to meet the requirements through the closing of the sale on September 30, 2004. SFAS No. 144 requires that long-lived assets not be depreciated or amortized while they are classified as held for sale. As such, we discontinued depreciation and amortization of Illinois Power s property, plant and equipment and regulatory assets, effective February 1, 2004. Depreciation and amortization expense related to Illinois Power totaled $10 million in the nine-month period ended September 30, 2004. In addition, SFAS No. 144 requires a loss to be recognized in the amount by which assets held for sale less liabilities held for sale are in excess of fair value less costs to sell. Accordingly, for the three-month periods ended March 31, 2004 and June 30, 2004, we recorded pre-tax losses on the sale of $21 million and $48 million, respectively. The first quarter charge, which was primarily associated with the expected transaction costs and an impairment of assets, is reflected in Loss on sale of assets, net, and Impairment and other charges on the unaudited condensed consolidated statements of operations. The second quarter charge is reflected in Impairments and other charges on our unaudited condensed consolidated statements of operations. Finally, in the three month period ended September 30, 2004, we recorded a pre-tax loss on the sale of $24 million. The change is reflected in Loss on sale of assets, net on the unaudited condensed consolidated statements of operations.

Further, pursuant to SFAS No. 144, we are not reporting the results of Illinois Power s operations as a discontinued operation. If we were to account for Illinois Power as a discontinued operation, its results of operations would be condensed into income from discontinued operations, net of taxes, on our unaudited condensed consolidated statements of operations, and prior periods would be required to be restated to conform to this presentation. To qualify for discontinued operations classification, SFAS No. 144 and subsequent interpretations, specifically EITF Issue 03-13, Applying the Conditions in Paragraph 42 of FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, in Determining Whether to Report Discontinued Operations, require that the seller have no significant continuing involvement with the business being sold. As noted above, we have contracted to sell capacity and energy to Illinois Power for two years beginning in January 2005. Consequently, because we still have significant continuing involvement with Illinois Power, we will continue to include the historical results of Illinois Power s operations as part of our continuing operations. Additionally, power sales to Illinois Power occurring subsequent to the disposition will be reported in our consolidated statements of operations as third party sales. Approximately $154 million and $337 million of revenues, derived from power sales to Illinois Power occurring subsequent to the disposition, are reflected in our continuing operations for the three and nine-month periods ending September 30, 2005.

Joppa. In the third quarter 2004, we recorded a pre-tax gain of $75 million upon the closing of the sale of our 20% interest in the Joppa power generating facility. The gain is included in Earnings from unconsolidated investments on the unaudited condensed consolidated statements of operations.

Hackberry LNG Project. During the first quarter 2003, we entered into an agreement to sell our ownership interest in Hackberry LNG Terminal LLC, the entity we formed in connection with our proposed LNG terminal/gasification project in Hackberry, Louisiana, to Sempra LNG Corp., a subsidiary of San Diego-based Sempra Energy. The transaction closed in April 2003, after which we received contingent payments in 2003 based

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upon project development milestones. In March 2004, we sold our remaining financial interest in this project, which included rights to future contingent payments under the 2003 agreement, for $17 million and recognized a pre-tax gain of $17 million on the sale. This gain is included in Income from discontinued operations on our unaudited condensed consolidated statements of operations.

Indian Basin. In April 2004, we sold our 16% interest in the Indian Basin Gas Processing Plant for approximately $48 million. In the second quarter 2004, we recognized a pre-tax gain on the sale of approximately $36 million. This gain is included in Income from discontinued operations on our unaudited condensed consolidated statements of operations.

PESA. In April 2004, we sold our interest in the Plantas Eolicas, S.A. de R.L. 20 MW wind-powered electric generation facility located in Costa Rica for approximately $11 million. We recognized a pre-tax loss of approximately $1 million on the sale. This loss is included in Loss on sale of assets, net, on our unaudited condensed consolidated statements of operations.

Gas Transportation Contracts. In June 2004, we agreed to exit four long-term natural gas transportation contracts whose purpose was to secure firm pipeline capacity through 2014 in support of our former third-party marketing and trading business. In exchange for exiting these obligations, we paid $20 million in June 2004, $16 million in December 2004 and $26 million in March 2005. This payment obligation was recorded at its fair value of $40 million and was accreted to $42 million over the period July 1, 2004 through March 31, 2005. Additionally, we reversed an aggregate liability of $148 million associated with the transportation contracts that was originally established in 2001 and recognized a pre-tax gain of $88 million related to these transactions. This gain is included in revenues on our unaudited condensed consolidated statements of operations and is included in the results of our CRM segment. This agreement eliminated our obligation to make approximately $295 million in aggregate fixed capacity payments from April 2005 through 2014.

Note 4 Restructuring Charges

In the three and nine months ended September 30, 2004, we recorded pre-tax charges relating to our interest in Illinois Power totaling $24 million and $93 million, respectively. For further discussion, please see Note 3 Discontinued Operations, Dispositions and Contract Terminations Dispositions and Contract Terminations Sale of Illinois Power. In addition, in the nine months ended September 30, 2004, we recorded a $5 million pre-tax charge related to the impairment of one of our midstream assets.

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In October 2002, we announced a restructuring plan designed to improve operational efficiencies and performance across our lines of business. The following is a schedule of 2005 activity for the liabilities recorded in connection with this restructuring:

	Severance	Cancellation Fees and Operating Leases	Total
		(in millions)	
Balance at December 31, 2004	$ 3	$ 25	$ 28
2005 adjustments to liability		(1)	(1)
Cash payments		(7)	(7)
Balance at September 30, 2005	$ 3	$ 17	$ 20

We expect the $17 million accrual as of September 30, 2005 associated with cancellation fees and operating leases to be paid by the end of 2007 when the leases expire.

Note 5 Risk Management Activities and Accumulated Other Comprehensive Loss

The nature of our business necessarily involves market and financial risks. We enter into financial instrument contracts in an attempt to mitigate or eliminate these various risks. These risks and our strategy for mitigating them are more fully described in Note 5 Risk Management Activities and Financial Instruments beginning on page F-33 of our Form 10-K.

Cash Flow Hedges. We enter into financial derivative instruments that qualify as cash flow hedges. Instruments related to our GEN and NGL businesses are entered into for purposes of hedging future fuel requirements and sales commitments and locking in future margin.

During the three and nine months ended September 30, 2005, we recorded $10 million and $4 million of income, respectively, related to ineffectiveness from changes in fair value of hedge positions and no amounts were excluded from the assessment of hedge effectiveness related to the hedge of future cash flows. The hedge ineffectiveness is the result of the volatility of power and gas prices in the regions in which we hedge our power sales and fuel purchases. During the three and nine months ended September 30, 2004, we recorded a $3 million charge related to ineffectiveness from changes in fair value of hedge positions and no amounts were excluded from the assessment of hedge effectiveness related to the hedge of future cash flows. During the three and nine months ended September 30, 2005 and September 30, 2004, no amounts were reclassified to earnings in connection with forecasted transactions that were no longer considered probable of occurring.

The balance in cash flow hedging activities, net at September 30, 2005 is expected to be reclassified to future earnings, contemporaneously with the related purchases of fuel, sales of electricity and payments of interest, as applicable to each type of hedge. Of this amount, after-tax losses of approximately $40 million are currently estimated to be reclassified into earnings over the 12-month period ending September 30, 2006. The actual amounts that will be reclassified to earnings over this period and beyond could vary materially from this estimated amount as a result of changes in market conditions and other factors.

Fair Value Hedges. We also enter into derivative instruments that qualify as fair value hedges. We use interest rate swaps to convert a portion of our non-prepayable fixed-rate debt into floating-rate debt. During the three and nine months ended September 30, 2005 and 2004, there was no ineffectiveness from changes in the fair

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value of hedge positions and no amounts were excluded from the assessment of hedge effectiveness. During the three and nine months ended September 30, 2005 and 2004, no amounts were recognized in relation to firm commitments that no longer qualified as fair value hedges.

Net Investment Hedges in Foreign Operations. Although we have exited a substantial amount of our foreign operations, we continue to have investments in foreign subsidiaries, the net assets of which are exposed to currency exchange-rate volatility. In the past, we used derivative financial instruments, including foreign exchange forward contracts and cross-currency interest rate swaps, to hedge this exposure. As of September 30, 2005, we had no net investment hedges in place.

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

	September 30, 2005	December 31, 2004
	(in millions)	
Cash flow hedging activities, net	$ (36)	$ (16)
Foreign currency translation adjustment	21	16
Minimum pension liability	(13)	(13)
Accumulated other comprehensive loss, net of tax	$ (28)	$ (13)

During the first quarter 2004, we repatriated a majority of our cash from the U.K., resulting in the substantial liquidation of our investment in the U.K. As such, we recognized approximately $17 million of pre-tax translation gains in income that had accumulated in stockholders equity.

Note 6 Unconsolidated Investments

A summary of our unconsolidated investments is as follows:

	September 30, 2005	December 31, 2004
	(in millions)	
Equity affiliates:		
GEN investments	$ 291	$ 337
NGL investments	77	78
Total equity affiliates	368	415
Other affiliates, at cost		6
	368	421
Less: Unconsolidated investments held for sale at end of period	(77)	
Total unconsolidated investments	$ 291	$ 421

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Summarized aggregate financial information for our unconsolidated equity investment in West Coast Power and our equity share thereof was:

	Nine Months Ended September 30,			
	2005		2004	
	Total	Equity Share	Total	Equity Share
	(in millions)			
Revenues	$ 219	$ 110	$ 538	$ 269
Operating income	8	4	246	123
Net income	12	6	247	123

Summarized aggregate financial information for unconsolidated equity investments, exclusive of our investment in West Coast Power, and our equity share thereof was:

	Nine Months Ended September 30,			
	2005		2004	
	Total	Equity Share	Total	Equity Share
	(in millions)			
Revenues	$ 291	$ 102	$ 626	$ 228
Operating income	56	23	121	50
Net income	51	21	92	39

Earnings from unconsolidated investments of $14 million for the nine months ended September 30, 2005, include the $21 million above and $6 million from West Coast Power, offset by an $8 million impairment of our investment in West Coast Power and $5 million of earnings from NGL investments which are included in income from discontinued operations. Earnings from unconsolidated investments of $187 million for the nine months ended September 30, 2004, include the $39 million above, $123 million from West Coast Power and gains on the sales of our 20%

interest in the Joppa facility, our equity investment in Oyster Creek and our equity investment in Hartwell of $75 million, $15 million and $2 million, respectively. These gains were partially offset by a $45 million impairment of our investment in West Coast Power, an $8 million impairment of our Michigan Power equity investment discussed below, $7 million of amortization of the difference between the cost of our unconsolidated investments and our underlying equity in their net assets and $7 million of earnings from NGL investments, which are included in income from discontinued operations.

During the first quarter 2004, we sold our interest in our power generating facility located in Jamaica. Net proceeds associated with the sale were approximately $5.5 million, and we did not recognize a gain or loss on the sale.

In the third quarter 2004, we sold our unconsolidated investments in the Oyster Creek, Michigan Power and Hartwell generating facilities for aggregate net cash proceeds of approximately $132 million. During the third quarter 2004, we recognized gains of $15 million and $2 million related to our sales of Oyster Creek and Hartwell, but did not recognize any gain or loss on the sale of Michigan Power. However, during the nine months ended September 30, 2004, we recorded an impairment on our investment in Michigan Power totaling $8 million, to adjust our book value to the sale price.

Additionally, in September 2004, we recorded an impairment of $45 million on our investment in West Coast Power, primarily due to the anticipated expiration of the CDWR contract in December 2004.

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Note 7 Debt

Revolving Credit Facility. During the three and nine-month periods ended September 30, 2005, we increased letters of credit under our $700 million revolving credit facility by $32 million and $231 million, respectively, in the aggregate, resulting in a total of $325 million outstanding at September 30, 2005. As of September 30, 2005, there were no borrowings outstanding under this facility.

Our former credit facility consisted of a $700 million revolving credit facility and a $600 million term loan (scheduled to mature in 2010) which had $593 million outstanding at September 30, 2005. On October 31, 2005, we repaid the $593 million outstanding on our term loan as well as $189 million outstanding on our generation facility (scheduled to mature in 2007), and as further described below, we amended and restated the credit facility.

DMSLP. As further discussed in Note 3 Discontinued Operations, Dispositions and Contract Terminations Discontinued Operations Natural Gas Liquids, on October 31, 2005, we consummated the sale of DMSLP. The terms of our former $1.3 billion credit facility and the SPN indenture and security agreements govern the use of the proceeds from this sale.

According to the SPN indenture, we may use the proceeds of the sale of DMSLP to (i) repay and permanently reduce first lien capacity, (ii) repay parity lien debt, provided that any offer to repay parity lien debt holders is made on a pro rata basis or (iii) make a capital expenditure or invest in various type of assets defined as Replacement Assets. Net sale proceeds that are not applied or invested in the manner described above will constitute Excess Proceeds. If the Excess Proceeds exceed $50 million, we must, within 365 days from closing of the sale, offer to repurchase or redeem the SPNs from the holders thereof at a price equal to 100% of the principal amount plus accrued and unpaid interest. If the SPN holders decline pro rata repayment at par, then such proceeds can be used for any other purposes not otherwise restricted by the SPN indenture.

Amended and Restated Credit Facility. On October 31, 2005, we replaced our former $1.3 billion credit facility with a second amended and restated credit agreement (the Amended and Restated Credit Facility), comprised of (i) a $400 million letter of credit component and (ii) a $600 million revolving credit component. The Amended and Restated Credit Facility is collateralized with cash as well as other assets that were pledged under the former credit facility (excluding those assets sold in connection with the sale of DMSLP) as we are required to post cash collateral in an amount equal to 103% of outstanding letters of credit and borrowings under the Amended and Restated Credit Facility. We will earn interest income on the cash on deposit in the cash collateral account.

A letter of credit fee is payable on the undrawn amount of each letter of credit outstanding at a percentage per annum equal to 0.50% of the undrawn amount. We also incur additional fees for issuing letters of credit. Amounts drawn on letters of credit issued pursuant to the facility, as well as borrowings under the revolving credit component of the facility, bear interest at a base rate plus 0.50% per annum. An unused commitment fee of 0.10% is payable on the unused portion of the Amended and Restated Credit Facility.

On October 31, 2005, we borrowed $600 million under the revolving credit component of the Amended and Restated Credit Facility to repay the term loan and accrued interest associated with the former credit facility. The $600 million outstanding principal balance of the revolving credit component was paid in full on November 1, 2005 without a corresponding reduction in revolving credit commitments.

Repayments. In the nine months ended September 30, 2005, we paid the outstanding $18 million balance on our 8.125% senior notes, which matured in March 2005. We also made payments of $17 million related to the Independence Senior Notes due 2007 and $5 million related to the term loan during the first nine months of 2005.

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On October 31, 2005, as mentioned above, we repaid the $593 million term loan and with cash on hand the $189 million generation facility debt.

Independence Debt. On January 31, 2005, we completed the acquisition of ExRes, the parent company of Sithe Energies and Independence. Upon the closing, we consolidated $919 million in face value project debt, which was recorded at its fair value of $797 million as of January 31, 2005, for which certain of the entities acquired are obligated. Please see Note 2 Acquisition Sithe Energies for further discussion of this transaction.

Long-term debt consolidated upon completion of the Sithe Energies acquisition consisted of the following as of January 31, 2005:

	Face Value	Premium / (Discount)	Fair Value
		(in millions)	
Subordinated Debt, 7.0% due 2034	$ 419	$ (167)	$ 252
Senior Notes, 8.5% due 2007	91	3	94
Senior Notes, 9.0% due 2013	409	42	451
Total Independence Debt	$ 919	$ (122)	$ 797

Principal payments on the Independence senior notes, which we refer to as the senior debt, are due semiannually through 2013 and principal payments on the subordinated debt begin in 2015. Annual maturities of the Independence debt, as of September 30, 2005, are as follows: 2005 $17 million; 2006 $37 million; 2007 $40 million; 2008 $44 million; 2009 $57 million; and thereafter $707 million. The senior debt and subordinated debt are secured by substantially all of the assets of Independence, but are not guaranteed by us or DHI. The difference of $122 million between the face value and the fair value of the Independence Debt that was recognized upon the acquisition of ExRes will be accreted into interest expense over the life of the debt.

The terms of the indenture governing the senior debt, among other things, prohibit cash distributions by Independence to its affiliates, including Dynegy, unless certain project reserve accounts are funded to specified levels and the required debt service coverage ratio is met. The indenture also includes other covenants and restrictions, relating to, among other things, prohibitions on asset dispositions and fundamental changes, reporting requirements and maintenance of insurance. As of September 30, 2005, Independence had current restricted cash of $72 million as reflected on our unaudited condensed consolidated balance sheets. As of September 30, 2005, Independence had short-term and long-term restricted investment balances of $2 million and $84 million, respectively. The restricted investment balances are included in prepayments and other current assets and restricted investments, respectively, on our unaudited condensed consolidated balance sheets.

Note 8 Related Party Transactions

We engage in transactions with Chevron Corporation, which we refer to as Chevron, and its affiliates, including purchases and sales of natural gas and natural gas liquids, which we believe are executed on terms that are fair and reasonable. Please see Note 12 Related Party Transactions Transactions with ChevronTexaco beginning on page F-47 of our Form 10-K for further discussion.

Series C Convertible Preferred Stock. As discussed in Note 14 Redeemable Preferred Securities Series C Convertible Preferred Stock beginning on page F-54 of our Form 10-K, in August 2003, we issued to CUSA 8 million shares of our Series C convertible preferred stock due 2033, which we refer to as our Series C preferred

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stock. We accrue dividends on our Series C preferred stock at a rate of 5.5% per annum. We made semi-annual dividend payments of $11 million in February and August 2005.

Note 9 Earnings (Loss) Per Share

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(in millions, except per share amounts)			
Income (loss) from continuing operations	$ (14)	$ 42	$ (417)	$ 43
Preferred stock dividends	6	6	17	17
Loss from continuing operations for basic loss per share	(20)	36	(434)	26
Effect of dilutive securities:				
Interest on convertible subordinated debentures (2)	2	2	5	
Dividends on Series C preferred stock (2)	6	6	17	
Income (loss) from continuing operations for diluted loss per share	$ (12)	$ 44	$ (412)	$ 26

Basic weighted-average shares	390	379	383	378
Effect of dilutive securities:				
Stock options	2	2	2	2
Convertible subordinated debentures (2)	55	54	55	
Series C preferred stock (2)	69	69	69	
Diluted weighted-average shares	516	504	509	380
Loss per share from continuing operations:				
Basic	$ (0.05)	$ 0.10	$ (1.13)	$ 0.07
Diluted (1)	$ (0.05)	$ 0.09	$ (1.13)	$ 0.07

(1) When an entity has a net loss from continuing operations, SFAS No. 128, Earnings per Share, prohibits the inclusion of potential common shares in the computation of diluted per-share amounts. Accordingly, we have utilized the basic shares outstanding and the loss from continuing operations for basic loss per share amount to calculate both basic and diluted loss per share for the three and nine months ended September 30, 2005.

(2) The diluted shares for the nine months ended September 30, 2004 do not include the effect of the preferential conversion to Class B common stock of the Series C convertible preferred stock held by a Chevron subsidiary and the interest on the convertible subordinated debentures, as such inclusion would be anti-dilutive.

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Note 10 Commitments and Contingencies

Set forth below is a description of our material legal proceedings. In addition to the matters described below, we are party to legal proceedings arising in the ordinary course of business. In management s opinion, the disposition of these ordinary course matters will not materially adversely affect our financial condition, results of operations or cash flows.

We record reserves for estimated losses from contingencies when information available indicates that a loss is probable and the amount of the loss is reasonably estimable under SFAS No. 5, Accounting for Contingencies. For environmental matters, we record liabilities when remedial efforts are probable and the costs can be reasonably estimated. Please see Note 2 Accounting Policies Contingencies, Commitments, Guarantees and Indemnifications beginning on page F-16 of our Form 10-K for further discussion of our reserve policies. Environmental reserves do not reflect management s assessment of the insurance coverage that may be applicable to the matters at issue, whereas litigation reserves do reflect such potential coverage. We cannot make any assurances that the amount of any reserves or potential insurance coverage will be sufficient to cover the cash obligations we might incur as a result of litigation or regulatory proceedings, payment of which could be material.

With respect to some of the items listed below, management has determined that a loss is not probable or that any such loss, to the extent probable, is not reasonably estimable. In some cases, management is not able to predict with any degree of certainty the range of possible loss that could be incurred. Notwithstanding these facts, management has assessed these matters based on current information and made a judgment concerning their potential outcome, giving due consideration to the nature of the claim, the amount and nature of damages sought and the probability of success. Management s judgment may, as a result of facts arising prior to resolution of these matters or other factors, prove inaccurate and investors should be aware that such judgment is made subject to the known uncertainty of litigation.

Summary of Recent Developments. As described in greater detail below, the following significant developments involving our material legal proceedings occurred since the filing of our Form 10-Q for the quarter ended June 30, 2005:

In July 2005, the U.S. district court approved the comprehensive settlement agreement of the parties in our shareholder class action litigation. Pursuant to the settlement agreement, we made an aggregate settlement payment of $468 million (consisting of $150 million funded by insurance proceeds, two cash payments by DHI totaling $250 million and the issuance of 17,578,781 shares of Class A common stock). Further, the lead plaintiff agreed to submit a list of at least five qualified director candidates from which we will select two new members for Dynegy s Board of Directors to replace two directors who were defendants in the litigation.

Also in July 2005, the state district court approved our settlement of the shareholder derivative litigation. Under this settlement, we paid approximately $5 million in attorneys fees and expenses and agreed to effect certain corporate governance changes, many of which were previously implemented since the initiation of the litigation.

In September 2005, two former Illinois Power salaried employees who were participants in the DMG Salaried Plan, purporting to represent all DMG Salaried Plan participants who held Dynegy common stock through the DMG Salaried Plan during the period from January 1, 2002 through January 30, 2003, filed a lawsuit in federal court in the Southern District of Texas against us and several individual defendants. The complaint alleges violations of ERISA in connection with the DMG Salaried Plan.

In September and October 2005, two California Superior Courts granted motions to dismiss certain California market litigation based upon federal preemption.

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The above summary of recent developments is qualified in its entirety by, and should be read in conjunction with, the more detailed summary of our significant legal proceedings set forth below.

Shareholder Litigation. In April 2005, we settled a class action lawsuit filed on behalf of purchasers of our publicly traded securities from January 2000 to July 2002 seeking unspecified compensatory damages and other relief. The lawsuit as filed principally alleged that we and certain of our current and former officers and directors violated the federal securities laws in connection with our disclosures, including accounting disclosures, regarding Project Alpha (a structured natural gas transaction entered into by us in April 2001), round-trip trading, the submission of false trade reports to publications that calculate natural gas index prices, the alleged manipulation of the California power market and the restatement of our financial statements for 1999-2001. The Regents of the University of California were lead plaintiff and Lerach Coughlin Stoia & Robbins, LLP was class counsel. Reserves were provided in connection with this litigation.

In October 2004, in response to our June 2004 motions to dismiss, the judge entered an order dismissing all of plaintiff s claims under (i) the Securities Act of 1933, except those relating to Dynegy s March 2001 note offering and December 2001 common stock offering, and (ii) the Securities Exchange Act of 1934, except those dealing with Project Alpha and two alleged round-trip trades. Further, the judge scheduled the trial to commence in May 2005. Also in October 2004, the plaintiff voluntarily dismissed its claim under the Securities Act relating to our March 2001 note offering. The parties filed motions on the class certification issue in the fourth quarter 2004. In December 2004, the court issued an order identifying the class period for the Exchange Act claims as June 21, 2001 through July 22, 2002, and the class for the Securities Act claims includes persons who purchased our stock, provided that the purchase is traceable to the December 20, 2001 offering of Class A common stock.

In July 2005, the court approved the comprehensive settlement agreement reached by the parties to the class action litigation in April 2005, which provided for the following:

An aggregate settlement payment by Dynegy of $468 million, comprised of a $150 million cash payment funded by insurance proceeds, a $250 million cash payment by DHI, and the issuance to the plaintiffs of $68 million in Dynegy s Class A common stock, consisting of 17,578,781 shares based on a calculation using a volume weighted average stock price for the 20 trading days ending April 15, 2005. We were required to make two payments totaling $250 million during 2005, consisting of an initial payment of $175 million, which we paid in May 2005, followed by a second payment of $75 million plus interest upon court approval, which we paid in July 2005. The appeal period for the litigation expired on August 8, 2005, and, as required by the settlement, we issued the shares of Class A common stock promptly thereafter, on August 12, 2005.

The lead plaintiff agreed to submit a list of at least five qualified director candidates from which we will select two new members for Dynegy s Board of Directors to replace two directors who were defendants in the litigation. We will also nominate such directors for election at our next meeting of shareholders at which directors are elected.

In addition, we were named as a nominal defendant in several derivative lawsuits brought by shareholders on Dynegy s behalf against certain of our former officers and current and former directors whose claims are similar to those described above. These lawsuits were consolidated into two groups one pending in federal court and the other pending in Texas state court. In February 2005, the plaintiffs voluntarily dismissed the federal derivative matter. In April 2005, the parties to the shareholder derivative litigation pending in Texas state court reached a settlement**,** and the court approved the settlement agreement in July 2005. Under this settlement agreement, Dynegy agreed to effect certain corporate governance changes, many of which had been implemented since the claim was originally filed, and to pay related attorney fees and expenses incurred by the plaintiffs in the aggregate amount of

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approximately $5 million. The ongoing corporate changes relate to director qualifications, the involvement of a lead independent director, the structure and function of certain Board committees and other governance enhancements.

Dynegy and the other defendants did not admit any liability in connection with either of the settlements described above, and there were no findings of any violations of the federal securities laws. We reversed pre-tax charges of $4 million ($3 million after-tax) and recorded pre-tax charges of $236 million ($165 after-tax) in the three and nine months ended September 30, 2005 and $9 million ($6 million after-tax) and $40 million ($25 million after-tax) in the three and nine months ended September 30, 2004, related to these settlements and associated legal expenses. The net pre-tax charges are reflected in general and administrative expenses on our unaudited condensed consolidated statements of operations. The reversal of the pre-tax charge in the three months ended September 30, 2005 is a result of depreciation in our stock price from $4.86 on June 30, 2005 to $4.62 on August 12, 2005, the date on which the settlement shares were issued.

ERISA/Illinois Power 401(k) Litigation. In January 2005, three DMG union employees who are participating in the DMG 401(k) Savings Plan for Employees Covered Under a Collective Bargaining Agreement (formerly known as the Illinois Power Company Incentive Savings Plan For Employees Covered Under a Collective Bargaining Agreement), which we refer to as the DMG 401(k) Plan, purporting to represent all DMG and Illinois Power employees who held Dynegy common stock through the DMG 401(k) Plan during the period from February 2000 through the present, filed a lawsuit in federal court in the Southern District of Illinois against us, Illinois Power Company, DMG and several individual defendants. The complaint alleges violations of ERISA in connection with the DMG 401(k) Plan that are similar to the claims made in the ERISA litigation we settled in December 2004, including claims that certain of our former and current officers (who are past and present members of our Benefit Plans Committee) breached their fiduciary duties to the plan s participants and beneficiaries in connection with the plan s investment in Dynegy common stock in particular with respect to our financial statements, Project Alpha, round trip trades and gas price index reporting. The lawsuit seeks unspecified damages for the losses to the plan, as well as attorney s fees and other costs. Our motion to transfer this litigation to the Southern District of Texas was denied in October 2005. However, our motion to dismiss remains pending before the court. Although it is not possible to predict with certainty whether we will incur any liability in connection with this lawsuit, we do not believe that any liability we might incur as a result of this lawsuit would have a material adverse effect on our financial condition, results of operations or cash flows.

Additionally, in September 2005, two former Illinois Power salaried employees who were participants in the Dynegy Midwest Generation, Inc. 401(k) Savings Plan for salaried employees (formerly known as the Illinois Power Incentive Savings Plan), which we refer to as the DMG Salaried Plan, purporting to represent all DMG Salaried Plan participants who held Dynegy common stock through the DMG Salaried Plan during the period from January 1, 2002 though January 30, 2003, filed a lawsuit in federal court in the Southern District of Texas against us and several individual defendants. The complaint alleges violations of ERISA in connection with the DMG Salaried Plan that are similar to the claims made in the ERISA litigation we settled in December 2004 and the ERISA litigation referenced in the preceding paragraph, including claims that certain of our former and current officers (who are past and present members of our Benefit Plans Committee) breached their fiduciary duties to the plan s participants and beneficiaries in connection with the plan s investment in Dynegy common stock in particular with respect to our financial statements, Project Alpha, round trip trades and gas price index reporting. The lawsuit seeks unspecified damages for the losses to the plan, as well as attorney s fees and other costs. We are preparing our response to the complaint. Although it is not possible to predict with certainty whether we will incur any liability in connection with this lawsuit, we do not believe that any liability we might incur as a result of this lawsuit would have a material adverse effect on our financial condition, results of operations or cash flows.

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Enron/NNG VEBA Litigation. Prior to our acquisition of NNG from Enron, NNG employees were participants in a post-retirement medical plan maintained by Enron. The plan s assets were maintained in a VEBA trust, along with the assets of other Enron companies whose plans were included in the same VEBA trust (the Enron VEBA). Enron filed for bankruptcy in December 2001. When we acquired NNG in January 2002, the assets of the Enron VEBA had not been distributed to its participant companies, though we and NNG made the appropriate requests for such a distribution. In July 2002, we estimated that approximately $25.4 million of the assets of the Enron VEBA were attributable to the NNG employees who participated in the post-retirement medical plan. On July 1, 2002, as part of our sale of NNG to Mid American Energy Holdings Company, NNG established a separate VEBA trust solely for its plan participants (the NNG VEBA). As a condition of the sale agreement, we placed $25.4 million into escrow under terms providing that if Enron did not release NNG s share of the VEBA assets by August 2004, NNG was entitled to the escrowed money to fund the NNG VEBA. As Enron did not release the funds from the Enron VEBA as of August 2004, NNG placed our escrowed funds into the NNG VEBA. Pursuant to the escrow agreement, once the Enron VEBA releases NNG s funds to the NNG VEBA, we will be entitled to be reimbursed an equivalent amount, up to $25.4 million.

In June 2005, in accordance with the terms of the escrow agreement, NNG, the NNG VEBA trustee and the NNG VEBA participants as a class filed a class action lawsuit in Nebraska federal court against various Enron related parties, including the individual members of the Enron Benefit Plan Committee, alleging a breach of fiduciary duty under ERISA and seeking immediate disbursement of the Enron VEBA assets. At the same time the class action was filed, NNG filed a motion in Enron s bankruptcy case contesting Enron s efforts to terminate its VEBA trust and to distribute the assets in a manner unacceptable to NNG. The Nebraska litigation and the dispute in the Enron bankruptcy case remain pending. As we have a receivable recorded to reflect our rights to this disputed distribution, an adverse outcome in this matter would impact us, even though we are not a party; however, we do not believe that an adverse result in this litigation would have a material adverse effect on our financial condition, results of operations or cash flows.

Baldwin Station Litigation. Since November 1999, DMG has been the subject of an NOV from the EPA and a complaint filed by the EPA and the DOJ in federal district court alleging violations of the Clean Air Act and related federal and Illinois regulations related to certain maintenance, repair and replacement activities at our Baldwin generating station. We reached agreement with the EPA, the DOJ, the State of Illinois and the environmental group intervenors on terms to settle the litigation. A consent decree was signed by all parties and lodged with the U.S. District Court for the Southern District of Illinois on March 7, 2005. Following a public comment period and hearing, the Court entered and approved the consent decree on May 27, 2005. No appeals were filed prior to the expiration of the appeal period on July 26, 2005. The consent decree provides for our payment of a civil penalty of $9 million and for our funding of several environmental projects expected to cost an additional aggregate amount of $15 million. It also requires us to install additional emission controls at our Baldwin, Vermilion and Havana plants. Based upon preliminary engineering estimates, the installation of these emission controls, including the previously planned conversion of our Vermilion facility to low-sulfur PRB coal, is expected to cost approximately $320 million through 2010, with an additional investment of approximately $225 million in the 2011-2012 timeframe. These estimates represent management s reasonable judgment with respect to 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 the actual costs incurred with regard to these emission controls to differ materially from such estimates. The decree settles all claims in the litigation, as well as similar claims that might have been brought related to maintenance, repair and replacement activities at other DMG plants including Vermilion, Wood River, Hennepin and Havana.

The $9 million civil penalty pursuant to the consent decree was paid on June 17, 2005. Reserves have been provided in an amount adequate to cover environmental projects provided for under the consent decree.

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On July 14, 2000 and March 28, 2002, the EPA requested information, which we provided, concerning maintenance, repair and replacement activities at our Danskammer and Roseton plants, respectively. The consent decree does not cover any activities at the Danskammer and Roseton plants; however, the EPA could eventually commence enforcement actions based on activities at these plants. At this time, we are unable to assess the likelihood of any such additional EPA enforcement actions.

California Market Litigation. We and various other power generators and marketers are defendants in numerous lawsuits alleging rate and market manipulation in California s wholesale electricity market during the California energy crisis and seeking unspecified treble damages. The cases included: *Pamela R. Gordon v. Reliant Energy Inc., et al.; Ruth Hendricks v. Dynegy Power Marketing, et al.; The People of the State of California v. Dynegy Power Marketing, et al.; Sweetwater Authority v. Dynegy Inc., et al.; People of the State of California ex rel. Bill Lockyer, Attorney General v. Dynegy Inc., et al.; Public Utility District No. 1 of Snohomish County v. Dynegy Power Marketing, et al.; and Bustamante [I] v. Dynegy Inc., et al.* These cases were coordinated before a single federal judge, who dismissed two of them, *Lockyer* and *Snohomish County*, in the first quarter of 2003 on the grounds of FERC preemption and the filed rate doctrine. The Ninth Circuit Court of Appeals affirmed these dismissals in June 2004 and September 2004, respectively. In *Lockyer*, plaintiffs Petition for Writ of Certiorari to the U.S. Supreme Court was denied in April 2005. Plaintiffs in *Snohomish County* filed a Petition for Writ of Certiorari to the U.S. Supreme Court in November 2004 that was denied in June 2005. The remaining five coordinated cases were remanded to a California state court, and in May 2005, defendants filed a motion to dismiss. The court granted defendants motion to dismiss in October 2005 on grounds of federal preemption.

Between April and October 2002, the following nine additional putative class actions and/or representative actions were filed in state and federal court on behalf of business and residential electricity consumers against us and numerous other power generators and marketers: *Pier 23 Restaurant v. PG&E Energy Trading, et al.; Bronco Don Holdings v. Duke Energy Trading and Marketing, LLC, et al.; T&E Pastorino Nursery v. Duke Energy Trading and Marketing LLC, et al.; Century Theaters, Inc. v. Allegheny Energy Supply Company, et al.; J&M Karsant Family Ltd. Partnership v. Duke Energy Trading and Marketing, LLC, et al.; Leo s Day & Night Pharmacy v. Duke Energy Trading and Marketing, LLC, et al.; El Super Burrito v. Allegheny Energy Supply Company, LLC, et al.; RDJ Farms, Inc. v. Allegheny Energy Supply Company, et al.; and Millar v. Allegheny Energy Supply Company, LLC, et al.* The complaints allege unfair, unlawful and deceptive practices in violation of the California Unfair Business Practices Act and seek injunctive relief, restitution and unspecified damages. Although some of the allegations in these lawsuits are similar to those in the seven coordinated cases referenced above, these lawsuits include additional allegations relating to, among other things, the validity of the contracts between these power generators and the CDWR. Following removal of these cases, the federal court dismissed eight of the nine actions and plaintiffs appealed. In February 2005, the Ninth Circuit affirmed the dismissals. The remaining case, *Millar*, was remanded to state court, and in May 2005, defendants filed a motion to dismiss. In September 2005, the court granted defendants motion to dismiss on grounds of federal preemption.

In December 2002, two additional actions were filed on behalf of consumers and businesses in Oregon, Washington, Utah, Nevada, Idaho, New Mexico, Arizona and Montana that purchased energy from the California market, alleging violations of the Cartwright Act and unfair business practices. These cases were subsequently dismissed and refiled in California Superior Court as one class action complaint styled *Jerry Egger v.*

Dynegy Inc., et al. We removed the action from state court and consolidated it with existing actions pending before the U.S. District Court for the Northern District of California. Plaintiffs challenged the removal and the federal court stayed its ruling pending a decision by the Ninth Circuit on the five coordinated cases referenced above. Although the Ninth Circuit issued a decision remanding those five cases, no ruling has been made with respect to *Egger*.

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In May and June 2004, two additional lawsuits, *Wah Chang v. Avista Corporation, et al.* and *City of Tacoma v. American Electric Power Service Corporation, et al.,* were filed in Oregon and Washington federal courts against several energy companies, including DPM, seeking more than $30 million in compensatory damages resulting from alleged manipulation of the California wholesale power markets. In February 2005, the respective federal courts granted our motions to dismiss. Shortly thereafter, plaintiffs in both cases filed notices of appeal to the Ninth Circuit. Both cases remain pending.

In October 2004, Preferred Energy Services, an independent electric services provider in California, filed suit against us and several other defendants alleging that the defendants, in violation of the California anti-trust and unfair business practices statutes, engaged in unfair, unlawful and deceptive practices in the California wholesale energy market from May 2000 through December 2001. Plaintiff, which formerly sold electricity generated from renewable sources in the California market, claims to have been forced out of business by the defendants conduct and is seeking $5 million in compensatory damages, as well as treble damages. We removed the action to federal court in June 2005.

We believe that we have meritorious defenses to these claims and intend to defend against such claims. We cannot predict with certainty whether we will incur any liability in connection with these lawsuits. However, given the nature of the claims, an adverse result in any of these proceedings could have a material adverse effect on our financial condition, results of operations and cash flows.

FERC and Related Regulatory Investigations Requests for Refunds. In October 2004, the FERC approved in all respects the agreement announced by Dynegy and West Coast Power in April 2004, which provided for the settlement of FERC claims relating to western energy market transactions that occurred from January 2000 through June 2001. Market participants (other than the parties to the settlement) were permitted to opt into this settlement and share in the distribution of the settlement proceeds, and most of these other market participants have done so. The Cal ISO will determine the entitlement to refund and/or the liability of each non-settling market participant. Under the terms of the settlement, we will have no further liability to these non-settling parties. The settlement further provides that we are entitled to pursue claims for reimbursement of fuel costs against various non-settling market participants. We are currently pursuing these claims but are unable to predict the amounts that may be recovered from such parties.

The settlement does not apply to the ongoing civil litigation related to the California energy markets described above in which Dynegy and West Coast Power are defendants. The settlement also does not apply to the pending appeal by the CPUC and the California Electricity Oversight Board of the FERC s prior decision to affirm the validity of the West Coast Power-CDWR contract. We are currently awaiting a ruling on this appeal and cannot predict their outcome.

Enron Trade Credit Litigation. Shortly before their bankruptcy filing in the fourth quarter 2001, we determined that Enron Corp. and its affiliates had net exposure to us, including certain liquidated damages and other amounts relating to the termination of commercial transactions among the parties, of approximately $84 million. This exposure was calculated by setting off approximately $230 million owed from Dynegy entities to Enron entities against approximately $314 million owed from Enron entities to Dynegy entities. The master netting agreement between Enron and us and the valuation of the commercial transactions covered by the agreement, which valuation is based principally on the parties assessment of market prices for such period, remain subject to dispute. Assuming the master netting agreement is enforceable, we have engaged in an ongoing process with Enron to reconcile the differences between our respective valuations of the transactions and accounts receivable. As a result of ongoing refinement of the values of past transactions, we reduced the $84 million amount that we originally believed we were owed by Enron to approximately $57 million, including the liabilities under the gas transportation

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agreement related to the Sithe Independence power tolling arrangement. This change in value had no impact on our results, as the net receivable had been fully reserved in the fourth quarter 2001. In the event that Enron prevails in its position that the master netting agreement is unenforceable, our exposure to Enron would be approximately $216 million, with as much as $220 million in unsecured Dynegy claims remaining to enforce against the bankruptcy estate. As required by the master netting agreement, we have pursued resolution of this dispute through arbitration; however, we were unsuccessful in our efforts to arbitrate because the Bankruptcy Court did not grant our motion, which was opposed by Enron, to permit arbitration with a non-bankrupt Enron entity. We then filed a motion with the Bankruptcy Court to allow us to proceed to discovery and trial in order to determine the enforceability of the master netting agreement under the U.S. Bankruptcy Code. The Bankruptcy Court denied our motion and ordered us to mediate the dispute with Enron. The parties commenced mediation in November 2004, and have had further discussions since that time, but no settlement has been reached.

If the setoff rights are modified or disallowed, either by agreement or otherwise, the amount available for our entities to set off against sums that might be due Enron entities could be reduced materially. In fact, we could be required to pay to Enron the full amount that it claims to be owed, while we would be an unsecured creditor of Enron to the extent of our claims. Reserves have been provided in an aggregate amount we consider reasonable with respect to Enron s claims. Given the size of the claims at issue, an adverse result could have a material adverse effect on our financial condition, results of operations and cash flows.

Severance Arbitrations. Our former CFO, Rob Doty, filed for arbitration pursuant to the terms of his employment/severance agreement. Mr. Doty seeks payment of up to approximately $3.4 million and additional amounts related to long-term incentive payments. A status conference on this matter is scheduled for the fourth quarter 2005. Mr. Doty s agreement is subject to interpretation, and we maintain that the amount owed is substantially lower than the amount sought. We have recorded a severance accrual that we consider reasonable relating to this proceeding.

Apache Litigation. In May 2002, Apache Corporation filed suit in state court against Versado, as purchaser and processor of Apache s gas, and DMS, as operator of the Versado assets in New Mexico, seeking more than $9 million in damages. The plaintiff s petition, as amended, alleges (i) excessive field losses of natural gas from wells owned by the plaintiff, (ii) that Versado engaged in sham transactions with affiliates, resulting in Versado not receiving fair market value when it sells gas and liquids and (iii) that the formula for calculating the amount Versado receives from its buyers of gas and liquids is flawed because it is based on gas price indexes that these same affiliates are alleged to have manipulated by providing false price information to the index publisher. At trial, the plaintiff s claim with respect to the alleged sham transactions and index manipulation, among others, were severed by the court and abated for a future trial, and the jury found in favor of the plaintiff on the remaining lost gas claim, awarding approximately $1.6 million in damages. In May 2004, our motion to set aside this judgment was granted by the court and the jury s award to the plaintiff was vacated. The plaintiff filed its notice of appeal with the court in October 2004. The parties attended mediation in February 2005, but did not reach a settlement. The parties have filed briefs with the Texas Court of Appeals. Any liability associated with this suit was assumed by Targa in accordance with the terms of the sale of DMSLP.

Gas Index Pricing Litigation. We are defending the following suits that claim damages resulting from the alleged manipulation of gas index publications and prices by us and others: *ABAG v. Sempra Energy et al.* (filed in state court in November 2004); *Ableman Art Glass v. Encana Corporation et al.* (class action filed in federal court in December 2004); *Benschiedt* (class action filed in state court in February 2004); *Bustamante v. The McGraw Hill Companies et al*. (class action filed in state court in November 2002); *City and County of San Francisco v. Dynegy Inc. et al.* (filed in state court in July 2004); *County of San Diego v. Dynegy Inc., Dynegy Marketing and Trade,*

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West Coast Power, et al. (filed in state court in July 2004); *County of San Mateo v. Sempra Energy et al.* (filed in state court in December 2004); *County of Santa Clara v. Dynegy Inc., Dynegy Marketing and Trade, West Coast Power, et al.* (filed in state court in July 2004); *Fairhaven Power Company v. Encana Corp. et al. (*class action filed in federal court in September 2004); *In re Natural Gas Commodity Litigation* (class action filed in federal court in January 2004); *Leggett v. Duke Energy et al.* (class action filed in state court in January 2005); *Multiut v. Dynegy Inc.* (filed in federal court in December 2004); *Nelson Brothers LLC v. Cherokee Nitrogen v. Dynegy Marketing and Trade and Dynegy Inc.* (filed in state court in April 2003); *Nurserymen s Exchange v. Sempra Energy et al.* (filed in state court in October 2004); *Older v. Dynegy Inc. et al.* (filed in federal court in September 2004); *Owens-Brockway v. Sempra Energy at al.*(filed in state court in January 2005); *Sacramento Municipal Utility District (SMUD) v. Reliant Energy Services, et al.*(filed in state court in November 2004); *School Project for Utility Rate Reduction v. Sempra Energy et al.*(filed in state court in November 2004); *Sierra Pacific Resources and Nevada Power Company v. El Paso Corp. et al.*(filed in federal court in April 2003)*; Tamco v. Dynegy Inc. et al.* (filed in state court in December 2004); *Texas-Ohio Energy, Inc. v. CenterPoint Energy Inc., et al.* (class action filed in federal court in November 2003); and *Utility Savings & Refund v. Reliant Energy Services, et al.* (class action filed in federal court in November 2004). In each of these suits, the plaintiffs allege that we and other energy companies engaged in an illegal scheme to inflate natural gas prices by providing false information to gas index publications, thereby manipulating the price. All of the complaints rely heavily on the FERC and CFTC investigations into and reports concerning index-reporting manipulation in the energy industry. The plaintiffs generally seek unspecified actual and punitive damages relating to costs they claim to have incurred as a result of the alleged conduct.

Pursuant to various motions filed by the parties to the litigation described above, the gas index pricing lawsuits pending in state court (except for *Nelson Brothers*) have been consolidated before a single judge in state court in San Diego. These cases are now entitled the Judicial Counsel Coordinated Proceeding (JCCP) 4221, 4224, 4226, and 4228, the Natural Gas Anti-Trust Cases, I, II, III, & IV, which we refer to as the Coordinated Gas Index Cases. In April 2005, defendants moved to dismiss the Coordinated Gas Index Cases on preemption and filed rate grounds. The Court denied defendants motion in June 2005 and in October 2005 the defendants filed answers to the plaintiffs complaints. The parties are presently engaged in discovery. The *Nelson Brothers* lawsuit involves an alleged breach of a gas purchase contract and is pending in Alabama state court. In March 2005, we moved to compel the matter to arbitration. The trial court denied the motion. In April 2005 we appealed the decision to the Alabama Supreme Court, and we are awaiting a decision on this appeal.

As to the gas index pricing lawsuits filed in federal court, the *Sierra Pacific* case was dismissed in December 2004 on defendants motion. In *Texas-Ohio*, the defendants filed a motion to dismiss in May 2004, which the court granted in April 2005. In the *In re Natural Gas Commodity Litigation* matter, pending in New York federal court, the parties are actively engaged in discovery following denial of the appeal of the previous denial of defendants motion to dismiss. In April 2005, defendants filed a joint opposition to the motion for class certification filed by the plaintiffs earlier in the year. In October 2005, the court granted plaintiffs motion and certified the class. The *Multiut* case involves a counterclaim of alleged index manipulation filed by the defendant, Multiut, against whom we have a pending breach of gas purchase contract claim. *Multiut,* along with the remaining federal court cases (*Abelman, Fairhaven Power, Utility Savings* and *Leggett*) are pending transfer, or have already been transferred, to the federal judge in Nevada who presided over the *Texas-Ohio* matter.

We are analyzing all of these claims and intend to defend vigorously against them. We cannot predict with certainty whether we will incur any liability in connection with these lawsuits. We do not believe that any liability we might incur as a result of this litigation would have a material adverse effect on our financial condition, results of operations or cash flows. Reserves have been provided in connection with this litigation.

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Stand Energy Litigation (formerly Atlantigas Corp. Litigation). In November 2003, Atlantigas Corporation filed suit in Maryland against us and several other defendants alleging certain conspiracies between natural gas shippers and storage facilities. The complaint alleged that the interstate pipelines provided preferential storage and transportation services to their own unregulated marketing affiliate in return for percentages of the profits reaped by the marketing affiliate and that such conduct violated applicable FERC regulations and the federal antitrust laws and constituted common law tortious interference with contractual and business relations. In addition, the complaint claimed we conspired with the other defendants to receive preferential natural gas storage and transportation services at off-tariff prices. The complaint sought unspecified compensatory and punitive damages. In July 2004, prior to the Court s ruling on defendants motions to dismiss, the plaintiff voluntarily dismissed the Maryland federal court action against all defendants. Shortly thereafter, plaintiff filed a class action lawsuit in West Virginia state court against several defendants, excluding us, on similar grounds to the previous Maryland federal action. The case was removed to West Virginia federal court shortly thereafter. In October 2004, the plaintiff filed an amended class action complaint naming us as a defendant in the litigation. In January 2005, the newly added defendants filed motions to dismiss on various grounds. Oral argument on some of the pending motions occurred in April 2005. In June 2005, the Court denied defendants motions to dismiss on the following grounds: filed rate doctrine, federal preemption, certain antitrust claims and unjust enrichment. However, the Court granted defendants motion to dismiss under antitrust law to the extent plaintiffs claims are based on price fixing. In August 2005, the Court granted motions by certain defendants (including us) to dismiss all federal antitrust claims on statute of limitations grounds, however, the Court later denied our motion to dismiss for lack of personal jurisdiction. In September 2005, defendants filed their answers to plaintiffs Second Amended Complaint. Although defendants sought permission from the Fourth Circuit to appeal the district court s denial of summary judgment on filed rate and preemption grounds, the Fourth Circuit denied the request in October 2005. We continue to analyze plaintiffs state antitrust and unjust enrichment claims against the Company and intend to defend against them vigorously. We cannot predict with certainty whether we will incur any liability in connection with this lawsuit; however, we believe that any liability incurred as a result of this litigation would not have a material adverse effect on our financial condition, results of operations or cash flows.

Stumpf Litigation. We and two former subsidiaries are defendants in a lawsuit filed in New York by Stumpf AG and two of its affiliates stemming from the shutdown of our Vienna telecommunications office in the spring of 2001. The plaintiffs are seeking $29 million in compensatory and unspecified punitive damages, alleging breach of contract, tortious interference and alter ego-based claims primarily relating to the termination of real property leases to which our former Austrian subsidiary was a party. These claims are based on similar lawsuits filed in Austria against our former Austrian subsidiary, which was sold to a third party in January 2003. All of these lawsuits pending in Austria have been stayed. This former subsidiary is in liquidation and one of its liquidators admitted, for purposes of the liquidation, the plaintiffs claims in the amount of $30 million. Although this lawsuit was initially stayed pending the Austrian insolvency proceeding, the stay was lifted and we filed our answer in May 2004. The parties are engaged in ongoing discovery. In December 2004, the plaintiffs filed a motion for partial summary judgment on issues of liability. Oral argument on plaintiffs motion was held in June 2005. An order is expected in fourth quarter of 2005.

We continue to oppose these claims and believe we have meritorious defenses. Although it is not possible to predict with certainty whether we will incur any liability in connection with these lawsuits, we do not believe that any liability we might incur as a result of these lawsuits would have a material adverse effect on our financial condition, results of operations or cash flows. Reserves have been provided in connection with this litigation.

Alleged Marketing Contract Defaults. We have posted collateral to support a portion of our obligations in our CRM business. While we worked with various counterparties to provide mutually acceptable collateral or other adequate assurance under these contracts, we have not reached agreement with Sithe Independence and

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Sterlington/Quachita Power LLC regarding a mutually acceptable amount of collateral in support of our obligations under our power tolling arrangements with either of these two parties. Although we are current on all contract payments to these counterparties and have never been late in payments to these counterparties, we previously received a notice of default on in 2002 from each such counterparty with regard to collateral. Despite receiving these notices, all parties are continuing to perform and we have fulfilled our economic commitments under these contracts. Our average annual capacity payments under these two arrangements approximate $75 million and $63 million, respectively, and the contracts extend through 2014 and 2012, respectively, with a five-year extension option for Sterlington. If these two parties were successfully to pursue claims that we defaulted on these contracts, they could declare a termination of their respective contracts, which generally provide for termination payments based on the agreed mark-to-market value of the contracts. Because of the effects of changes in commodity prices on the mark-to-market value of these contracts, as well as the likelihood that we would differ with our counterparties as to the estimated value of these contracts, we cannot predict with any degree of certainty the amounts of termination payments that could be required under these two contracts. Disputes relating to these two contracts, if resolved against us, could materially adversely affect our financial condition, results of operations and cash flows.

U.S. Attorney Investigation Texas (formerly U.S. Attorney Investigations). We are continuing to cooperate fully with the U.S. Attorney s office in Houston in its ongoing investigation of the industry s gas trade reporting practices. We do not believe these investigations will have a material adverse effect on our financial condition, results of operations or cash flows.

In January 2003, one of our former natural gas traders was indicted on three counts of knowingly causing the transmission of false trade reports used to calculate the index price of natural gas and four counts of wire fraud. In December 2004, a second indictment was filed against this same individual and other individuals, not related to Dynegy, alleging conspiracy to falsely report gas prices to various index publications. A superseding indictment was returned in July 2005, recharging the original violations and adding additional charges. The trial date is set for Spring 2006.

U.S. Attorney Investigations California (formerly U.S. Attorney Investigations). The U.S. Attorney s office in the Northern District of California issued a Grand Jury subpoena requesting information related to our activities in the California energy markets in November 2002. We continue to cooperate fully with the U.S. Attorney s office in its investigation of these matters, including production of substantial documents responsive to the subpoena and other requests for information. We cannot predict the ultimate outcome of this investigation.

Department of Labor Investigation. In August 2002, the U.S. Department of Labor commenced an official investigation pursuant to Section 504 of ERISA with respect to the benefit plans we maintain and our ERISA affiliates. We cooperated with the Department of Labor throughout this investigation, which focused on a review of plan documentation, plan reporting and disclosure, plan record keeping, plan investments and investment options, plan fiduciaries and third-party service providers, plan contributions and other operational aspects of the plans. In February

2005, we received a letter from the Department of Labor indicating that, as a result of our recent settlement in the ERISA litigation, it intended to take no further action with respect to its investigation of the Dynegy Inc. 401(k) Plan. However, its investigation is ongoing as it relates to the Illinois Power 401(k) Plans and the recent litigation relating to those plans described above.

Danos Litigation. In late September 2005, Mr. Timothy Danos filed a class action lawsuit in Louisiana federal district court on behalf of himself and similarly situated commercial fisherman against several defendants, including VESCO, seeking actual and punitive damages as a result of the alleged discharge of oil by the defendants

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in connection with Hurricane Katrina. We had a majority ownership interest in VESCO prior to the DMSLP sale. Plaintiff alleges that VESCO released approximately 25,000 gallons of oil into portions of Louisiana s coastal regions. VESCO has not yet been served with this litigation. Any liability associated with this suit was assumed by Targa in accordance with the terms of the sale of DMSLP.

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

During 2003, as part of our sale of Northern Natural, the Rough and Hornsea gas storage facilities and certain natural gas liquids assets, we provided indemnities to third parties regarding environmental, tax, employee and other representations. Maximum recourse under these indemnities is limited to $209 million, $857 million and $28 million for the Northern Natural, Rough and Hornsea gas storage facilities and natural gas liquids assets, respectively. We also entered into similar indemnifications regarding environmental, tax, employee and other representations when completing other asset sales such as, but not limited to, Hackberry LNG Project, SouthStar Energy Services, various Canadian assets, Michigan Power, Oyster Creek, Hartwell, Commonwealth, Sherman, Indian Basin and PESA. We carry reserves for existing environmental, tax and employee liabilities and have incurred no other expense relating to these indemnities.

As a condition of our 2004 sale of Illinois Power and our interest in Joppa, we provided indemnifications to third parties regarding environmental, tax, employee and other representations. These indemnifications are limited to a maximum recourse of $400 million. Additionally, we have indemnified third parties against losses resulting from possible adverse regulatory actions taken by the ICC that could prevent Illinois Power from recovering costs incurred in connection with purchased gas and investments in specified items. Although there is no limitation on our liability under this indemnity, our indemnity is limited to 50% of any such losses. Illinois Power had not sustained any material losses in recent years and, at the time of the sale of Illinois Power to Ameren, our management considered the probability of any material loss under this indemnity remote. Consequently, the value of the indemnification was initially deemed to be insignificant. In the second quarter of 2005, however, the ICC rejected an Administrative Law Judge s proposed order and entered an order in one of the proceedings covered by the scope of this indemnification that disallowed items relating to one of Illinois Power s gas storage fields, resulting in a negative revenue requirement impact to Ameren. On July 27, 2005, we made a payment of $8 million to Ameren in settlement of Ameren s indemnification claims with respect to this ICC order. Although the ICC has not issued an order in any other cases, there are other cases in which it is now probable, based on this recent action by the ICC, that some loss may occur and a liability can be reasonably estimated. As a result, in the second quarter 2005, we recognized a pre-tax charge of $12 million, which is included in general and administrative expense on our unaudited condensed consolidated statements of operations. Further disallowances and other events which fall within the scope of the indemnity may still occur; however, we are not required to accrue a liability in connection with these indemnifications, as management cannot reasonably estimate a range of outcomes or at this time

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considers the probability of an adverse outcome as only reasonably possible. We intend to contest any proposed disallowances.

During 2004, as part of entering into a back-to-back power purchase agreement with Constellation, under which Constellation effectively received our rights to purchase approximately 570 MW of capacity and energy arising under our Kendall tolling contract, we guaranteed Constellation an aggregate $3.5 million in reactive power revenues over the four year term of the power purchase agreement. Upon entering into this contract, we established a liability of $0.3 million reflecting the fair value of this guarantee. During the three and nine months ended September 30, 2005, we increased the liability by $0.2 million and $0.8 million, respectively, as it became probable that we will be obligated to make a greater payment to Constellation under the guarantee.

During 2005, as part of our sale of DMSLP, we agreed to indemnify Targa against losses it may incur under indemnifications DMSLP provided to purchasers of Hackberry and certain other assets, properties and businesses disposed of by DMSLP prior to our sale of DMSLP. We have incurred no significant expense under these prior indemnities and deem their value to be insignificant.

Note 11 Regulatory Issues

We are subject to regulation by various federal, state, local and foreign 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. In addition, the U.S. Congress and various state legislative bodies are considering a number of bills that could impact current regulations or impose new regulations applicable to us and our subsidiaries. We cannot predict the outcome of these bills or other regulatory developments, or the effects that they might have on our business.

Roseton State Pollutant Discharge Elimination System Permit. Roseton s SPDES Permit was issued for a five-year term in 1987. Prior to expiration of the permit, Central Hudson Gas & Electric (the former plant owner), filed a timely and sufficient application to renew the SPDES Permit. Under New York State law, when a timely and sufficient application for renewal is filed before a SPDES Permit expires, the permit is extended by operation of law until final action is taken on the renewal application. In April 2005, the NYSDEC issued to DNE a draft SPDES Permit (the Draft SPDES Permit) for the Roseton plant. The Draft SPDES Permit contains provisions governing, among other things, the cooling water intake and the discharge of heated effluent water. These provisions require the facility to manage actively its water intake to reduce impingement mortality of fish by 85% and to reduce entrainment mortality of aquatic organisms including juvenile fish, larvae and fish eggs by 70% during the first two years of the renewal term, and by 80% thereafter.

On July 18, 2005, a public hearing was held to receive public comments on the Draft SPDES Permit. On July 19 and 20, 2005, the Administrative Law Judge held an issues conference to consider party status and to determine what issues should be subject to adjudication at the adjudicatory hearing. Three organizations filed petitions for party status and appeared through counsel at the issues conference. The petitioners, Riverkeeper, Inc., Natural Resource Defense Council, Inc. and Scenic Hudson, Inc. seek to impose a permit requirement that the Roseton plant install a closed cycle cooling system in order to reduce the volume of water withdrawn from the Hudson River, thus reducing entrainment and impingement. The petitioners claim that only a closed cycle cooling system meets the Clean Water Act s requirement that the location, design, construction and capacity of cooling water intake structures reflect the best technology available for minimizing adverse environmental impacts from the facility s cooling water intake structures. Currently, the Draft SPDES Permit does not require installation of a closed cycle cooling system; however, it does require entrainment and impingement mortality reductions that exceed the best technology available requirements of the USEPA regulations applicable to existing facilities. We expect that the adjudicatory hearing on the Draft SPDES Permit will be held in the spring or summer of 2006. We believe that the Petitioners claims are without merit, and we plan to oppose those claims vigorously. Given the high cost of installing a closed

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cycle cooling system, an adverse result in this proceeding could have a material adverse effect on our financial condition, results of operations and cash flows.

Danskammer State Pollutant Discharge Elimination System Permit. Danskammer s SPDES Permit was issued for a five-year term in 1987. Prior to the expiration of the permit, Central Hudson Gas & Electric (the former plant owner), filed an application to renew the SPDES Permit. We believe that application was timely and sufficient. Under New York State law, when a timely and sufficient application for renewal is filed before a SPDES Permit expires, the permit is extended by operation of law until final action is taken on the renewal application. In November 2002, several environmental groups filed suit in the Supreme Court of the State of New York seeking, among other things, a declaratory judgment that the Danskammer SPDES Permit had expired because of alleged deficiencies in the renewal application process. In September 2004, the Court ruled that the SPDES Permit for our Danskammer facility was void, but stayed the enforcement of the decision pending further review by the Court or by the Appellate Division.

In October 2004, we filed our appeal of the Court s decision with the Appellate Division and are currently challenging the Court s ruling voiding our permit. Oral argument before the Appellate Division occurred in September 2005, and a decision is expected in the fourth quarter of 2005. We are also continuing to seek renewal of the SPDES Permit in proceedings before the NYSDEC. If our appeal is ultimately unsuccessful, we may be required to suspend operations at our Danskammer facility until receipt of final approval of the renewal of our Danskammer SPDES Permit. We cannot predict with any certainty the outcome of these proceedings; however, an adverse outcome, particularly a requirement that we suspend operations at our Danskammer facility for any period of time, could have a material adverse effect on our financial condition, results of operations and cash flows.

FERC Market-Based Rate Authority. The FERC s market-based rate authority allows the sale of power at negotiated rates through the bilateral market or within an organized energy market, conditioned on periodic re-review. In April 2004, the FERC issued an order concerning the ability of companies to sell electricity at market-based rates. In this order, the FERC adopted two new tests for assessing generation market power. If an applicant for market-based rate authority is found to possess generation market power under these tests and is unsuccessful in challenging that finding, the applicant may either propose mitigation measures or adopt cost-based rates. If the FERC finds that the proposed mitigation measures fail to eliminate the ability to exercise market power, the applicant s market-based rate authority will be revoked and the applicant will be subject to cost-based default rates, or other cost-based rates proposed by the applicant and approved by the FERC. Our entities with applications pending since February 2002, as well as the entities we acquired in January 2005 in connection with the Sithe Energies acquisition, timely resubmitted their applications to the FERC. On June 16, 2005, the FERC issued an order accepting the updated market power analyses submitted by Sithe Energies and Dynegy. Our next triennial market power analysis is due June 16, 2008. Accordingly, these entities have continuously had market-based rate authority.

Seams Elimination Charges. On September 6, 2005, in a filing in the ongoing FERC proceedings relating to Midwest transmission rates, AmerenIP is seeking to require DMG and other Dynegy affiliates to compensate AmerenIP for certain MISO charges currently being assessed to and paid by AmerenIP. AmerenIP maintained in its filing that these charges should be our responsibility. FERC is not expected to rule on whether the specific charges may be shifted to us and, if applicable, the amount that we are required to compensate AmerenIP, until approximately mid-2006. A preliminary settlement conference scheduled by the administrative law judge in the proceeding was held on November 4, 2005. During the three months ended September 30, 2005, we recorded a reserve related to these charges.

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Note 12 Employee Compensation, Savings and Pension Plans

We have various defined benefit pension plans and post-retirement benefit plans, which are more fully described in Note 19 Employee Compensation, Savings and Pension Plans beginning on page F-73 of our Form 10-K.

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

	Pension Benefits		Other Benefits	
	Three Months Ended September 30,			
	2005	2004	2005	2004
	(in millions)			
Service cost benefits earned during period	$ 2	$ 6	$ 1	$ 1
Interest cost on projected benefit obligation	3	10		3
Expected return on plan assets	(2)	(12)		(2)
Recognized net actuarial loss		4		2
Settlement and curtailment (gain) loss		144	1	(8)
Total net periodic benefit cost	$ 3	$ 152	$ 2	$ (4)

	Pension Benefits		Other Benefits	
	Nine Months Ended September 30,			
	2005	2004	2005	2004

	(in millions)			
Service cost benefits earned during period	$ 8	$ 18	$ 2	$ 4
Interest cost on projected benefit obligation	7	31	2	9
Expected return on plan assets	(6)	(37)		(5)
Recognized net actuarial loss	2	12		4
Settlement and curtailment (gain) loss		144	1	(8)
Total net periodic benefit cost	$ 11	$ 168	$ 5	$ 4

Contributions. During the nine months ended September 2005, we contributed approximately $31 million to our pension plans. In October 2005, we contributed $0.3 million to our other post-retirement benefit plans. We do not expect to make any further contributions to the plans in 2005.

Sale of Illinois Power. As a result of the sale of Illinois Power to Ameren, the number of participants in our various defined benefit pension plans and post-retirement benefit plans was reduced substantially. Consequently, our 2005 net periodic benefit cost is substantially lower than the cost for 2004. In addition, in connection with the sale, we agreed to transfer a portion of the assets in certain of our defined benefit plans to other plans maintained by Ameren. An initial asset transfer to Ameren of $411 million was made in November 2004, an additional transfer of approximately $67 million was made in the first quarter 2005 and a final transfer of approximately $1 million was made in the third quarter 2005.

Medicare Prescription Drug, Improvement and Modernization Act of 2003. As discussed in Note 19 Employee Compensation, Savings and Pension Plans Medicare Prescription Drug, Improvement and Modernization Act of 2003, beginning on page F-78 of our Form 10-K, we anticipate that the amount of benefits we will pay after 2005 will be lower as a result of the new Medicare provisions described under this Act.

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Note 13 Income Taxes

Amounts in this footnote have been restated. For further information, please see the Explanatory Note.

Effective Tax Rate. The income tax benefit (expense) included in our income (loss) from continuing operations were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(in millions, except rates)			
Income tax benefit (expense)	$ 13	$ (7)	$ 228	$ 75
Effective tax rate	48%	14%	35%	234%

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. During 2005, our overall effective tax rate on continuing operations was different than the statutory rate of 35% due primarily to the nondeductible portion of the shareholder litigation settlement, offset by the changes in the valuation allowance, as further discussed below, and adjustments to the effective state tax rate. During 2004, our overall effective tax rate on continuing operations was different than the statutory rate of 35% due primarily to changes in the valuation allowance and adjustments related to the conclusion of prior year tax audits, as further discussed below.

Capital Loss Valuation Allowance. In the second quarter of 2005 and in anticipation of the sale of DMSLP, as further discussed in Note 3 Discontinued Operations, Dispositions and Contract Terminations Discontinued Operations Natural Gas Liquids, we reduced the valuation allowance related to our capital loss carryforward by $112 million. This benefit is reflected in income from discontinued operations on our unaudited condensed consolidated statements of operations.

The changes in the valuation allowance by attribute since December 31, 2004 were as follows:

	Capital Loss Carryforwards	Foreign Tax Credits	State NOL Carryforwards	Total
		(in millions)		
Balance as of December 31, 2004	$ (112)	$ (23)	$ (1)	$ (136)
Acquisition of Sithe Energies	(17)		(12)	(29)
Tax benefit from discontinued operations	112			112
Balance as of September 30, 2005	$ (17)	$ (23)	$ (13)	$ (53)

Previously, as a result of the asset sales discussed in Note 3 Discontinued Operations, Dispositions and Contract Terminations Dispositions and Contract Terminations, as well as other transactions occurring in 2004, we reduced the valuation allowance related to our capital loss carryforward by $24 million and $71 million in the three and nine months ended September 30, 2004, respectively. This benefit is reflected in income tax benefit (expense) on our unaudited condensed consolidated statements of operations.

Prior Year Tax Audits. In the second quarter 2004, we recognized an expense of $17 million associated with the conclusion of prior year federal tax audits. A charge of $20 million related to our discontinued U.K. CRM business is included in income from discontinued operations on our unaudited condensed consolidated statements of

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operations. An offsetting benefit of $3 million is reflected in income tax benefit (expense) on our unaudited condensed consolidated statements of operations.

Balance Sheet Classification. The balance sheet classification of deferred tax liabilities and assets is as follows:

	September 30, 2005	December 31, 2004
	(in millions)	
Deferred tax assets:		
Current	$ 750	$ 62
Non-current	16	15
Deferred tax liabilities:		
Non-current	(1,046)	(499)
Net deferred tax liability	$ (280)	$ (422)

The balance sheet classification of our deferred tax liabilities and assets has changed significantly since December 31, 2004. As a result of our gain on the sale of DMSLP, coupled with current year operations, we expect to utilize approximately $940 million of our net operating loss carryforwards and approximately $300 million of our capital loss carryforwards within the next 12 months. Accordingly, we have reclassified the deferred tax assets associated with these attributes from non-current to current as of September 30, 2005.

Note 14 Segment Information

Amounts in this footnote have been restated. For further information, please see the Explanatory Note.

We report our operations in the following segments: GEN, NGL, REG and CRM. All direct general and administrative expenses incurred by us on behalf of our subsidiaries are charged to the applicable subsidiary as incurred. Other income (expense) items incurred by us on behalf of our subsidiaries are allocated directly to the four segments.

Pursuant to EITF Issue 02-03, Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities, all gains and losses on third-party energy-trading contracts in the CRM segment, whether realized or unrealized, are presented net in our unaudited condensed 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 02-03. 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.

In accordance with SFAS No. 144, results associated with our NGL segment, primarily consisting of DMSLP, have been reclassified to discontinued operations for all periods presented. These results include revenues and cost of sales arising from intersegment transactions, which will cease after the sale of DMSLP. NGL processes natural gas and sells this natural gas to CRM for resale to third parties. NGL also purchases natural gas from CRM and electricity from GEN. As the intersegment revenues and cost of sales included in NGL s results were reclassified to discontinued operations, the effects of these intersegment transactions, eliminated in consolidation, including the

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ultimate third party settlement, previously recorded in other segments have also been reclassified to discontinued operations. Revenues from continuing operations represent third party sales not originating from NGL.

Reportable segment information for the three- and nine-month periods ended September 30, 2005 and 2004 is presented below:

Dynegy s Segment Data for the Quarter Ended September 30, 2005

(in millions)

	GEN	NGL	REG	CRM	Other and Eliminations	Total
Unaffiliated revenues:						
Domestic	$ 719	$	$	$ 39	$	$ 758
Other	16			(4)		12
	735			35		770
Intersegment revenues	(2)			2		
Total revenues	$ 733	$	$	$ 37	$	$ 770
Depreciation and amortization	$ (53)	$	$	$	$ (3)	$ (56)
Operating income (loss)	$ 115	$	$	$ (18)	$ (32)	$ 65
Earnings from unconsolidated investments	7					7
Other items, net	2			(5)	3	
Interest expense						(99)
Loss from continuing operations before taxes						(27)
Income tax benefit						13
Loss from continuing operations						(14)
Income from discontinued operations, net of taxes						43

Net income						$ 29
Identifiable assets:						
Domestic	$ 7,827	$ 1,705	$ 15	$ 1,394	$ 561	$ 11,502
Other	25			124		149
Total	$ 7,852	$ 1,705	$ 15	$ 1,518	$ 561	$ 11,651
Unconsolidated investments	$ 291	$ 77	$	$	$	$ 368
Capital expenditures	$ (22)	$ (16)	$	$	$ (1)	$ (39)

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For the Interim Periods Ended September 30, 2005 and 2004

Dynegy s Segment Data for the Quarter Ended September 30, 2004

(in millions)

	GEN	NGL	REG	CRM	Other and Eliminations	Total
Unaffiliated revenues:						
Domestic	$ 273	$	$ 377	$ 32	$	$ 682
Other				(14)		(14)
	273		377	18		668
Intersegment revenues	153		6	(9)	(150)	
Total revenues	$ 426	$	$ 383	$ 9	$ (150)	$ 668
Depreciation and amortization	$ (50)	$	$	$ (1)	$ (7)	$ (58)
Operating income (loss)	$ 71	$	$ 83	$ (32)	$ (57)	$ 65
Earnings from unconsolidated investments	99					99
Other items, net			2	(3)	1	
Interest expense						(115)
Income from continuing operations before taxes						49
Income tax expense						(7)
Income from continuing operations						42
Income from discontinued operations, net of taxes						36
Net income						$ 78
Identifiable assets:						
Domestic	$ 6,449	$ 1,809	$ 18	$ 1,667	$ 560	$ 10,503
Other	3	4		192	29	228
Total	$ 6,452	$ 1,813	$ 18	$ 1,859	$ 589	$ 10,731

Unconsolidated investments	$ 381	$ 78	$	$	$	$ 459
Capital expenditures	$ (20)	$ (14)	$ (31)	$	$ (5)	$ (70)

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For the Interim Periods Ended September 30, 2005 and 2004

Dynegy s Segment Data for the Nine Months Ended September 30, 2005

(in millions)

	GEN	NGL	REG	CRM	Other and Eliminations	Total
Unaffiliated revenues:						
Domestic	$ 1,592	$	$	$ 99	$	$ 1,691
Other	46			(46)		
	1,638			53		1,691
Intersegment revenues	(28)			28		
Total revenues	$ 1,610	$	$	$ 81	$	$ 1,691
Depreciation and amortization	$ (150)	$	$	$ (1)	$ (14)	$ (165)
Operating income (loss)	$ 194	$	$	$ (225)	$ (353)	$ (384)
Earnings from unconsolidated investments	14					14
Other items, net	4			(5)	10	9
Interest expense						(284)
Loss from continuing operations before taxes						(645)
Income tax benefit						228
Loss from continuing operations						(417)
Income from discontinued operations, net of taxes						209
Net loss						$ (208)
Identifiable assets:						
Domestic	$ 7,827	$ 1,705	$ 15	$ 1,394	$ 561	$ 11,502
Other	25			124		149
Total	$ 7,852	$ 1,705	$ 15	$ 1,518	$ 561	$ 11,651

Unconsolidated investments	$ 291	$ 77	$	$	$	$ 368
Capital expenditures	$					