DYNEGY INC.
Form 11-K
June 27, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

Commission file number: 001-33443

Dynegy Inc. 401(k) Savings Plan

(Full title of the plan)

Dynegy Inc.

1000 Louisiana

Suite 5800

Houston, Texas 77002

(Name of issuer of the securities held

pursuant to the plan and the address

of its principal executive office)

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Note: Other schedules required by 29 CFR 2520.103-10 of the Department of Labor's Rules and Regulations for reporting and disclosure under ERISA have been omitted because they are not applicable.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Participants and Administrator of

the Dynegy Inc. 401(k) Savings Plan

We have audited the accompanying statements of net assets available for benefits of the Dynegy Inc. 401(k) Savings Plan (the "Plan") as of December 31, 2007 and 2006, and the related statement of changes in net assets available for benefits for the year ended December 31, 2007. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2007 and 2006, and the changes in net assets available for benefits for the year ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the 2007 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2007 basic financial statements taken as a whole.

/s/ McConnell & Jones LLP

Houston, Texas

June 20, 2008

DYNEGY INC. 401(k) SAVINGS PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
ASSETS		
Investments at fair value:		
Plan interest in Master Trust	$ 163,280,147	$ 153,098,091
Participant loans	1,885,653	1,299,078
Total investments at fair value	165,165,800	154,397,169
Receivables:		
Employer contributions	142,579	47,001
Total receivables	142,579	47,001
TOTAL ASSETS	165,308,379	154,444,170
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	—	170,715
NET ASSETS AVAILABLE FOR BENEFITS	$ 165,308,379	$ 154,614,885

The accompanying notes are an integral part of these financial statements.

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DYNEGY INC. 401(k) SAVINGS PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEAR ENDED DECEMBER 31, 2007

ADDITIONS:		
Additions to net assets attributed to:		
Contributions:		
Employee	$	14,471,959
Employer		2,592,838
Total contributions		17,064,797
Investment income:		
Plan interest in net income of Dynegy Inc. Master Trust		11,857,279
Interest on participant loans		103,490
Total investment income		11,960,769
Investment loss recovery from class action lawsuit		2,377,134
TOTAL ADDITIONS		31,402,700
DEDUCTIONS:		
Deductions from net assets attributed to:		
Benefit payments		20,647,957
Administrative expenses		61,249
TOTAL DEDUCTIONS		20,709,206
NET INCREASE		10,693,494
NET ASSETS AVAILABLE FOR BENEFITS:		
Beginning of year		154,614,885
End of year	$	165,308,379

The accompanying notes are an integral part of these financial statements.

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DYNEGY INC. 401(k) SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

Explanatory Note

On April 2, 2007, Dynegy Illinois Inc. (formerly Dynegy Inc.), an Illinois corporation ("Dynegy Illinois"), consummated a transaction (the "Merger") in which it became a wholly owned subsidiary of a newly created entity, Dynegy Inc., a Delaware corporation ("Dynegy").

Following the Merger, Dynegy replaced Dynegy Illinois as the sponsor of the Plan. In addition, all shares of Dynegy Illinois common stock in the Dynegy Stock Fund were converted into shares of the Class A common stock of Dynegy, par value $.01 per share ("Dynegy Class A common stock"), based on a formula established in connection with the Merger. As a result, future investments in the Dynegy Stock Fund will be represented by units of Dynegy Class A common stock, rather than units of Dynegy Illinois common stock. The Plan was amended on April 2, 2007 to reflect such changes.

1. DESCRIPTION OF PLAN

The following description of the Dynegy Inc. 401(k) Savings Plan (the "Plan") provides only general information. Participants should refer to the Plan document, which is the governing document, for a more complete description of the Plan's provisions.

<u>General</u>

Effective May 1, 1989, Natural Gas Clearinghouse, the predecessor company to Dynegy (collectively, the "Company"), established this Plan which qualifies under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code"). The Plan is a trusteed, defined contribution plan subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Plan and related trust are established and maintained for the exclusive benefit of participating employees of certain affiliates of Dynegy that participate in the Plan (the participating affiliates in the Plan are each referred to herein as the "Employer"). The Dynegy Inc. Benefit Plans Committee serves as the "Plan Administrator" for the Plan.

As of December 31, 2007, the following entities were participating in the Plan: Calcasieu Power, LLC, Dynegy Operating Company, Dynegy Energy Services Inc., Dynegy Marketing and Trade, Sithe Energies, Inc. and Sithe Energies Power Services, Inc.

Participant Accounts

Each participant's accounts are credited with the participant's contributions and allocations of the Employer's contributions and Plan earnings. For participants with loans, a loan administrative fee is charged to their respective account each year.

Forfeitures

At December 31, 2007 and 2006, forfeited nonvested accounts totaled $110,122 and $173,586, respectively. Forfeitures are applied to reduce Employer matching contributions and/or to pay Plan administrative expenses. In 2007, Employer matching contributions were

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reduced by $145,796 and administrative expenses were reduced by $36,273 from forfeitures from nonvested accounts.

Investment of Funds

Each participant has the right upon enrollment to select the fund(s) into which the participant's before-tax, after-tax and rollover contributions (and the earnings allocable thereto) will be invested. A participant may change the allocation of such participant contributions made to the selected funds or transfer amounts among investment funds during the Plan year in accordance with the procedures established by the Plan Administrator. Employer matching and discretionary contributions are made to the Dynegy Stock Fund (the "Stock Fund") which are allocated to participants as units in the Stock Fund. A participant may transfer such Employer contributions (and the earnings allocable thereto) among investment funds anytime after they are initially credited to his or her account, subject to the limitations contained in Dynegy's insider trading policy.

Eligibility and Contributions

All employees of the Employer are eligible to participate in the Plan other than (a) employees covered by a collective bargaining agreement (unless such agreement provides for coverage under the Plan), (b) certain nonresident aliens, (c) leased employees, (d) employees who have waived participation in the Plan and (e) individuals who are deemed to be employees under certain Treasury regulations. Participation in the Plan commences immediately upon employment as an eligible employee after such employee follows the Plan's enrollment procedure. A participant's election to make before-tax and/or after-tax contributions to the Plan is voluntary. Notwithstanding the foregoing, participation in the Plan is voluntary for an eligible employee who is also entitled to accrue a benefit or service credit under the Dynegy Midstream Services Retirement Plan (formerly the Trident NGL, Inc. Retirement Plan) (the "Dynegy Midstream Plan"), and such an employee will not be eligible to receive an allocation of Employer discretionary contributions under the Plan.

Participants may make before-tax contributions including "catch-up" contributions (if age 50 or older before the close of the particular Plan year) by payroll deduction up to the legal dollar limit. Participants may also make after-tax contributions in cash or by payroll deduction. Total contributions are limited to the extent required by law. A participant may "roll-over" into the Plan amounts distributed from another eligible retirement plan.

The Employer contributes a match each pay period to the Plan equal to 100% of the participant's before-tax contributions that are not in excess of 5% of the participant's "Compensation" (as defined by the Plan) for such pay period. In addition, each calendar year the Employer makes a "true-up" matching contribution, if necessary, on behalf of each participant who was an eligible employee on the last day of the year that takes into account the participant's before-tax contributions and Compensation for the year. Employer matching contributions are made to the Stock Fund in the Master Trust (as defined below) and allocated to participants as units in the Stock Fund. Dividends on stock held in the Stock Fund are also invested in the Stock Fund. See Notes 3 and 8 for more information.

In addition, the Employer may make a discretionary contribution for a calendar year that is allocated based on Compensation to (a) participants who are eligible employees on the last day of the year and who are not accruing benefits or service credit under the Dynegy Midstream Plan and (b) participants who terminated employment during the year on or after attaining age 65 or by reason of death or disability and who, immediately prior to such termination, were not accruing benefits or service credit under the Dynegy Midstream Plan. The discretionary contribution is made to the Stock Fund and allocated to participants as units in the Stock Fund. No contributions were made under this arrangement during plan years 2007 and 2006.

DYNEGY INC. 401(k) SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

Vesting

Generally, participants vest in Employer matching and discretionary contributions as follows:

Years of Service	Vesting Percentage
1	25%
2	50%
3	75%
4	100%

Participants also become 100% vested in such contributions upon (a) attaining normal retirement age (age 65) while employed by the Employer, (b) termination of employment with the Employer by reason of disability or death or (c) if the participant is affected by a termination or a partial termination of the Plan.

Employee before-tax, after-tax and rollover contributions are 100% vested and non-forfeitable at all times.

Distributions

Distributions as provided for in the Plan are made to plan participants or their beneficiaries upon the participant’s termination of employment, disability or death. Prior to May 1, 2002, participants could elect to receive their distributions in a lump sum, in periodic installment payments or in various annuity forms. From and after May 1, 2002, only lump sum distributions are available under the Plan. All distributions are made in cash, except that a participant may elect to have the portion of his or her account that is invested in the Stock Fund distributed in shares of Dynegy common stock.

Generally, a participant can defer the receipt of his or her distribution until April 1st of the calendar year following the later of the calendar year in which he or she reaches age 70-1/2 or the calendar year in which he or she terminates employment. However, an automatic lump sum distribution may be made upon termination of employment if the participant’s aggregate account balance is not in excess of $1,000.

The Plan permits a variety of in-service withdrawals. Any participant may withdraw amounts credited to his or her after-tax account, rollover account and ERISA and Securities Class Action Settlement accounts, as applicable. See Note 9 for more information regarding these two Class Action Settlement accounts. A participant who has attained age 59-½ may withdraw amounts from his or her before-tax account, "catch-up" account, as applicable, and the vested interest in his or her Employer contribution account. A hardship withdrawal is also permitted under the Plan. In addition, certain special in-service withdrawal rights apply to certain amounts that have been transferred to the Plan from other retirement plans.

Loans to Participants

The Plan allows participants to borrow from their Plan accounts an amount not to exceed the lesser of $50,000 (reduced by the excess of the highest outstanding balance of loans during the one-year period before the date the loan is made over the outstanding balance of loans on the date the loan is made) or 50% of the vested account balance (other than the portion of such account balance that is invested under the directed brokerage investment fund option). Interest is charged on these loans at a rate commensurate with interest rates charged by persons in the business of lending money for similar type loans.

All loans made will mature and be payable in full no earlier than one year and no later than five years from the date of the loan. An exception exists when the loan is used by the participant to acquire his or her principal residence. In this case, the loan will mature and be payable in full no earlier than one year and no later than ten years from the date of the loan. Loan repayments are made by payroll deductions authorized by the participant while the participant remains employed by the Employer or an affiliate. After termination of employment and before receiving a distribution from the Plan, a participant may continue to make loan payments directly to the Trustee. Principal and interest paid on the loan is credited to the participant's account. The Trustee maintains a loan fund to hold the balances of participants' loans.

Termination of the Plan

Subject to certain limitations, the right to amend, modify or terminate the Plan is reserved by Dynegy.

In the event the Plan is terminated, the assets of the trust fund will be liquidated and each participant will be entitled to receive the entire amount of his or her account.

Plan Changes and Amendments

Effective January 1, 2006, the Plan was amended for the following:

- To reflect the duties and responsibilities of an independent fiduciary, who has the sole and exclusive authority with respect to the Dynegy Stock Fund.
- Effective January 1, 2006, the Plan was amended to permit the Plan to accept a direct transfer of a participant's account balance from another qualified plan.
- Effective at various dates in 2006 and 2007, the Plan was amended to incorporate various amendments permitted and required by the final Section Code 401(k)/(m) regulations and other Internal Revenue Service guidance, including the following: incorporate new definition of Severance from Employment and related requirements under new regulations; clarify timing of compensation for elective deferrals under Code Section 401(k) and Code Section 415 regulations; reflect ACP/ADP testing requirements, minimum required corrective contributions and recharacterizing of catch-up contributions for testing purposes under new regulations; incorporate safe harbor method for calculating gap period income; add good faith compliance language for final Code Section 401(k)/(m) regulations; add burial expenses and

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residential casualty losses as new hardship events; add special hurricane relief distribution and loan provisions; and incorporate new Plan termination requirements.

- Effective January 1, 2007, the Plan was amended to reflect the deposit of the Securities Class Action Settlement proceeds into the Plan for the benefit of specified participants, and to add related administrative provisions.
- Effective April 2, 2007, as of the completion of the merger between Dynegy Illinois and certain LS Power entities, the Plan was amended to provide that Dynegy became the Plan's sponsor and that all shares of common stock in the Stock Fund became the common stock of Dynegy. In addition, certain employees of specified LS Power entities who became employed by an Employer, within a specified period of time, were credited with certain prior service. Further, amendments to the Plan were also made regarding certain administrative provisions regarding the Plan Administrator.
- Effective April 2, 2007, certain employees of specified entities that provide services to the LS Power assets who became employed by an Employer, within a specified period of time, were credited with certain prior service.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying Plan financial statements are prepared on the accrual basis of accounting in accordance with United States generally accepted accounting principles ("GAAP").

Investments

The investments held in the Dynegy Inc. Master Trust (the "Master Trust") are stated at fair value as determined by the Trustee based on the latest quoted market values of the underlying securities. Securities for which no quoted market value is available are valued at fair value as determined in good faith by or under the direction of the Trustee. Plan interest in the net assets of the Master Trust is based on the assets held by each plan in the Master Trust on an actual basis. At December 31, 2007 and 2006, the Plan's interest in the Master Trust was approximately 45%.

Participant loans included in the loan fund are valued at cost, which approximates fair value.

In December 2005, the Financial Accounting Standards Board ("FASB") issued FSP AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans* (the "FSP"). The FSP requires investment contracts held by a defined contribution plan to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the plan. As required by the FSP, the Statements of Net Assets Available for Benefits present the fair value of the investment contracts as well as the adjustment of the fully benefit-responsive

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investment contracts from fair value to contract value. The Statement of Changes in Net Assets Available for Benefits is prepared on a contract value basis.

Income

Net appreciation (depreciation) of investments is comprised of realized and unrealized gains and losses. Realized gains or losses represent the difference between proceeds received upon sale and the average cost of the investment. Unrealized gain or loss is the difference between market value and cost of investments retained in the Plan (at financial statement date). For the purpose of allocation to participants, the Stock Fund is valued by the Plan at its unit price (comprised of market price plus uninvested cash position) on the date of allocation and current unit price is used at the time of distribution to participants resulting in a realized gain or loss and is reflected in the income from the Plan's investment in the Master Trust.

Investment income from the Plan's investment in the Master Trust consists of the Plan's proportionate share of the Master Trust's interest and dividend income and investment income from net appreciation (depreciation) in fair value of investments.

The Trustee records dividend income as of the ex-dividend date and accrues interest income as earned. Realized gains and losses on security sales are computed on an average cost basis. Purchases and sales of securities are recorded on a trade-date-basis.

Expenses

Certain expenses incurred in the administration of the Plan and the related trusts are paid by the Employer. These expenses include fees and expenses of the consultants, auditors, and legal personnel.

Income Taxes

The Internal Revenue Service has determined and informed Dynegy by a letter dated June 16, 2004, that the Plan and related trust are designed in accordance with the applicable sections of the Code. The Plan has been amended by subsequent amendments not covered by the determination letter. However, the Plan Administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the Code. Therefore, no provision for income taxes has been included in the Plan's financial statements.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates.

Distribution of Benefits

Distributions of benefits are recorded when paid.

DYNEGY INC. 401(k) SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

Risk and Uncertainties

Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported in the Statement of Net Assets Available for Benefits.

3. INVESTMENTS

Plan investments are received, invested and held by the Trustee. Individual investments that represent 5% or more of the Plan's net assets available for benefits include:

		December 31	
Investments at fair value as determined by quoted market price		2007	2006
Plan interest in Master Trust	*		