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AES CORPORATION
Form 35-CERT
November 29, 2001

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

The AES Corporation)
) File No. 70-9779
)

Certificate Pursuant to Rule 24 and Release No. 35-27363
Under the Public Utility Holding Company Act of 1935

On March 23, 2001, the Securities and Exchange Commission ("SEC") issued an order, Release No. 35-27363 in File No. 70-9779 ("Exemption Order"), granting an exemption under Section 3(a) of the Public Utility Holding Company Act of 1935, as amended, to The AES Corporation ("AES") in relation to its proposed acquisition of IPALCO Enterprises, Inc. ("IPALCO"), which has a public-utility subsidiary company, Indianapolis Power & Light Company ("IPL"). The Exemption Order required AES to file certain certificates (as described in the Exemption Order) under Rule 24 within 60 days of the close of each calendar quarter for a period of two years beginning March 31, 2001 and every six months thereafter. A certificate complying with the Exemption Order is set forth below (as an attachment) for the period ending September 30, 2001. AES is separately filing a certificate in File No. 70-9465 as required by the Commission's order in Release No. 35-27063 in connection with the AES acquisition of CILCORP Inc. ("CILCORP"), which has a public-utility subsidiary company, Central Illinois Light Company ("CILCO").

Respectfully submitted,

/s/ Earle H. O'Donnell

Earle H. O'Donnell
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1775 Pennsylvania Avenue, N.W.
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Dated: November 29, 2001

THE AES CORPORATION
SEC FILING PURSUANT TO SECTION 3(a) (5) EXEMPTION ORDER
QUARTER ENDED SEPTEMBER 30, 2001

ITEM (1) PER EXEMPTION ORDER (STATEMENTS ATTACHED):

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- 1) Pro Rata Statement of Income of The AES Corporation for the 12 months ended September 30, 2001
- 2) Pro Rata Balance Sheet of The AES Corporation at September 30, 2001
- 3) Statement of Income of IPALCO for the 12 months ended September 30, 2001
- 4) Statement of Income of IPL for the 12 months ended September 30, 2001
- 5) Consolidated Balance Sheet of IPALCO at September 30, 2001
- 6) Consolidated Balance Sheet of IPL at September 30, 2001
- 7) Statement of Income of CILCORP for the 12 months ended September 30, 2001
- 8) Statement of Income of CILCO for the 12 months ended September 30, 2001
- 9) Consolidated Balance Sheet of CILCORP at September 30, 2001
- 10) Consolidated Balance Sheet of CILCO at September 30, 2001

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THE AES CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS
(INCLUDES CILCORP AND IPALCO)
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2001 - PRO RATA BASIS

(\$ in millions, except per share amounts)

REVENUES:

Sales and services

OPERATING COSTS AND EXPENSES:

Cost of sales and services

Selling, general and administrative expenses

TOTAL OPERATING COSTS AND EXPENSES

OPERATING INCOME

OTHER INCOME AND (EXPENSE):

Interest expense, net

Other income (expense)

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Nonrecurring severance and transaction costs
 Loss on sale of Power Direct

 INCOME BEFORE INCOME TAXES, MINORITY INTEREST AND EXTRAORDINARY ITEM

Income tax provision

 INCOME BEFORE EXTRAORDINARY ITEM

Extraordinary item

 NET INCOME
 =====

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THE AES CORPORATION

PRO RATA CONSOLIDATED BALANCE SHEET (INCLUDES CILCORP AND IPALCO)

SEPTEMBER 30, 2001
 (\$ in millions)

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	1,372
Short-term investments		246
Accounts receivable, net		1,745
Inventory		565
Receivable from affiliates		12
Deferred income taxes		62
Prepaid expenses and other current assets		670

TOTAL CURRENT ASSETS		4,672
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PROPERTY, PLANT AND EQUIPMENT

Land		715
Electric generation and distribution assets		22,029
Accumulated depreciation and amortization		(3,458)
Construction in progress		4,672

PROPERTY, PLANT AND EQUIPMENT, NET		23,958
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OTHER ASSETS

Deferred financing costs, net		424
Project development costs		84
Investments in and advances to affiliates		3,336
Debt service reserves and other deposits		688
Excess of Cost over Net Assets Acquired		2,566

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Other assets	2,407

TOTAL OTHER ASSETS	9,505
TOTAL	\$ 38,135
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LIABILITIES & STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	
Accounts payable	\$ 865
Accrued interest	549
Accrued and other liabilities	1,644
Other notes payable - current portion	814
Project financing debt - current portion	1,798

TOTAL CURRENT LIABILITIES	5,670
LONG-TERM LIABILITIES	
Recourse Debt-LT	5,396
Project Financing Debt-LT	14,568
Other notes payable-LT	158
Deferred Tax Liability	2,092
Other long-term liabilities	2,364

TOTAL LONG-TERM LIABILITIES	24,578
TECONS	1,228
STOCKHOLDERS' EQUITY	
Common Stock	5
Contributed capital / Additional paid in capital	5,845
Retained earnings	3,650
Accumulated other comprehensive loss	(2,841)

TOTAL STOCKHOLDERS' EQUITY	6,659
TOTAL	\$ 38,135
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IPALCO Enterprises, Inc.
Statement of Consolidated Income
Period ending September 30, 2001
(Unaudited)

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12 Months Ended
9/30/2001

OPERATING REVENUES:	
Electric	853,332,807
Steam	4,179,239

Gross Operating Revenues	857,512,046

OPERATING EXPENSES AND TAXES:	
Production - Fuel	191,579,394
Production - Other	85,964,091
Power Purchased	17,233,405
Purchased Steam	789,876

Total	295,566,766
Transmission	5,010,544
Distribution - Electric	31,933,422
Customer and Distribution - Steam	407,918
Customer Accounts	16,202,217
Customer Service and Informational	8,334,297
Administrative and General	222,382,727

Total	579,837,891
Depreciation	109,529,399
Amortization of Regulatory Deferrals	1,054,476
Income Taxes - Net	40,370,214
Taxes Other than Income Taxes	38,098,280
Disposition of Allowances - Net	(4,560,024)

Total Operating Expenses and Taxes	764,330,236

OPERATING INCOME	93,181,810

OTHER INCOME AND DEDUCTIONS:	
Allowance for Funds During Construction	861,664
Carrying Charges on Regulatory Assets	77,043
IPL Miscellaneous Income & Deductions - Net	(24,552,091)
IPL Income Taxes - Net	9,736,911
IPALCO Enterprises, Inc. - Parent Co.	(10,723,850)
Mid-America Capital Resources, Inc.	2,687,625
Mid-America Energy Resources, Inc.	25,320,822

Total Other Income and Deductions	3,408,124

TOTAL INCOME	96,589,934

INTEREST CHARGES:	
Interest on Long-Term Debt	38,563,722
Allowance for Funds During Const-Credit	(402,872)
Deferred Return on Regulatory Assets	(21,199)
Other Interest Charges	590,635
Amortization - Debt Discount & Expense	2,019,082
Preferred Stock Transactions	3,213,312

Total Interest and Other Charges - Net	43,962,680

CUM. ACCOUNTING CHANGE - Net of Taxes	0

NET INCOME	52,627,254
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IPL
Statement of Income
Period ending September 30, 2001
(Unaudited)

	12 Months E 9/30/
OPERATING REVENUES:	
Electric	853,332
Steam	4,179

Gross Operating Revenues	857,512

OPERATING EXPENSES AND TAXES:	
Production - Fuel	191,579
Production - Other	85,964
Power Purchased	17,233
Purchased Steam	789

Total	295,566
Transmission	5,010
Distribution - Electric	31,933
Customer and Distribution - Steam	407
Customer Accounts	16,202
Customer Service and Informational	8,334
Administrative and General	222,382

Total	579,837
Depreciation	109,529
Amortization of Regulatory Deferrals	1,054
Income Taxes - Net	40,370
Taxes Other than Income Taxes	38,098
Disposition of Allowances - Net	(4,560)

Total Operating Expenses and Taxes	764,330

OPERATING INCOME	93,181

OTHER INCOME AND DEDUCTIONS:	
Allowance for Other Funds During Construction	861
Carrying Charges on Regulatory Assets	77
Miscellaneous Income and Deductions - Net	(4,911)
Income Taxes - Net	3,572

Total Other Income and Deductions	(400)

TOTAL INCOME	92,781

INTEREST CHARGES:	
Interest on Long-Term Debt	38,563
Allowance for Borrowed Funds Used During Const	(402)
Deferred Return on Regulatory Assets - Borrowed	(21)
Other Interest Charges	590

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Amortization - Debt Discount & Expense	2,019

Total Interest and Other Charges - Net	40,749

INCOME BEFORE EXTRAORDINARY ITEMS AND CUMULATIVE ACCOUNTING CHANGE	52,032
Less Preferred Stock Transactions	3,213

INCOME APPLICABLE TO COMMON STOCK	48,818
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OPERATION	504,860
MAINTENANCE	74,977

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IPALCO Enterprises, Inc. and Subsidiaries Balance Sheet Period Ending Sep. 30, 2001 (Unaudited)

ASSETS:	
PROPERTY, PLANT AND EQUIPMENT:	
Utility Plant, at Original Cost	3,054,276,801
Less: Accum. Prov. for Deprec. & Amort.	1,418,768,440

Total Utility Plant - Net	1,635,508,361

OTHER PROPERTY, INVESTMENTS AND OTHER ASSETS:	
Nonutility Property	2,474,502
Less Accumulated Provision for Depreciation	715,306

Total Nonutility Property - Net	1,759,196
Other Investments	50,083,455

Total	51,842,651

CURRENT ASSETS:	
Cash	2,337,288
Special Deposits	0
Working Funds	11,075,875
Temporary Cash Investments	53,398,684
Accounts Receivable - Associated Companies	3
Accounts Receivable:	
Customers	45,965,778
Miscellaneous	9,455,073
Less: Reserve for Uncollectible Accounts	(1,250,451)
Interest Receivable	351,481
Notes Receivable	0
Fuel	25,417,602
Materials and Supplies - Net	46,754,599
Other Current Assets	1,678,130
Def. Fed. & St. Tax on Fuel Costs-Due w/i 1 Yr.	

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Total Current Assets	195,184,062

DEFERRED DEBITS:	
Unamortized Petersburg Unit 4 Carrying Charges	16,842,350
Unamort. Def. Return-Pete Unit 4 Carrying Chgs.	9,431,544
Unamort. Reacquisition Premium on Debt	20,106,519
Other Regulatory Assets	29,625,812
Miscellaneous	4,217,967
Unamortized Debt Expense	5,541,725

Total Deferred Debits	85,765,917

TOTAL ASSETS	1,968,300,991
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LIABILITIES:	
CAPITALIZATION:	
Common Shareholder's Equity:	
Common Stock	0
Unearned Compensation - Restricted Stock	0
Premium and Net Gain on Preferred Stock	648,700
Retained Earnings	674,497,943
Accumulated Other Comprehensive Income	(5,135,684)
Common Stock held by Treasury	0

Total	670,010,959

Non-Redeemable Cumulative Preferred Stock	59,135,300

Long-Term Debt	622,650,000
Unamort. Premium on LT Debt - Net	(736,373)

Total Long-Term Debt	621,913,627

Total Capitalization	1,351,059,886

CURRENT LIABILITIES:	
Notes Payable	0
Accounts Payable	49,838,327
Dividends Payable	919,090
Customer Deposits	8,673,585
Accrued Liabilities:	
Interest on Long-Term Debt	9,245,574
Interest on Customer Deposits, etc.	1,909,932
Taxes:	
Federal Taxes on Income	33,631,692
State Taxes on Income	1,866,423
Real Estate and Personal Property	14,400,164
Miscellaneous	836,267
Def. Fed. & St. Tax on Fuel Costs-Due w/i 1 Yr.	299,831
Deferred Fuel Expense	8,557,402
Accounts Payable - Associated Companies	1
Miscellaneous	193,175

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Total	130,371,463
Current Maturity of Long Term Debt	74,300,000
Total Current Liabilities	204,671,463
DEFERRED CREDITS:	
FAS109 Net Deferred Income Tax - Credit	29,407,143
Accumulated Deferred Income Tax - Net	223,967,974
Unamortized Investment Tax Credit	34,382,336
Accrued Postretirement Benefits	9,635,900
Accrued Pension Benefits	109,375,116
Miscellaneous	5,801,173
Total Deferred Credits	412,569,642
TOTAL LIABILITIES	1,968,300,991

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IPL
Balance Sheet
Period ending Sep. 30, 2001
(Unaudited)

ASSETS:	
PROPERTY, PLANT AND EQUIPMENT	
Utility Plant, at Original Cost	3,054,276,801
Less: Accum. Prov. for Deprec. & Amort.	1,418,768,440
Total Utility Plant - Net	1,635,508,361
OTHER PROPERTY, INVESTMENTS AND OTHER ASSETS:	
Nonutility Property	2,474,502
Less Accumulated Provision for Depreciation	724,300
Total Nonutility Property - Net	1,750,202
Other Investments	3,671,919
Total	5,422,121
CURRENT ASSETS:	
Cash	2,261,953
Special Deposits	0
Working Funds	11,075,875
Temporary Cash Investments	43,600,080
Accounts Receivable - Associated Companies	132,139
Accounts Receivable:	
Customers	45,953,318
Miscellaneous	9,228,596
Less: Reserve for Uncollectible Accounts	(1,220,526)
Interest Receivable	280,127
Notes Receivable	0

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Fuel	25,417,602
Materials and Supplies - Net	46,758,275
Other Current Assets	1,678,130
Def. Fed. & St. Tax on Fuel Costs - Due w/i 1 Yr.	
Tax Refund Receivable	39,794

Total Current Assets	185,205,363

DEFERRED DEBITS:	
Unamortized Petersburg Unit 4 Carrying Charges	16,842,350
Unamort. Def. Return-Pete Unit 4 Carrying Chgs.	9,431,544
Unamort. Reacquisition Premium on Debt	20,106,519
Other Regulatory Assets	29,625,812
Miscellaneous	3,825,336
Unamortized Debt Expense	5,448,188

Total Deferred Debits	85,279,749

TOTAL ASSETS	1,911,415,594
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LIABILITIES:	
CAPITALIZATION:	
Common Shareholder's Equity:	
Common Stock	324,536,675
Premium and Net Gain on Preferred Stock	2,642,134
Retained Earnings	355,365,457
Accumulated Other Comprehensive Income	(5,133,296)

Total	677,410,970

Non-Redeemable Cumulative Preferred Stock	59,135,300

Long-Term Debt	622,650,000
Unamort. Premium on LT Debt - Net	(736,373)

Total Long-Term Debt	621,913,627

Total Capitalization	1,358,459,897

CURRENT LIABILITIES:	
Accounts Payable	48,675,476
Dividends Payable	805,409
Customer Deposits	8,673,585
Accrued Liabilities:	
Interest on Long-Term Debt	9,185,102
Interest on Customer Deposits, etc.	1,523,488
Taxes:	
Federal Taxes on Income	47,104,589
State Taxes on Income	(240,284)
Real Estate and Personal Property	14,398,444
Miscellaneous	828,935
Def. Fed. & St. Tax on Fuel Costs - Due w/i 1 Yr.	299,831

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Deferred Fuel Expense	8,557,402
Miscellaneous	193,175

Total	140,005,152

Total Current Liabilities	140,005,152

DEFERRED CREDITS:	
FAS109 Net Deferred Income Tax - Credit	29,407,143
Accumulated Deferred Income Tax - Net	224,348,892
Unamortized Investment Tax Credit	34,382,336
Accrued Postretirement Benefits	9,635,900
Accrued Pension Benefits	109,375,116
Miscellaneous	5,801,158

Total Deferred Credits	412,950,545

TOTAL LIABILITIES	1,911,415,594
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CILCORP CONSOLIDATED
 INCOME STATEMENT
 TWELVE MONTHS ENDED 9/30/2001
 (UNAUDITED)

REVENUE:
 CILCO ELECTRIC
 CILCO GAS
 CILCO OTHER
 OTHER BUSINESSES

TOTAL

OPERATING EXPENSES:
 FUEL FOR GENERATION AND PURCHASED POWER
 GAS PURCHASED FOR RESALE
 OTHER OPERATIONS AND MAINTENANCE
 DEPRECIATION AND AMORTIZATION
 TAXES, OTHER THAN INCOME TAXES

TOTAL

FIXED CHARGES AND OTHER:
 INTEREST EXPENSE
 PREFERRED STOCK DIVIDENDS OF SUBSIDIARY
 ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION
 OTHER

TOTAL

INCOME FROM CONTINUING OPERATIONS BEFORE

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INCOME TAXES
INCOME TAXES

NET INCOME (LOSS) FROM CONTINUING OPERATIONS

INCOME (LOSS) FROM OPERATIONS OF DISCONTINUED
BUSINESS, NET OF TAXES

EXTRAORDINARY ITEM

NET INCOME (LOSS) BEFORE MINORITY INTEREST

MINORITY INTEREST

NET INCOME (LOSS)

OTHER COMPREHENSIVE INCOME

COMPREHENSIVE INCOME (LOSS)

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CENTRAL ILLINOIS LIGHT COMPANY
CONSOLIDATED STATEMENT OF INCOME

(unaudited)

Twelve Months Ended
9/30/2001

Operating Revenues:

Electric	\$ 394,181
Gas	330,995

	725,176

Operating Expenses:

Cost of Fuel	139,771
Cost of Gas	242,912
Purchased Power	40,506
Other Operation & Maintenance Expenses	119,667
Depreciation and Amortization	68,184
Income Taxes	19,791
Other Taxes	40,016

Total Operating Expenses	670,847

Operating Income	54,329
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Other Income and Deductions CILCO Owned Life Insurance	(1,404)
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Other, Net	7,888

Total other income and (deductions)	6,484

Income Before Interest Expenses	60,813
Interest Expenses:	
Interest on Long-Term Debt	17,627
Cost of Borrowed Funds Capitalized	(253)
Other	6,915

Total interest expense	24,289

Net (loss) Income Before Preferred Dividends	36,524

Preferred Stock Dividends	2,159

Net Inc Available for Common Stock	\$ 34,365
	=====

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CILCORP INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(In thousands)
(Unaudited)

September 30, 2001

ASSETS	
Current assets:	
Cash and temporary cash investments	\$ 11,223
Receivables, less reserves of \$1,221 and \$1,343	70,420
Accrued unbilled revenue	19,846
Fuel, at average cost	14,933
Materials and supplies, at average cost	18,632
Gas in underground storage, at average cost	31,405
FAC/PGA underrecoveries	2,284
Prepayments and other	5,936

Total current assets	174,679

Investments and other property:	
Investment in leveraged leases	135,889
Other investments	19,649

Total investments and other property	155,538

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Property, plant and equipment:	
Utility plant, at original cost	
Electric	712,100
Gas	225,299

	937,399
Less - accumulated provision for depreciation	113,881

	823,518
Construction work in progress	40,142
Other, net of depreciation	47

Total property, plant and equipment	863,707

Other assets:	
Goodwill, net of accumulated amortization of \$29,920 and \$18,422	583,044
Other	80,930

Total other assets	663,974

Total assets	\$1,857,898
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CILCORP INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(In thousands)
(Unaudited)

September 30, 2001

LIABILITIES AND STOCKHOLDER'S EQUITY

Current liabilities:	
Current portion of long-term debt	\$ 11,800
Notes payable	89,000
Accounts payable	72,256
Accrued taxes	13,275
Accrued interest	24,785
FAC/PGA overrecoveries	311
Other	27,112

Total current liabilities	238,539

Long-term debt	717,718

Deferred credits and other liabilities:	
Deferred income taxes	195,369
Regulatory liability of regulated subsidiary	57,985
Deferred investment tax credits	14,955
Provision for out-of-market contract	62,000

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Other	79,938

Total deferred credits and other liabilities	410,247

Preferred stock of subsidiary without mandatory redemption	19,120
Preferred stock of subsidiary with mandatory redemption	22,000

Total preferred stock of subsidiary	41,120

Stockholder's equity:	
Common stock, no par value; authorized 10,000 shares - outstanding 1,000 shares	--
Additional paid-in capital	468,833
Retained earnings (deficit)	(5,412)
Accumulated other comprehensive income (loss)	(13,147)

Total stockholder's equity	450,274

Total liabilities and stockholder's equity	\$1,857,898
	=====

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CENTRAL ILLINOIS LIGHT COMPANY
Consolidated Balance Sheets
(In thousands)
(Unaudited)

September 30, 2001

ASSETS

Utility plant, at original cost:	
Electric	\$1,321,995
Gas	448,666

	1,770,661
Less - accumulated provision for depreciation	972,780

	797,881
Construction work in progress	40,142

Total utility plant	838,023

Other property and investments:	
Cash surrender value of company-owned life insurance (net of related policy loans of \$65,207 and \$59,292)	3,128
Other	1,133

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Total other property and investments	4,261

Current assets:	
Cash and temporary cash investments	8,091
Receivables, less reserves of \$1,221 and \$1,343	68,350
Accrued unbilled revenue	17,529
Fuel, at average cost	14,933
Materials and supplies, at average cost	16,687
Gas in underground storage, at average cost	31,405
Prepaid taxes	4,851
FAC/PGA underrecoveries	2,284
Other	5,916

Total current assets	170,046

Deferred debits:	
Unamortized loss on reacquired debt	2,509
Unamortized debt expense	1,336
Prepaid pension cost	229
Other	53,762

Total deferred debits	57,836

Total assets	\$1,070,166
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CENTRAL ILLINOIS LIGHT COMPANY
Consolidated Balance Sheets
(In thousands)
(Unaudited)

September 30, 2001

CAPITALIZATION AND LIABILITIES

Capitalization:	
Common stockholder's equity:	
Common stock, no par value;	
authorized 20,000,000 shares;	
outstanding 13,563,871 shares	\$ 185,661
Additional paid-in capital	27,000
Retained earnings	133,788
Accumulated other comprehensive income (loss)	(13,672)

Total common stockholder's equity	332,777
Preferred stock without mandatory redemption	19,120
Preferred stock with mandatory redemption	22,000
Long-term debt	242,718

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Total capitalization	616,615

Current liabilities:	
Current maturities of long-term debt	2,800
Notes payable	58,000
Accounts payable	68,696
Accrued taxes	25,500
Accrued interest	4,920
FAC/PGA overrecoveries	311
Other	27,112

Total current liabilities	187,339

Deferred credits and other liabilities:	
Deferred income taxes	107,626
Regulatory liability	57,985
Deferred investment tax credit	14,954
Capital lease obligation	159
Other	85,488

Total deferred credits and other liabilities	266,212

Total capitalization and liabilities	\$1,070,166
=====	

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ITEM (2) PER EXEMPTION ORDER (INCOME STATEMENT AMOUNTS ARE 12 MONTHS ENDED):

CILCO AND IPL CONTRIBUTIONS TO
AES/CILCORP/IPALCO(1) CONSOLIDATED HOLDING COMPANY
(PRO RATA CONSOLIDATION BASIS)
(\$MM)

	12 MOS. ENDED 12/31/00	12 MOS. ENDED 12/31/00
GROSS REVENUES(2)	16.94%	
CILCO	636	
CILCORP (excluding CILCO)	87	
IPL	831	
IPALCO (excluding IPL)	28	
AES (excluding CILCORP and IPALCO)	7,079	
AES/CILCORP/IPALCO	8,661	

OPERATING INCOME	14.20%	
CILCO	97	
CILCORP (excluding CILCO)	12	
IPL	205	
IPALCO (excluding IPL)	(36)	
AES (excluding CILCORP and IPALCO)	1,849	
AES/CILCORP/IPALCO	2,127	

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NET INCOME	15.99%
CILCO	45
CILCORP (excluding CILCO)	(33)
IPL	82
IPALCO (excluding IPL)	73
AES (excluding CILCORP and IPALCO)	629
AES/CILCORP/IPALCO	797
NET ASSETS	8.49%
CILCO	1,107
CILCORP (excluding CILCO)	841
IPL	1,905
IPALCO (excluding IPL)	-
AES (excluding CILCORP and IPALCO)	31,326
AES/CILCORP/IPALCO	35,479

(1) As a result of AES' acquisition of IPALCO, the results of AES/CILCORP/IPALCO for the twelve-month periods have been restated to include IPALCO.

(2) Gross business revenues (utility and non-utility) of IPALCO and CILCO combined as a percentage of total gross business revenues (including IPALCO/IPL and CILCORP/CILCO, utility and non-utility) of AES.

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IPL CONTRIBUTIONS TO
AES/IPALCO(1) CONSOLIDATED HOLDING COMPANY
(PRO RATA CONSOLIDATION BASIS)
(\$MM)

	12 MOS. ENDED 12/31/00	12 MOS. ENDED 12/31/00
GROSS REVENUES (2)	10.06%	
IPL	831	
IPALCO (excluding IPL)	28	
AES (excluding CILCO jurisdictional activities)	7,404	
AES/IPALCO	8,263	
OPERATING INCOME	10.73%	
IPL	205	
IPALCO (excluding IPL)	(36)	
AES (excluding CILCO jurisdictional activities)	1,741	
AES/IPALCO	1,910	
NET INCOME	10.91%	

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IPL	82
IPALCO (excluding IPL)	73
AES (excluding CILCO jurisdictional activities)	600
AES/IPALCO	755

NET ASSETS	5.49%
IPL	1,905
IPALCO (excluding IPL)	-
AES (excluding CILCO jurisdictional activities)	32,781
AES/IPALCO	34,686

(1) As a result of AES' acquisition of IPALCO, the results of AES/CILCORP/IPALCO for the twelve-month periods have been restated to include IPALCO.

(2) Gross business revenues (utility and non-utility) of IPL as a percentage of total gross business revenues (including IPALCO/IPL utility and non-utility) of AES.

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ITEM (3) PER EXEMPTION ORDER - GENERATION INFORMATION:

AES Generating Plants in Operation at September 30, 2001 (excluding CILCORP and IPALCO):

UNIT	COUNTRY	CAPACITY (MW)	AES INTEREST (%)	AES EQUITY (MW)
	-----	----	---	----
AES Deepwater	USA	143	100	143
AES Beaver Valley	USA	125	100	125
AES Placerita	USA	120	100	120
AES Thames	USA	181	100	181
AES Shady Point	USA	320	100	320
AES Hawaii	USA	180	100	180
AES Warrior Run	USA	180	100	180
AES Somerset	USA	675	100	675
AES Cayuga	USA	306	100	306
AES Greenidge	USA	161	100	161
AES Westover	USA	126	100	126
AES Alamitos	USA	2,083	100	2,083
AES Redondo Beach	USA	1,310	100	1,310
AES Huntington Beach	USA	563	100	563
AES Thermo Ecotek - Hemphill	USA	14	67	9
AES Thermo Ecotek - Whitefield	USA	14	100	14
AES Thermo Ecotek - Mendota	USA	25	100	25
AES Delano	USA	50	100	50
AES Riverside	USA	154	100	154
AES Mountainview	USA	126	100	126
DOMESTIC SUBTOTAL:		6,856		6,851

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UNIT	COUNTRY	CAPACITY (MW)	AES INTEREST (%)	AES EQUITY (MW)	RE
	-----	----	---	----	
AES Kingston	Canada	110	50	55	
AES San Nicholas	Argentina	650	88	572	
AES Cabra Corral	Argentina	102	98	100	
AES El Tunal	Argentina	10	98	10	
AES Sarmiento	Argentina	33	98	32	
AES Ullum	Argentina	45	98	44	
AES Quebrada de Ullum	Argentina	45	100	45	
AES Alicura	Argentina	1,000	100	1,000	
Fontes Nova - Light	Brazil	144	21	30	
Ilha dos Pombos - Light	Brazil	164	21	34	
Nilo Pecanha - Light	Brazil	380	21	80	
Pereira Passos - Light	Brazil	100	21	21	
CEMIG - Miranda	Brazil	390	9	35	
CEMIG - Igarapava	Brazil	210	1	2	

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CEMIG (35 plants)	Brazil	5,068	9	441	
AES Bayano	Panama	150	49	74	
AES Panama	Panama	42	49	21	
AES Chiriqui - La Estrella	Panama	42	49	21	
AES Chiriqui - Los Valles	Panama	48	49	24	
AES Los Mina	Dom. Rep.	210	100	210	
AES Yarra	Australia	510	100	510	
AES Jeeralang	Australia	449	100	449	
AES Mt. Stuart	Australia	288	100	288	
AES Xiangci - Cili	China	26	51	13	
Wuhu Grassy Lake	China	250	25	63	
Yangchun	China	15	25	4	
Chengdu Lotus City	China	48	35	17	
AES Jiaozuo	China	250	70	175	
AES Hefei	China	76	70	53	
AES Hefei II	China	39	70	27	
AES Chongqing Nanchuan	China	50	70	35	
Yangcheng	China	350	25	88	
AES Ekibastuz	Kazakhstan	4,000	100	4,000	
AES Ust-Kamenogorsk GES	Kazakhstan	331	100	331	
AES Shulbinsk GES	Kazakhstan	702	100	702	
AES Ust-Kamenogorsk TETS	Kazakhstan	1,464	100	1,464	
AES Leninogorsk TETS	Kazakhstan	418	100	418	
AES Sogrinsk TETS	Kazakhstan	349	100	349	
AES Semipalatinsk TETS	Kazakhstan	840	100	840	
AES Ust-Kamenogorsk Heat Nets	Kazakhstan	310	Mgmt.	0	
OPGC	India	420	49	206	
AES Lal Pir	Pakistan	351	90	316	
AES PakGen	Pakistan	344	90	310	

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AES Borsod	Hungary	171	100	171
AES Tisza II	Hungary	860	100	860
AES Tiszapalkonya	Hungary	250	100	250
AES Elsta	Netherlands	405	50	203
Medway	U.K.	688	25	172
AES Indian Queens	U.K.	140	100	140
AES Kilroot	U.K.	520	97	504
AES Belfast West	U.K.	120	97	116
AES Barry	U.K.	230	100	230
AES Drax	U.K.	4,065	100	4,065
AES Fifoots Point	U.K.	360	100	360
AES Uruguaiana	Brazil	600	100	600
AES Tiete (10 plants)	Brazil	2,650	53	1,405
EDC (4 plants)	Venezuela	2,265	87	1,971
AES Merida III	Mexico	484	55	266
AES Mtkvari	Georgia	600	100	600
AES Khrami I	Georgia	113	100	113
AES Khrami II	Georgia	110	100	110
AES Ottana	Italy	140	100	140
AES Mamonal	Columbia	90	62	56
AES Centrogener (Gener - 8 plants)	Chile	756	99	748

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AES Chivor (Gener)	Columbia	1,000	96	960
AES Electrica de Santiago (Gener)	Chile	379	74	280
AES Energia Verde (Gener - 2 plants)	Chile	17	99	17
AES Guacolda (Gener)	Chile	304	49	149
AES Norgener (Gener - 2 plants)	Chile	277	99	274
Itabo (Gener - 7 plants)	Dom. Rep.	587	24	141
AES Bohemia	Czech Rep.	50	83	42
AES Premnitz	Germany	58	65	38
AES SONEL	Cameroon	800	56	560
Central Dique	Argentina	68	51	35
FOREIGN SUBTOTAL:		39,980		29,085
TOTAL - September 30, 2001		46,836		35,936
Foreign Generation as a Percentage of Total:		85%		81%

CILCORP Generating Plants at September 30, 2001:

UNIT	COUNTRY	CAPACITY (MW)	AES INTEREST (%)	AES EQUITY (MW)
	-----	----	---	----
Edwards (3 units)	USA	740	100	740

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Duck Creek	USA	366	100	366
Indian Trails	USA	10	100	10
Sterling Avenue	USA	30	100	30
Hallock Power Modules	USA	13	100	13
Kickapoo Power Modules	USA	13	100	13
TOTAL - September 30, 2001		1,172		1,172

IPALCO Generating Plants at September 30, 2001:

UNIT	COUNTRY	AES CAPACITY (MW)	AES INTEREST (%)	EQUITY (MW)
	-----	----	---	----
Petersburg	USA	1,873	100	1,873
H.T. Pritchard	USA	393	100	393
E.W. Stout	USA	1,017	100	1,017
Georgetown	USA	80	100	80
TOTAL - September 30, 2001		3,363		3,363

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Revenues from electric generation capacity - 12 months ended September 30, 2001
(millions of dollars):

IPALCO	185	
CILCORP	158	
AES (excluding CILCORP and IPALCO)	3,814	9
	-----	-----
Total	4,157	10

IPALCO's electric revenues are allocated between electric generation and electric transmission and distribution activities according to utility rate base. CILCORP's electric revenues are allocated between electric generation and electric transmission and distribution activities according to utility rate base. AES generation revenues are derived from the total generation revenues earned by AES subsidiaries times the percentage ownership interest of AES in those subsidiaries.

There has been no change in the amount of generation capacity owned by CILCORP or IPALCO and a 994 MW increase in the amount of generation capacity owned by AES (excluding CILCORP and IPALCO) from 34,942 to 35,936 MW since June 30, 2001. There has been a 5.5% increase in the total revenues earned from the capacity owned by AES, IPALCO and CILCORP in the twelve-month period ended September 30, 2001 compared with the twelve-month period ended June 30, 2001. The percentage of total revenues derived from the generation capacity owned by CILCORP has remained the same at 4%. The percentage of total revenues derived from the generation capacity owned by IPALCO has decreased from 5% to 4%.

The physical location of the MW capacity added by AES since June 30, 2001 is in the United States, Argentina and Cameroon.

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ITEM (4) PER EXEMPTION ORDER - ELECTRIC TRANSMISSION AND DISTRIBUTION AND GAS DISTRIBUTION:

Electric transmission and distribution and gas distribution assets owned as of September 30, 2001 (millions of dollars):

IPALCO	1,013
CILCORP	766
Total AES (excluding CILCORP and IPALCO)	4,961

Total	6,740

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Electric transmission and distribution and gas distribution revenues for 12 months ending September 30, 2001 (millions of dollars):

IPALCO	802
CILCORP	568
Total AES (excluding CILCORP and IPALCO)	4,734

Total	6,104

IPALCO's electric revenues are allocated between electric generation and electric transmission and distribution activities according to utility rate base. CILCORP's electric revenues are allocated between electric generation and electric transmission and distribution activities according to utility rate base. AES transmission and distribution revenues are derived from the total revenues earned by AES transmission and distribution subsidiaries by multiplying these revenues by the percentage ownership interest of AES in those subsidiaries.

The total transmission and distribution assets owned by AES, CILCORP and IPALCO have decreased since June 30, 2001. CILCORP's transmission and distribution assets have increased slightly while the revenues derived from such assets have decreased slightly since June 30, 2001. IPALCO's transmission and distribution assets have remained almost the same while the revenues derived from such assets have increased since June 30, 2001. AES' transmission and distribution assets have decreased slightly, and the revenues derived from such assets have increased since June 30, 2001. CILCORP's percentage of the total transmission and distribution assets has remained the same at 11%, and CILCORP's percentage of the total revenues from such assets has decreased from 10% to 9% for the twelve-month period ending September 30, 2001 compared to the twelve-month period ending June 30, 2001. IPALCO's percentage of the total transmission and distribution assets has remained the same at 15%, and IPALCO's percentage of the total revenues from such assets has increased from 12% to 13% for the twelve-month period ending September 30, 2001 compared to the twelve-month period ending June 30, 2001.

ITEM (5) PER EXEMPTION ORDER:

Neither CILCO nor IPL has sold or transferred any electric and/or gas utility

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assets to any affiliate company of the AES consolidated holding company system during the third quarter of 2001.

ITEM (6) PER EXEMPTION ORDER:

During the third quarter of 2001, no application has been made to nor has any order been received from the Illinois Commerce Commission that involves AES' ownership position or AES' oversight over the operations of CILCO or CILCORP. During the third quarter of 2001, no application has been made to nor has any order been received from the Indiana Utility Regulatory Commission that involves AES' ownership position or AES' oversight over the operations of IPL or IPALCO.

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ITEM (7) PER EXEMPTION ORDER:

During the third quarter of 2001, AES has taken no action regarding the divestiture of the jurisdictional business of CILCO.

SIGNATURE

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, as amended, AES has duly caused this certificate to be signed on its behalf on this 29th day of November, 2001 by the undersigned thereunto duly authorized.

The AES Corporation

By: /s/ Erik Luckau

Erik Luckau
Associate General Counsel

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text-autospace:none;">(13)

*

Steven P. Canakes

142,200

(14)

1.17

%

Michael H. Carrel

24

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(15) 0

% 0

Philip I. Smith

(16) 30,600

*

All directors and executive officers as a group
(12 persons, including those named above)

(17) 1,392,702

10.77

%

* Less than one percent.

(1) Each person has sole voting and sole dispositive power with respect to all outstanding shares, except as noted.

(2) Based on 12,051,530 shares outstanding as of February 28, 2005. Such number does not include 2,237,685 shares of common stock issuable upon exercise of stock options and warrants outstanding as of February 28, 2005. Each figure showing the percentage of outstanding shares owned beneficially has been calculated by treating as outstanding and owned the shares which could be purchased by the indicated person(s) within 60 days of February 28, 2005 upon the exercise of stock options.

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- (3) Reflects information as of December 31, 2004 derived from Amendment No. 2 to Schedule 13G filed by Kopp Investment Advisors, LLC with the Securities Exchange Commission (SEC) on January 27, 2005. As set forth in the Schedule 13G, Kopp Investment Advisors, LLC has sole voting power as to 1,320,610 shares, sole dispositive power as to 500,000 shares, and shared dispositive power as to 1,071,660 shares. According to the Schedule 13G, although Kopp Investment Advisors, LLC exercises dispositive power over these 1,071,660 shares, it is not the owner of them. The Schedule 13G states that it is filed by Kopp Investments Advisors, LLC on behalf of itself and Kopp Holding Company, LLC, Kopp Holding Company and LeRoy C. Kopp.
- (4) Reflects information as of December 31, 2004 derived from Amendment No. 11 to Schedule 13G filed by Perkins Capital Management, Inc. (PCM) with the SEC on February 9, 2005. Excludes shares beneficially owned by Mr. Richard W. Perkins, a director of the Company and the controlling shareholder of PCM, a registered investment adviser. Of the 811,490 shares held for the account of clients of PCM, for which beneficial ownership is disclaimed by PCM, PCM has sole dispositive power with regard to all such shares and sole voting power over 160,300 of such shares.
- (5) Reflects information as of February 17, 2005 derived from a Schedule 13G filed on February 28, 2005 and Amendment No. 1 to Schedule 13G filed on March 7, 2005 by Kairos Partners II Limited Partnership, Kairos Partners III Limited Partnership, John F. White, James F. Rice, Kenneth L. Wolfe and Foster L. Aborn. As set forth in the Schedule 13G, as amended, of these 783,200 shares, Kairos Partners II Limited Partnership has shared voting power and shared dispositive power as to 459,200 shares, Kairos Partners III Limited Partnership has shared voting power and shared dispositive power as to 324,000 shares, John F. White has shared voting power and shared dispositive power as to 783,200 shares, James F. Rice has shared voting power and shared dispositive power as to 783,200 shares, Kenneth L. Wolfe has shared voting power and shared dispositive power as to 783,200 shares, and Foster L. Aborn has shared voting power and shared dispositive power as to 783,200 shares. Shares reported in the Schedule 13G, as amended, represent shares held by Kairos Partners II Limited Partnership and Kairos Partners III Limited Partnership (collectively, the Partnerships). Each of the individual Reporting Persons is a member of the investment committee of each of the Partnerships. Such committee has voting and investment power over the shares reported herein.
- (6) Reflects information derived from a Schedule 13G filed by the State of Wisconsin Investment Board on February 15, 2005.
- (7) Includes 45,000 shares that Mr. Pihl has the right to acquire upon the exercise of stock options. Excludes 27,994 shares held by Mr. Pihl s spouse, as to which Mr. Pihl disclaims beneficial ownership.
- (8) Includes 322,900 shares that Mr. Miller has the right to acquire upon the exercise of stock options.
- (9) Includes 103,140 shares that Dr. Argiro has the right to purchase upon the exercise of stock options. Excludes 109,550 shares held by Dr. Argiro s spouse, as to which Dr. Argiro disclaims beneficial ownership.
- (10) Includes 35,500 shares that Mr. Hickey has the right to acquire upon the exercise of stock options.

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(11) Includes 5,000 shares held by the Perkins Foundation and 88,500 shares held by various trusts of which Mr. Perkins is the sole trustee. Also includes 30,000 shares Mr. Perkins has the right to purchase upon the exercise of stock options. Excludes 811,490 shares of stock beneficially owned by PCM, as to which Mr. Perkins disclaims beneficial ownership.

(12) Includes 45,000 shares that Dr. Vannier has the right to acquire upon the exercise of stock options.

(13) Includes 40,500 shares that Mr. Wehrwein has the right to acquire upon the exercise of stock options.

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- (14) Consists of 142,200 shares that Mr. Canakes has the right to acquire upon the exercise of stock options.
- (15) Mr. Carrel is currently serving as interim Chief Financial Officer and was not granted any stock options upon his appointment.
- (16) Consists of 30,600 shares that Mr. Smith has the right to acquire upon the exercise of stock options.
- (17) Includes 868,740 shares that all directors and executive officers as a group have the right to acquire upon the exercise of stock options.

ELECTION OF DIRECTORS

(Proposal 1)

The business and affairs of the Company are managed under the direction of its Board of Directors. Directors of the Company are elected annually to serve until the next annual meeting of shareholders or until their earlier resignation, death or removal. The Board has nominated the seven individuals named below to serve as directors of the Company, and the shareholders will be asked at the Annual Meeting to elect such individuals. Unless authority is withheld, all proxies received in response to this solicitation will be voted *for* the election of the nominees named below. Each of the nominees named below is now a director of the Company and has served continuously as a director since the month and year indicated. All nominees have indicated a willingness to serve if elected. If any nominee becomes unable to serve before the Annual Meeting, the proxies received in response to this solicitation will be voted for a replacement nominee selected in accordance with the best judgment of the proxy holders named therein.

Name	Positions with the Company	Age	Director Since
Douglas M. Pihl	Chairman of the Board	65	May 1997
Jay D. Miller	President, Chief Executive Officer and Director	45	February 2002
Vincent J. Argiro, Ph.D.	Chief Technology Officer, Founder and Director	49	May 1997
James B. Hickey, Jr.	Director	51	May 1998
Richard W. Perkins	Director	74	May 1997
Michael W. Vannier, M.D.	Director	56	December 1997
Sven A. Wehrwein	Director	54	May 1997

Shareholder Approval

The affirmative vote of a plurality of the shares of common stock of the Company represented at the Annual Meeting either in person or by proxy, assuming a quorum is present, is required for the election of directors.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE *FOR* THE ELECTION OF THE NOMINEES FOR THE BOARD OF DIRECTORS AS SET FORTH ABOVE.

**INFORMATION CONCERNING DIRECTORS,
NOMINEES AND EXECUTIVE OFFICERS**

Directors and Nominees

The following discussion sets forth certain information concerning the individuals nominated by the Board of Directors to serve as directors of the Company.

Douglas M. Pihl has been a director of the Company since May 1997 and its Chairman of the Board since December 1997, and he was its Chief Executive Officer from February 1998 to December 1999. Mr. Pihl has served as Chairman, Chief Executive Officer and President of MathStar, Inc. since April 1997. From May 1992 to August 1996, Mr. Pihl was President, Chief Executive Officer and a Director of NetStar, Inc. NetStar was acquired

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by Ascend Communications, Inc. in August 1996. In 1996, Mr. Pihl co-founded RocketCHIPS, Inc. and served as its Chairman and Chief Financial Officer until it was sold to Xilinx, Inc. in November 2000. Mr. Pihl has over 42 years of experience in the computer industry, with extensive responsibility in design, product planning and management. From February 1989 to December 1990, Mr. Pihl was Senior Vice President, Development for Apertus Technologies, Inc. (formerly Lee Data Corporation). Apertus changed its name to Carleton Corporation and now is part of Oracle Corporation. From December 1987 until February 1989, Mr. Pihl also was an independent consultant. Mr. Pihl was Senior Vice President-Development of Lee Data Corporation (Lee Data) from April 1979 until December 1987. Mr. Pihl co-founded Lee Data in 1979, which then developed, manufactured and marketed computer peripheral products. In addition to the Company and MathStar, Mr. Pihl serves as a director of two privately-held companies.

Jay D. Miller was named President, Chief Executive Officer and a Director of the Company in February 2002. He served as General Manager and Vice President-Business Development of Vital Images from August 1998 until February 2002. Mr. Miller was Vice President-Marketing and Business Development for Vital Images from February 1997 to August 1998. From 1989 until his employment by Vital Images, Mr. Miller was employed by GE Medical Systems, Inc. in positions of increasing responsibility in the marketing area, including serving as product manager of MRI imaging products and marketing manager for the cardiology market segment. Before 1989, Mr. Miller was employed by Siemens Medical Systems in technical marketing.

Vincent J. Argiro, Ph.D. has been a director of the Company since May 1997. Dr. Argiro, the Founder of the Company, was named Chief Technology Officer of Vital Images in October 1995. From May 1994 to May 1997, Dr. Argiro served as a Vice President of Synovis Life Technologies, Inc. (formerly named Bio-Vascular, Inc.), the former parent company of Vital Images. Dr. Argiro also served as a director of Bio-Vascular from May 1994 until March 1996. Following the acquisition of the Company by Bio-Vascular in May 1994, Dr. Argiro served as President of the Company until October 1995. Dr. Argiro served as Chairman of the Board of the Company from September 1988 until May 1994. From 1988 to 1990, and from September 1991 to June 1992, Dr. Argiro also served as President of the Company.

James B. Hickey, Jr., has been a director of the Company since May 1998. Mr. Hickey has served as President, Chief Executive Officer and a director of Pulmonetic Systems, Inc., a privately-held manufacturer of medical devices in the respiratory/pulmonary markets, since October 2001. Mr. Hickey served as President and Chief Executive Officer of Angeion Corporation, a publicly-held medical device manufacturer, from July 1998 until December 1999. He also was President and Chief Executive Officer of Aequitron Medical, Inc., a publicly-held manufacturer of portable respiratory devices, from 1993 to 1997. In his earlier career, Mr. Hickey spent 15 years with Baxter Healthcare/American Hospital Supply Corporation, where he was President of the Respiratory Anesthesia Systems Division from 1989 to 1993 and, before that, President of the Hospitex Division. Mr. Hickey also serves as a director of Allied Healthcare Products, Inc., a publicly-held company.

Richard W. Perkins has been a director of the Company since May 1997. Mr. Perkins has served as President, Chief Executive Officer and a director of Perkins Capital Management, Inc., an investment management firm, since 1984. He also serves on the board of directors of the following public companies: Synovis Life Technologies, Inc., LifeCore Biomedical, Inc., CNS, Inc., Nortech Systems, Inc., PW Eagle, Inc., Teledigital, Inc., and Two Way TV (US), Inc. In addition, Mr. Perkins serves as a director of several privately-held companies.

Michael W. Vannier, M.D. has been a director of the Company since December 1997. Dr. Vannier is currently a Professor of Radiology at the University of Chicago. He was the Head of the Department of Radiology at the University of Iowa from June 1996 to November 2000, and professor of radiology there from 1996 to 2004. Dr. Vannier was a special assistant to the Director of the National Cancer Institute from 2001 to 2003. From 1982 to 1997, Dr. Vannier was a staff radiologist at Barnes Jewish Hospital and St. Louis Children's Hospital in St. Louis, Missouri. Dr. Vannier was also the Georgia Eminent Scholar in Medical Imaging at the Emory University School of Medicine in Atlanta, Georgia from 1994 to 1996, and he served as Vice-Chairman for Research at the Mallinckrodt Institute of Radiology in St. Louis, Missouri from 1992 to 1994. Dr. Vannier served as a Professor of Radiology at the Mallinckrodt Institute of Radiology from 1989 to 1997, as an Assistant Professor of Radiology and Surgery at the Washington University School of Medicine in St. Louis, Missouri from 1983 to 1997, and as an Affiliate

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Professor of System Science and Mathematics at the Washington University College of Engineering in St. Louis, Missouri from 1984 to 1997.

Sven A. Wehrwein has been a director of the Company since May 1997. Mr. Wehrwein has been an independent financial consultant to emerging companies since 1999. Earlier in his 30-year financial career, he worked as an investment banker, chief financial officer and Certified Public Accountant. Mr. Wehrwein is also a director of Synovis Life Technologies, Inc., a publicly-held company.

Independent Directors

The Company's Board of Directors has determined that each of Messrs. Pihl, Hickey, Perkins and Wehrwein and Dr. Vannier are independent, as that term is defined in Rule 4200(a)(15) of the Marketplace Rules of the NASDAQ Stock Market, Inc. (NASDAQ). Accordingly, the Board is composed of a majority of independent directors as required by the NASDAQ Marketplace Rules.

Board and Committee Meetings; Attendance at Annual Meeting of Shareholders

During 2004, the Board of Directors met six times. Also during 2004, the Board of Directors had four standing committees – a Compensation Committee, which met seven times during 2004, an Audit Committee, which met 10 times during 2004, a Governance and Nominating Committee, which met two times during 2004, and a Strategy Committee, which met two times during 2004. With the exception of Dr. Michael W. Vannier, who was unable to attend one meeting of the Board of Directors, each director attended all of the meetings of the Board of Directors and of the committees on which the director served during 2004.

It is the policy of the Board that each member of the Board should attend the Company's Annual Meeting of Shareholders whenever practical, and that at least one member of the Board must attend each Annual Meeting of Shareholders. The Company regularly schedules a Board meeting on the same day as the Annual Meeting. All seven of the directors attended the Annual Meeting of Shareholders held in 2004.

Board Committees

As described in the Compensation Committee Report included later in this Proxy Statement, the Compensation Committee reviews and makes recommendations to the Board of Directors regarding salaries, compensation and benefits of executive officers and senior management of the Company and administers the Company's 1997 Director Stock Option Plan and 1997 Stock Option and Incentive Plan. In addition to the meetings and actions of the Compensation Committee described above, the entire Board of Directors discussed and reviewed compensation issues throughout the year at its regular meetings. The current members of the Compensation Committee are James B. Hickey, Jr. (Chairman), Michael W. Vannier, M.D. and Sven A. Wehrwein. The Board of Directors has determined that all members of the Compensation Committee are independent, as that term is defined in Rule 4200(a)(15) of NASDAQ's Marketplace Rules.

As described in the Audit Committee Report included later in this Proxy Statement, the Audit Committee oversees the accounting and financial reporting processes and audits of the financial statements of the Company. The Audit Committee assists the Board in fulfilling its oversight responsibilities for the quality and integrity of the Company's financial reports, the Company's compliance with legal and regulatory

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requirements and the independent registered public accounting firm's qualifications and independence, as well as accounting and reporting processes. The Audit Committee also reviews the internal and external financial reporting of the Company and reviews the scope of the independent audit. The current members of the Audit Committee are Sven A. Wehrwein (Chairman), James B. Hickey, Jr. and Richard W. Perkins. Michael W. Vannier, M.D. was a member of the Audit Committee during 2004 until December 9, 2004. The Company's Board of Directors has determined that all members of the Audit Committee are independent under Rule 4200(a)(15) of NASDAQ's Marketplace Rules and Rule 10A-3 under the Securities Exchange Act of 1934 (Exchange Act). The Board has determined that Sven A. Wehrwein is qualified as an audit committee financial expert, as that term is defined in Item 401(h)(2)(i) of Regulation S-K.

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On February 7, 2004, the Company's Board of Directors formed a Governance and Nominating Committee, which consists of Richard W. Perkins (Chairman), James B. Hickey, Jr. and Douglas M. Pihl. The Governance and Nominating Committee is responsible for making recommendations to the full Board of Directors regarding candidates for election to the Board and for overseeing the Company's Code of Business Conduct and Ethics. It considered and nominated the seven nominees to the Company's Board to be voted upon at the Annual Meeting.

During 2004, the Company's Board of Directors formed a Strategy Committee, which consists of Jay D. Miller (Chairman), Douglas M. Pihl and Michael W. Vannier, M.D. The Strategy Committee is responsible for evaluating the Company's long-term strategy and ensuring consistent alignment with business objectives. The Strategy Committee also evaluates market conditions and researches potential competitive advantages and how those opportunities can be maximized as it relates to acquisitions, product development and other business activities. The Strategy Committee has no formal charter.

The charters for the Audit, Compensation and Governance and Nominating Committees are set forth on the Company's website at <http://www.vitalimages.com>.

Executive Sessions of the Board

The Board has formally adopted a policy of meeting in executive session, with only independent directors being present, on a regular basis and at least two times each year. During 2004, the Board met in executive session six times, before each meeting of the Board of Directors.

Code of Business Conduct and Ethics

The Company has a Code of Business Conduct and Ethics that applies to all directors, officers and employees of the Company, and it is available on the Company's website at <http://www.vitalimages.com>. The Governance and Nominating Committee of the Board is responsible for overseeing the Code. In accordance with NASDAQ's Marketplace Rules, any waivers of the Code for directors and executive officers must be approved by the Company's Board of Directors.

Qualifications of Candidates for Election to the Board

The Company's Directors take a critical role in guiding the Company's strategic direction, and they oversee the management of Company. Since the Company was spun off in 1997, there has been very little turnover on the Board. See Election of Directors. When Board candidates are considered, they are evaluated based upon various criteria, such as their broad-based business and professional skills and experiences, experience serving as management or on the board of directors of companies such as the Company, concern for the long-term interests of the shareholders, financial literacy and personal integrity in judgment. In addition, director candidates must have time available to devote to Board activities. Accordingly, the Board's Governance and Nominating Committee and the Board seek to attract and attain highly qualified directors who have sufficient time to attend to their duties and responsibilities to the Company. Recent developments in corporate governance and financial reporting have resulted in an increased demand for such highly-qualified and productive public company directors.

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The Board's Governance and Nominating Committee and the Board have established the following minimum requirements for Director candidates: being able to read and understand fundamental financial statements; having at least 10 years of relevant business experience; having no identified conflicts of interest as a prospective Director of the Company; having not been convicted in a criminal proceeding other than traffic violations during the five years before the date of selection; and being willing to comply with the Company's Code of Business Conduct and Ethics. The Governance and Nominating Committee retains the right to modify these minimum qualifications from time to time. Exceptional candidates who do not meet all of these criteria may still be considered.

Process for Identifying and Evaluating Candidates for Election to the Board

The Governance and Nominating Committee reviews the qualifications and backgrounds of the Directors, as well as the overall composition of the Board of Directors, and recommends to the full Board the Directors to be nominated for election at each annual meeting of shareholders of the Company. In the case of incumbent Directors, the Governance and Nominating Committee reviews such Directors' overall service to the Company, including the number of meetings attended, level of participation, quality of performance, and whether the Director continues to meet the applicable independence standards. In the case of any new Director candidates, the questions of independence and financial expertise are important to determine what roles can be performed by the candidate, and the Governance and Nominating Committee determines whether the candidate meets the applicable independence standards and the level of the candidate's financial expertise. Any new candidates will be interviewed by the Governance and Nominating Committee and, if approved by the Committee, then by all members of the Board. The full Board will approve the final nominations. The Chairman of the Board, acting on behalf of the full Board, will extend the formal invitation to become a nominee of the Board of Directors.

Shareholder Nominations

Shareholders may nominate Director candidates for consideration by the Governance and Nominating Committee by writing to Mr. Michael H. Carrel, the Company's Secretary, and providing to the Secretary the candidate's name, biographical data and qualifications, including five-year employment history with employer names and a description of the employer's business; whether such individual can read and understand fundamental financial statements; other board memberships (if any); and such other information as reasonably available and sufficient to enable the Governance and Nominating Committee to evaluate the minimum qualifications stated above under the section of this proxy statement entitled "Qualifications of Candidates for Election to the Board." The submission must be accompanied by a written consent of the individual to stand for election if nominated by the Board of Directors and to serve if elected by the shareholders. Written notice must be given at least 120 days before the date of the next annual meeting of shareholders. If a shareholder nominee is eligible, and if the nomination is proper, the Governance and Nominating Committee then will deliberate and make its recommendation to the Board of Directors.

The Governance and Nominating Committee will not change the manner in which it evaluates candidates, including the applicable minimum criteria set forth above, based on whether the candidate was recommended by a shareholder.

Communications with the Board

Shareholders can communicate directly with the Board, or with any Committee of the Board, by writing to Mr. Carrel at the Company's address, by calling Mr. Carrel at (952) 487-9500 or via e-mail at boardofdirectors@vitalimages.com. All communications will be reviewed by management and then forwarded to the appropriate director or directors or to the full Board, as appropriate.

Director Compensation

Director Fees. From January 1, 2004 until October 1, 2004, the Directors' compensation plan provided that non-employee directors receive an \$8,000 annual retainer, and, in addition, the Chairman of the Board receive a \$4,000 annual retainer. Also, Committee Chairmen received annual retainers of \$2,000 each. The non-employee directors of the Company received a fee of \$500, as well, for each Board meeting they attended and

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\$500 for each committee meeting attended.

Effective October 1, 2004, changes were made to the Director compensation program. The annual retainer for independent Board members was increased to \$12,000, and the annual retainer to the Chairman of the Board was increased to \$5,000. In addition, the non-employee Board meeting fee was increased to \$750. The Committee Chairmen annual retainer remained at \$2,000 and Committee meeting fees remained at \$500, but Audit Committee meeting fees increased to \$750. Also, Committee Chairmen were to be paid an additional \$500 for each committee meeting they attended and chaired. See Report of the Compensation Committee.

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During 2004, the following non-employee Directors received the following fees under the Director compensation program, as amended effective October 1, 2004: Douglas M. Pihl (\$17,750), James B. Hickey, Jr. (\$25,000), Richard W. Perkins (\$20,500), Michael W. Vannier, M.D. (\$21,000), and Sven A. Wehrwein (\$25,000). As employees of the Company, Jay D. Miller and Vincent J. Argiro, Ph.D. received no Director fees during 2004.

1997 Director Stock Option Plan. The Vital Images, Inc. 1997 Director Stock Option Plan (Director Plan) was adopted by the Board of Directors on March 19, 1997 and approved by the sole shareholder of the Company on May 1, 1997. The Director Plan is intended to assist the Company in attracting, motivating and retaining well-qualified individuals to serve as directors of the Company. As described below, the Director Plan provides for both the automatic and discretionary grant of options. The only individuals eligible to receive options under the Director Plan are members of the Board of Directors of the Company, and the only individuals eligible to receive automatic grants of options under the Director Plan are those Directors of the Company who are not employees of the Company. The Director Plan currently provides that the total number of shares of the Company's common stock that may be purchased upon the exercise of options shall not exceed 300,000 shares, subject to adjustment as provided in the Director Plan.

The Director Plan is administered by the Board of Directors of the Company. However, certain grants of stock options under the Director Plan and the amounts and terms of the options so granted are automatically determined under the Director Plan. As such, the Board of Directors has no authority to determine the grant or terms of such automatic options.

Under the Director Plan, non-employee directors of the Company receive automatic grants of stock options to purchase 18,000 shares on their initial election or appointment to the Board of Directors and on each third anniversary thereafter so long as they are members of the Company's Board.

Please see the section of this proxy statement entitled Approval of Amendment to 1997 Director Stock Option Plan to Increase the Number of Shares Subject to Automatic Option Grants to Non-Employee Directors for a description of the terms of the Director Plan.

Executive Officers

The following discussion sets forth information as of February 28, 2005 about the executive officers of the Company who are not directors.

Name	Positions with the Company	Age	Officer Since
Jeremy A. Abbs	Vice President Quality and Customer Satisfaction	41	July 2002
Stephen S. Andersen	Vice President Engineering	35	January 2004
Steven P. Canakes	Vice President Sales	49	August 1998
Philip I. Smith	Vice President Marketing and Corporate Development	37	February 2003
Michael H. Carrel	Vice President Finance, Chief Financial Officer, Treasurer and Secretary	34	January 2005

Jeremy A. Abbs was named Vice President-Quality and Customer Satisfaction in January 2004. He served as Vice President-Marketing of Vital Images from July 2002 until January 2004. From June 1998 to July 2002, Mr. Abbs served as a Product Manager and Group Marketing Manager for emerging technology and market development of Boston Scientific's Scimed division. From April 1996 to May 1998, Mr. Abbs

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served as the Global Product Manager for cardiac surgical products at Medtronic, Inc. Before 1996, Mr. Abbs held several sales and marketing management positions at Johnson & Johnson's Ortho Diagnostics division. From 1986 to 1989, Mr. Abbs served as a Field Advertising Representative in the Food Products division at Proctor & Gamble Co.

Stephen S. Andersen was named Vice President-Engineering in January 2004. Mr. Andersen has been employed at Vital Images since May 1999 and has held roles of increasing responsibility, most recently serving as Senior Director of Quality and Customer Satisfaction from January 2002 until January 2004. From February 1997

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to May 1999, Mr. Andersen served as Program Manager and Business Development Manager for Internet Technologies at LodgeNet Entertainment. Before 1997, Mr. Andersen held technical support positions in the banking and telecommunications industry at Precision Computer Systems and Martin & Associates.

Steven P. Canakes was named Vice President-Sales in March 2000. Mr. Canakes was the Company's Vice President-U.S. Sales from August 1998 to March 2000 and its Director of U.S. Sales from March 1998 to August 1998. From July 1996 to March 1998, Mr. Canakes was Vice President of Business Development for MedManagement, LLC in Plymouth, Minnesota. From February 1994 to July 1996, he served as Vice President of Sales for Medintell Systems and Value Health Corporation, a Medintell Systems Division. Before February 1994, Mr. Canakes was a CT Product Sales Manager for Picker International, Inc.

Philip I. Smith was named Vice President-Marketing and Corporate Development in January 2004. He served as Vice President-Corporate Development of Vital Images from February 2003 until January 2004. From April 2002 to November 2002, Mr. Smith served as President and Chief Executive Officer of Thermonix, a medical technology company. From April 2000 until April 2002, Mr. Smith was employed as Vice President, Marketing and Corporate Development of Image-Guided Neurologics, Inc., a medical technology company. From August 1997 to February 2000, Mr. Smith was employed as an investment banker with US Bancorp Piper Jaffray. Before August 1997, Mr. Smith held senior sales positions at GE Medical Systems.

Michael H. Carrel has been part-time Interim Chief Financial Officer since January 17, 2005. He is also employed as Senior Vice President of Strategy and Business Development of Technology Solutions Company (TSC), a publicly-held technology consulting company, a position he has held since January 1, 2005. Mr. Carrel was President and Chief Executive Officer of Zamba Corporation (Zamba), a publicly-held customer relationship management company, from July 1, 2004 until December 31, 2004, when Zamba was acquired by TSC. Mr. Carrel served as Executive Vice President of Zamba from October 1998 until July 1, 2004 and as its Chief Financial Officer from October 1998 until December 31, 2004. He also served as Chief Financial Officer of NextNet Wireless, Inc., a privately-held provider of non-line-of-sight plug and play broadband wireless access systems, from October 1, 2003 through March 31, 2004. From 1997 until 1998, Mr. Carrel served as Director of Business Strategy at Zamba. Before 1998, Mr. Carrel held audit-related positions at PricewaterhouseCoopers LLP. Mr. Carrel is a Certified Public Accountant.

Compliance with Section 16(a)

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors, executive officers, and any persons holding more than 10% of the outstanding common stock of the Company to file reports with the Securities and Exchange Commission concerning their initial ownership of common stock and any subsequent changes in that ownership. The Company believes that during 2004 the filing requirements were satisfied, except as follows: Steven Canakes filed one late report disclosing that he had purchased 10,000 shares. In making this disclosure, the Company has relied solely on written representations of its directors, executive officers and beneficial owners of more than 10% of its common stock and on copies of the reports that they have filed with the Securities and Exchange Commission.

Executive Compensation

The following table sets forth certain information regarding compensation earned by or awarded to (i) the Company's Chief Executive Officer during the year ended December 31, 2004 and (ii) the Company's four other most highly compensated executive officers whose annual compensation was \$100,000 or more for the year ended December 31, 2004 (collectively, the Named Executive Officers).

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary	Annual Compensation	Bonus (1)	Long-Term Compensation Awards Securities Underlying Options (#)	All Other Compensation
Jay D. Miller President and Chief Executive Officer (2)	2004	\$ 206,667	\$	136,971	30,000	\$ 55(5)
	2003	189,509		38,680	30,000	
	2002	176,792		100,193	200,000	
Vincent J. Argiro, Ph.D. Chief Technology Officer and Founder	2004	\$ 155,417	\$	103,605	12,500	\$ 780(5)
	2003	152,316		25,550	20,000	
	2002	146,479		82,831	23,000	
Steven P. Canakes Vice President Sales	2004	\$ 157,500	\$	100,425	12,500	\$ 66(5)
	2003	154,779		23,645	20,000	
	2002	148,292		84,227	25,000	
Gregory S. Furness Vice President Finance, Chief Financial Officer, Treasurer and Secretary (3)	2004	\$ 157,250	\$	65,000	15,000	\$ 790(5)
	2003	153,276		27,241	20,000	
	2002	147,000		83,493	21,000	
Philip I. Smith Vice President Marketing and Corporate Development (4)	2004	\$ 156,667	\$	104,603	20,000	\$ 138(5)
	2003	134,405		26,435	50,000	30,000(6)
	2002					

(1) The executive officers of the Company are eligible to earn annual cash bonuses tied to the level of achievement of annual performance targets. Bonuses are generally paid following the end of the year in which they are earned.

(2) Mr. Miller became President and Chief Executive Officer on February 9, 2002.

(3) Mr. Furness resigned as an executive officer and employee of the Company effective February 8, 2005.

(4) Mr. Smith served as the Company's Vice President Business Development from February 2003 until January 2004 and was named Vice President Marketing and Corporate Development in January 2004.

(5) Represents matching contributions made by the Company under the Vital Images, Inc. Salary Savings Plan, which is intended to qualify under Section 401(k) of the Internal Revenue Code.

(6) Represents a signing bonus.

Retirement Savings Plan

The Company maintains the Vital Images, Inc. Salary Savings Plan (the Plan), which is intended to qualify under Section 401(k) of the Internal Revenue Code, as amended. The Plan covers substantially all employees. Each employee may elect to contribute to the Plan through payroll deductions of up to 25% of his or her salary, subject to certain limitations. At the discretion of the Board of Directors, the Company may make matching contributions equal to a percentage of the salary reduction contributions or other discretionary amounts. The Company paid \$43,600 in matching contributions in 2004, and the contributions made by the Company to the Plan on behalf of the Named Executive Officers are set forth in the Summary Compensation Table. There were no contributions to the Plan by the Company in 2003 or 2002.

1997 Stock Option and Incentive Plan

The Vital Images, Inc. 1997 Stock Option and Incentive Plan (the 1997 Plan) was adopted by the Board of Directors on March 19, 1997 and approved by Bio-Vascular, Inc. (now known as Synovis Life Technologies, Inc.), the sole shareholder of the Company, on May 1, 1997. The 1997 Plan is intended to assist the Company in hiring and retaining well-qualified employees, consultants and other service providers by allowing them to participate in the ownership and growth of the Company through the grant of incentive and non-statutory stock options (Options), awards of restricted stock, performance units, stock bonuses or any combination thereof. Management believes that the granting of Options and other awards will serve as partial consideration for and give well-qualified employees, consultants and other service providers an additional inducement to remain in the service of the Company and provide them with an increased incentive to work for the Company's success.

On February 28, 2005, options for an aggregate of 1,902,698 shares were outstanding under the 1997 Plan, there were 36,180 shares subject to restricted stock awards granted under the 1997 Plan, no other awards were outstanding under the 1997 Plan, and 500,545 shares were available for the grant of awards under the 1997 Plan. Awards may be granted under the 1997 Plan through March 19, 2007, although the 1997 Plan may be terminated earlier by the Board of Directors in its sole discretion.

Administration. The 1997 Plan is administered by the Compensation Committee of the Board of Directors, which determines when and which employees, consultants and other service providers will be granted Options and awards under the 1997 Plan. Subject to the provisions of the 1997 Plan, the Compensation Committee also determines the type, amount and terms of awards (including restrictions) and makes all other determinations necessary or advisable for the administration of the 1997 Plan. The determinations by the Compensation Committee are not required to be made on a uniform basis and are final and conclusive.

Employees of the Company and any of its Affiliates (as such term is defined in the 1997 Plan) are eligible for selection to receive Options qualified as incentive stock options (ISOs) under Section 422 of the Internal Revenue Code of 1986 (the Code). Employees, consultants and other service providers of the Company or its Affiliates may be granted non-qualified Options (NQOs), restricted stock awards, performance units or stock bonuses.

The 1997 Plan will terminate on the earlier of the date on which the 1997 Plan is terminated by the Board of Directors of the Company or March 19, 2007. Options or restricted stock awards outstanding at the termination of the 1997 Plan may continue to be exercised in accordance with their terms after such termination. The 1997 Plan may be amended at any time by the Board of Directors. However, without the approval of a majority of the Company's shareholders voting at a meeting at which a quorum is present, no such amendment may (i) materially increase the benefits accruing to participants under the 1997 Plan; (ii) increase the number of shares available for issuance or sale under the 1997 Plan (other than as permitted in certain circumstances provided by the 1997 Plan); or (iii) materially modify the requirements as to eligibility for participation in the 1997 Plan.

Shares Subject to 1997 Plan. The 1997 Plan currently provides that the total number of shares of the Company's common stock that may be purchased pursuant to the exercise of Options and issued in connection with other awards shall not exceed 3,500,000 shares, subject to adjustment as provided in the 1997 Plan. The shares to be issued upon the exercise of Options and awards granted under the 1997 Plan will be currently authorized but unissued shares of common stock of the Company. The number of shares of the Company's common stock available under the 1997 Plan, the exercise price of an Option or the value of an award may be adjusted by the Compensation Committee in its sole discretion upon any stock dividend or split, recapitalization, reclassification, combination, exchange of shares or other similar corporate change if the Compensation Committee determines that such change necessarily or equitably requires such an adjustment. On March 10, 2005, the Board of Directors voted to increase the number of shares reserved for issuance under the 1997 Plan to 4,100,000 shares, subject to approval of the Company's shareholders. See Approval of Amendment to 1997 Stock Option and Incentive Plan to Increase the Number of Shares Subject Awards That May Be Granted.

Stock Options. Upon the grant of an Option, the Compensation Committee fixes the number of shares of the Company's common stock that the optionee may purchase upon exercise of the Option and the price at which the shares may be purchased. With regard to ISOs, the exercise price cannot be less than the fair market value of the common stock at the time the ISO is granted or 110% of such fair market value in certain cases. Further, the aggregate fair market value of common stock (determined at the time the ISO is granted) subject to ISOs granted to an employee under all the Company's option plans that become exercisable for the first time by such employee during any calendar year may not exceed \$100,000. The exercise price of NQOs may be less than the fair market value of the common stock, but not less than 85% of fair market value. Each Option will be exercisable by the optionee only during the term fixed by the Compensation Committee, with such term ending not later than 10 years after the date of grant (in the case of ISOs). Payment for shares upon exercise of any Option may be made in cash, in shares of the Company's common stock that have been owned for more than six months having an aggregate fair market value on the date of exercise which is not less than the exercise price of the Option, or by a combination of cash and such shares, as the Compensation Committee may determine.

Options granted under the 1997 Plan are non-transferable except to the extent permitted by the agreement evidencing such Option. However, no ISO will be transferable by any optionee other than by will or the laws of descent and distribution. If, pursuant to the agreement evidencing any Option, such Option remains exercisable after the optionee's death, it may be exercised to the extent permitted by such agreement by the personal representative of the optionee's estate or by any person who acquired the right to exercise such option by bequest, inheritance or otherwise by reason of the optionee's death.

Restricted Stock Awards. Restricted stock awards granted pursuant to the 1997 Plan entitle the holder to receive shares of the Company's common stock, which are subject to forfeiture to the Company if specified conditions are not satisfied. The Compensation Committee may establish a period (the Restricted Period) when a restricted stock award is granted during which the holder will not be permitted to sell, transfer, pledge, encumber or assign the shares of the Company common stock subject to the award. During the Restricted Period, the holder of shares subject to the restricted stock award shall have all of the rights of a shareholder of the Company with respect to such shares, including the right to vote the shares and to receive any dividends and other distributions with respect to the shares. Except to the extent otherwise provided in the restricted stock agreement governing each restricted stock award, all shares of the Company's common stock then subject to any restriction will be forfeited to the Company without further obligation of the Company to the holder thereof, and all rights of the holder with respect to such shares will terminate, if the holder ceases to provide services to the Company or its Affiliates as an employee, consultant or other service provider.

Performance Units. Performance units may entitle the recipient to receive a payment from the Company in the form of stock, cash or a combination of both upon the achievement of established performance or other goals. A recipient may be granted one or more performance units under the 1997 Plan, and such performance units will be subject to such terms and conditions, consistent with the other provisions of the 1997 Plan, as may be determined by the Compensation Committee in its sole discretion.

Stock Bonuses. A stock bonus entitles a recipient to receive an award of common stock of the Company. Stock bonuses will be subject to such terms and conditions, consistent with the other provisions of the 1997 Plan, as may be determined by the Compensation Committee. The Compensation Committee may impose such restrictions on the assignment or transfer of a stock bonus as it deems appropriate.

Immediate Acceleration of Awards. The 1997 Plan provides that, notwithstanding any other provisions contained in the 1997 Plan or the agreement evidencing any Option or restricted stock award thereunder, the restrictions on all shares of restricted stock shall lapse immediately, and all outstanding Options will become exercisable immediately, if any of the following events occur: (i) the sale, lease, exchange or other transfer of substantially all of the assets of the Company; (ii) the liquidation or dissolution of the Company; (iii) certain mergers or consolidations of the Company which result in a reduction in the voting power of the current shareholders of the Company; (iv) any person becomes the beneficial owner of more than 20% of the Company's Common Stock without the advance approval of the incumbent directors or more than 50% of the voting power of the Company's outstanding stock without regard to consent by the incumbent directors; (v) the incumbent directors cease for any

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reason to constitute at least a majority of the Board; or (vi) any other change in control of the Company of a nature that would be required to be reported pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934.

The following table sets forth certain information regarding stock options granted to the Named Executive Officers during 2004:

OPTION GRANTS IN LAST FISCAL YEAR

Name	Number of Securities Underlying Options Granted(#)(1)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price (\$/Sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(2)	
					5%(\$)	10%(\$)
Jay D. Miller	30,000	5.84%	\$ 12.60	2/5/2012	\$ 180,478	\$ 432,277
Vincent J. Argiro, Ph.D	12,500	2.43%	\$ 12.60	2/5/2012	\$ 75,199	\$ 180,115
Steven P. Canakes	12,500	2.43%	\$ 12.60	2/5/2012	\$ 75,199	\$ 180,115
Gregory S. Furness	15,000	2.92%	\$ 12.60	2/5/2012	\$ 90,239	\$ 216,138
Philip I. Smith	20,000	3.89%	\$ 12.60	2/5/2012	\$ 120,319	\$ 288,184

(1) All options granted to the Named Executive Officers in 2004 vest and become exercisable as to 28% of the shares one year after the date of grant and as to an additional 2% per month thereafter until fully vested and exercisable.

(2) Represents the potential realizable value of each grant of options assuming that the market price of the underlying common stock appreciates in value from its fair market value on the date of grant to the end of the option term at the indicated annual rates.

The following table sets forth certain information regarding any exercises of stock options during 2004 by the Named Executive Officers and the number and value of unexercised stock options held by them as of December 31, 2004.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND YEAR-END OPTION VALUES

Name	Shares Acquired on Exercise(#)	Value Realized(\$)	Number of Unexercised Options at Year-End (#)		Value of Unexercised In-the-Money Options at Year-End \$(1)	
			Exercisable / Unexercisable	Exercisable / Unexercisable	Exercisable / Unexercisable	Exercisable / Unexercisable
Jay D. Miller	18,000	219,553	308,200	106,300	3,440,951	814,163
Vincent J. Argiro, Ph.D	64,500	832,750	115,100	30,400	1,284,957	198,735
Steven P. Canakes	20,000	288,260	133,900	31,100	1,523,974	205,591
Gregory S. Furness	82,500	1,065,112	111,100	32,400	1,227,218	204,568

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Philip I. Smith	21,000	49,000	81,600	171,420
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(1) Based on the difference between the December 31, 2004 closing price of \$16.75 per share as reported on The NASDAQ National Market and the exercise prices of the options.

Employee Stock Purchase Plan

The Vital Images, Inc. 1997 Employee Stock Purchase Plan (the *Stock Purchase Plan*) was adopted by the Board of Directors on March 19, 1997 and by Bio-Vascular, Inc. (now known as Synovis Life Technologies, Inc.) as the sole shareholder of the Company on May 1, 1997. The *Stock Purchase Plan* permits eligible employees to make voluntary contributions through payroll deductions to be used to purchase common stock from the Company. The *Stock Purchase Plan* consists of periodic offerings, and the first such offering began on July 1, 1997. Each offering under the *Stock Purchase Plan* is for a period of three months (an *Offering Period*). An employee may elect to have up to a maximum of 10% deducted from his or her regular salary for purposes of purchasing up to 500 shares under the *Stock Purchase Plan* during each *Offering Period*. The price at which the employee shares are purchased will be the lower of (i) 85% of the closing price of the common stock of the Company on the day that an *Offering Period* commences under the *Stock Purchase Plan* or (ii) 85% of the closing price of the Company's common stock on the day that such *Offering Period* terminates. With certain exceptions, all employees of the Company who work at least 20 hours per week, including officers and directors who are employees, are eligible to participate in the *Stock Purchase Plan*. The *Stock Purchase Plan* provides for the issuance of up to 250,000 shares of common stock, and it is administered by the Board of Directors or by the Compensation Committee. Through December 31, 2004, 166,891 shares had been issued under the *Stock Purchase Plan*, and 83,109 shares were available for purchase under the *Stock Purchase Plan*.

Other Stock Option Plans

On May 12, 1997, Bio-Vascular, Inc. (now known as Synovis Life Technologies, Inc.), the former parent company of Vital Images, distributed all of the shares of common stock of Vital Images to Bio-Vascular's shareholders of record on May 5, 1997 in a distribution transaction (the *Distribution*). Pursuant to an Employee Benefits Agreement between Vital Images and Bio-Vascular, Vital Images and Bio-Vascular agreed to adjust each unexercised option to purchase Bio-Vascular common stock outstanding as of the record date for the *Distribution* (*Bio-Vascular Options*) to reflect the *Distribution* (an *Adjusted Bio-Vascular Option*), and each holder of a *Bio-Vascular Option* was granted an option to purchase common stock of Vital Images in connection with the *Distribution* (a *Vital Images Option*). The exercise price and number of shares covered by each *Adjusted Bio-Vascular Option*, as well as the exercise price and number of shares covered by each *Vital Images Option*, was determined according to a formula provided in the Employee Benefits Agreement that was based on the relative fair market trading values of Bio-Vascular common stock and the Company's common stock during the first five trading days following the date of the *Distribution*.

In connection with the issuance of *Vital Images Options* with respect to *Bio-Vascular Options* in existence on the date of the *Distribution*, the Company adopted the 1995 Stock Incentive Adjustment Plan, the Incentive Stock Option Adjustment Plan and the 1992 Director Stock Option Adjustment Plan. Each of these plans is intended to mirror the provisions of a corresponding *Bio-Vascular* option plan. Because each *Bio-Vascular* option plan generally provides for the termination of options following termination of employment, each of such mirror plans was approved and adopted to provide that the *Distribution* will not cause a termination of any employee of the Company for the purposes of such plans and that options held by employees of the Company following the *Distribution* will remain exercisable following the *Distribution*, so long as such employees remain employed by the Company or any subsidiary. Similar modifications to the existing 1990 Management Incentive Stock Option Plan and the 1992 Stock Option Plan were also adopted by the Company with respect to *Bio-Vascular* employees. Awards of options under these plans, as well as pursuant to certain non-plan award agreements, were made in connection with the *Distribution*. It is intended that the 1995 Stock Incentive Adjustment Plan, the Incentive Stock Option Adjustment Plan and the 1992 Director Stock Option Adjustment Plan, as well as the 1992 Stock Option Plan and the 1990 Management Incentive Stock Option Plan, will not be used to grant options to purchase common stock of the Company other than in connection with the *Distribution*. In connection with the *Distribution*, Vital Images granted *Vital Images Options* to purchase 608,534 shares of the Company's stock. As of February 28, 2005, *Vital Images Options* to purchase 22,002 shares were outstanding.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth certain information as of December 31, 2004 with respect to Company's equity compensation plans:

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders			
Stock Option Plans (1)	1,889,675	\$ 8.63	779,654
Director Plan	238,000	\$ 9.13	25,000
Stock Purchase Plan (2)	Not applicable.	Not applicable.	83,109
Equity compensation plans not approved by security holders			
Non-Plan options (3)	199,000	\$ 6.97	Not applicable.
Total	2,326,675	\$ 8.54	887,763

- (1) Consists of the 1997 Plan and the plans described in the section of this proxy statement entitled "Other Stock Option Plans."
- (2) Under the Stock Purchase Plan, shares are acquired at the time of investment by the participating employees at the applicable discount price.
- (3) Consists of options granted to certain officers of the Company and third-party consultants.

Compensation Committee Interlocks and Insider Participation in Compensation Decisions

James B. Hickey, Jr., Michael W. Vannier, M.D. and Sven A. Wehrwein, each of whom is a non-employee director of the Company, served as the members of the Company's Compensation Committee in 2004. See Report of the Compensation Committee. Messrs. Miller and Argiro, the only executive officers of the Company who served on the Board of Directors in 2004, abstained from voting on compensation matters affecting their compensation.

Employment Agreement

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The Company entered into an Employment Agreement with Jay D. Miller effective February 9, 2002, which sets forth the terms of his employment as the Company's President and Chief Executive Officer. The agreement provides for an annual base salary of \$180,000 and allows for a review and possible increase. In addition, Mr. Miller is eligible to receive bonuses as established by the Company's Board of Directors under the Company's management incentive plan. The agreement also provides for Mr. Miller's participation in the Company's fringe benefit plans and programs in which other senior executive officers of the Company participate. If the Company terminates Mr. Miller's employment without cause during the term of his Employment Agreement, the Company is required to pay Mr. Miller a severance payment equal to 12 months' base salary at the time of termination.

Change in Control Agreements, Severance Arrangements and Separation Agreement

The Company has entered into agreements with Jay D. Miller, Vincent J. Argiro and Steven P. Canakes that provide for certain benefits for them upon a change in control of the Company, as defined in such agreements. If each such officer's employment with the Company is terminated for any reason other than death, cause, disability or retirement, or if he terminates his employment with the Company for good reason, or in the case of Mr. Miller, for any reason, and the termination occurs within 12 months following a change in control, or before a change in control if his termination was a condition of the change in control, such officer would be entitled to a lump sum cash payment equal to his annual base salary in effect on the date of the change in control multiplied by two, as well as employee welfare benefits then in effect for a period of 24 months. The agreements also incorporate standard confidentiality restrictions.

The Company has a severance arrangement with Mr. Argiro which provides that, except in the case of dismissal for cause, Mr. Argiro is entitled to receive a severance payment equal to six months of his monthly base salary at the time of termination. In addition, Mr. Argiro is entitled to one additional month of severance pay for each additional year of employment, starting with the sixth year of employment. The maximum amount of severance payable to Mr. Argiro under such arrangement is capped at an amount equal to his base salary for one year. The Company has also entered into a severance arrangement with Mr. Steven Canakes which provides that, except in the case of termination for cause, the Company will pay Mr. Canakes a severance payment equal to three months of his monthly base salary at the time of termination.

Furness Separation Agreement. Mr. Furness had a severance arrangement with the Company which had the same terms as Mr. Argiro's severance arrangement with the Company. As provided in such arrangement, on February 14, 2005, the Company and Mr. Furness entered into a Separation Agreement effective February 14, 2005. Under the terms of the agreement, the Company agreed to pay to Mr. Furness a separation payment of \$105,333.28, which was paid on March 15, 2005. The amount of the separation payment was determined under the terms of a severance arrangement with Mr. Furness as contained in a January 30, 1997 offer letter from the Company to Mr. Furness. The Company also agreed to pay the Mr. Furness any earned payments for calendar year 2004 under his 2004 Incentive Compensation Plan with the Company, which totaled \$65,000. The payment was made on March 15, 2005. The Separation Agreement also provides that the Company will pay the entire portion of Mr. Furness' premiums for group medical and dental insurance for coverage maintained by Mr. Furness during his employment with the Company until the earlier of December 31, 2005 or the date on which Mr. Furness becomes covered under any other group health plan. Mr. Furness had a change in control agreement with the Company with terms identical to the change of control agreement that Mr. Miller had with the Company. Mr. Furness' change in control agreement was terminated as provided in the Separation Agreement.

Frazee Severance Agreement. Pursuant to a severance agreement effective January 12, 2004, the Company and Mr. David M. Frazee agreed to terms regarding the resignation of Mr. Frazee as Vice President of Engineering. Mr. Frazee's employment with the Company terminated in January 2004. In exchange for certain representations, promises and releases, the Company agreed to pay Mr. Frazee an amount equal to six months of his base salary at the time of termination, which equals \$71,750, plus a lump sum of \$25,000. In addition, the Company agreed to pay Mr. Frazee a bonus for 2003 in the amount of \$21,879 and outplacement expenses in the amount of \$7,000.

REPORT OF THE COMPENSATION COMMITTEE

Notwithstanding anything to the contrary set forth in any of our previous or future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate future filings by reference, including this proxy statement, in whole or in part, the following report of the Compensation Committee shall not be deemed to be incorporated by reference into any such filings and shall not otherwise be deemed filed under such acts.

The Compensation Committee of the Board of Directors is responsible for assuring that compensation for executives is consistent with the Company's compensation philosophy. The Compensation Committee also administers and recommends to the entire Board each year any stock option grants under the Company's 1997 Plan and incentive compensation plans and payouts and advises the Board on other compensation related matters. James B. Hickey, Jr., Michael W. Vannier, M.D. and Sven A. Wehrwein, each of whom is an independent director of the Company as defined in the NASDAQ Marketplace Rules, served as the members of the Company's Compensation Committee in 2004. The following report is made by Messrs. Hickey and Wehrwein and Dr. Vannier and summarizes the Company's executive officer compensation policies for 2004.

The Company's executive compensation program is based on a pay-for-performance philosophy. Under the Company's program, an executive's compensation consists of three components: base salary, an annual incentive (bonus) payment and long-term incentives (including stock options and restricted stock). Base salary is determined by an assessment of the executive's sustained performance against his or her individual job responsibilities, including the impact of such performance on the business results of the Company. Payments under the Company's annual incentive plan are tied to the level of achievement of annual performance targets, including revenue, operating results and other performance targets related to business functions under the executive's direction. Annual performance targets are based upon the Company's annual strategic plan as reviewed by the Board of Directors. An individual executive's annual incentive opportunity is based upon a percentage of his or her base salary.

Through 2004, the Company's long-term incentives were in the form of only stock options. The objectives of these awards are to advance the longer term interests of the Company and its shareholders, complement incentives tied to annual performance and align the interests of executives more closely with those of shareholders. The Company also believes that the entrepreneurial character of its executives makes the long-term incentives provided by its stock option program especially significant in the motivation and retention of its executives. The number of stock options awarded to an executive is based on the executive's position and his or her performance in that position. The executive's right to the stock options generally vests over a four-year period and each option is exercisable, to the extent it has vested, over an eight-year period following its grant.

In 2004, the Compensation Committee reviewed the Company's long-term incentive program in light of the new accounting rules taking effect in 2005 beginning in the third quarter that require the expensing of past and future option grants. The Committee studied various equity-based compensation (EBC) alternatives to understand their financial and motivational impacts on both the Company and its employees. As a result, in 2005, the Compensation Committee recommended to the Board of Directors a number of changes to the Company's long-term incentive program, which the Board subsequently approved. The new program will combine restricted stock with reduced levels of stock options and will be reviewed annually by the Committee for effectiveness.

The compensation of Mr. Jay D. Miller, the Company's President and Chief Executive Officer, for 2004 was determined in part pursuant to an Employment Agreement dated February 7, 2002 between Mr. Miller and the Company, which was approved by the entire Board in 2002. For 2004, the Compensation Committee recommended and the Board approved an increase in Mr. Miller's salary to \$210,000 based on the Compensation Committee's assessment of Mr. Miller's past performance and its expectations as to Mr. Miller's future contributions in directing the long-term success of the Company. Under the management incentive plan, 40% of Mr. Miller's bonus for 2004 was determined by

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reference to the revenue objectives set forth in the plan, 40% was based on the net income objectives set forth in the plan, and 20% was based on personal objectives set by the Compensation Committee for Mr. Miller for 2004. In addition, on February 5, 2004, the Board approved the grant to Mr. Miller under the 1997 Plan of stock options to purchase a total of 30,000 shares of the Company's common stock. These options vest as to

28% of the shares beginning one year after the date of grant and as to an additional 2% per month thereafter. The number and terms of Mr. Miller's options were determined based on the Compensation Committee's judgment as to the performance of Mr. Miller prior to the date of grant as well as the number of options already held by Mr. Miller. The Compensation Committee believes that the compensation arrangements established for Mr. Miller are consistent with the philosophy and objectives described above.

At the October 21, 2004 Board of Directors meeting, the Compensation Committee recommended a change to the Directors' compensation program. A study had been initiated earlier in the year to ensure that Board compensation remained competitive and reflected current Board duties and responsibilities. The Compensation Committee recommended that the annual retainer for independent Board members be increased to \$12,000, the annual retainer for the Chairmen of the Board be increased to \$5,000, and the Board meeting fee be increased to \$750. The Committee also recommended that the Committee Chairmen annual retainer remain at \$2,000 and the Committee meeting fee remain at \$500, but that the Audit Committee meeting fee increase to \$750 to reflect the additional focus on corporate financials. Lastly, the Compensation Committee recommended that Committee Chairmen be paid an additional \$500 for each committee meeting they attended and chaired. After much discussion, the Board approved the recommended changes effective October 1, 2004.

The Committee believes that the Company's executives are focused on the attainment of a sustained high rate of growth and improving operating results for the benefit of the Company and its shareholders, and that the Company's compensation program, with its emphasis on performance-based and long-term incentive compensation, serves to reinforce this focus.

By the Compensation Committee:

James B. Hickey, Jr., Chairman

Michael W. Vannier, M.D.

Sven A. Wehrwein

PERFORMANCE GRAPH

Since June 9, 2003, the Company's common stock has been quoted on The NASDAQ National Market. From September 29, 2000 through June 6, 2003, the Company's common stock was quoted on The NASDAQ SmallCap Market. From December 31, 1998 until September 29, 2000, the Company's common stock was quoted on the OTC Bulletin Board maintained by the National Association of Securities Dealers, Inc. The following graph shows changes during the period from December 31, 1999 to December 31, 2004 in the value of \$100 invested in: (1) the Company's common stock; (2) the CRSP Total Return Index for The NASDAQ Stock Market (US); and (3) NASDAQ Non-Financial Stocks. The values of each investment as of the dates indicated are based on share prices plus any dividends paid in cash, with the dividends reinvested on the date they were paid. The calculations exclude trading commissions and taxes.

	12/31/99	6/30/00	12/29/00	6/29/01	12/31/01	6/28/02	12/31/02	6/30/03	12/31/03	6/30/04	12/31/04
Vital Images, Inc.	\$ 100.00	\$ 145.21	\$ 76.71	\$ 120.55	\$ 204.93	\$ 142.47	\$ 196.60	\$ 405.04	\$ 391.45	\$ 271.56	\$ 367.12
CRSP Total Return Index for NASDAQ											
Stock Market (US)	\$ 100.00	\$ 97.68	\$ 60.31	\$ 53.08	\$ 47.87	\$ 36.16	\$ 33.10	\$ 40.14	\$ 49.48	\$ 50.60	\$ 53.85
CRSP NASDAQ Non-Financial Stocks	\$ 100.00	\$ 98.08	\$ 58.38	\$ 50.12	\$ 44.67	\$ 31.99	\$ 29.19	\$ 35.94	\$ 44.68	\$ 45.62	\$ 48.19

**APPROVAL OF AMENDMENT TO 1997 STOCK OPTION AND
INCENTIVE PLAN TO INCREASE THE NUMBER OF SHARES
SUBJECT TO AWARDS THAT MAY BE GRANTED**

(Proposal 2)

The Vital Images, Inc. 1997 Stock Option and Incentive Plan (1997 Plan) was adopted by the Board of Directors on March 19, 1997 and approved by Bio-Vascular, the sole shareholder of the Company, on May 1, 1997. The 1997 Plan now provides that the total number of shares of the Company's common stock that may be subject to Options and other awards granted under the 1997 Plan shall not exceed 3,500,000 shares. On March 10, 2005, the Board of Directors voted to increase the number of shares reserved for issuance under the 1997 Plan from 3,500,000 to 4,100,000 shares, subject to the approval of the Company's shareholders. **The shareholders are being asked to approve the amendment to the 1997 Plan to increase the number of shares reserved for issuance thereunder at the Annual Meeting.**

The 1997 Plan is intended to assist the Company in hiring and retaining well-qualified employees, consultants, and other service providers by allowing them to participate in the ownership and growth of the Company through the grant of incentive stock options (ISOs) and nonqualified stock options (NQOs) and, together with ISOs, Options), awards of restricted stock, performance units, stock bonuses or any combination thereof. Management believes that the granting of Options and other awards will serve as partial consideration for and give well-qualified employees, consultants, and other service providers an additional inducement to remain in the service of the Company and provide them with an increased incentive to work for the Company's success. To enable the Company to continue to grant stock-based awards in furtherance of the purposes and objectives of the 1997 Plan, the Board recommends that the shareholders approve the proposed increase in the number of shares reserved for issuance under the 1997 Plan.

Federal Income Tax Consequences

The following description is a general summary of the current federal income tax provisions relating to the grant and exercise of ISOs and NQOs under the 1997 Plan, the grant of other awards thereunder, and the sale of shares of common stock acquired through exercise of Options or under a restricted stock award, performance unit or stock bonus. The provisions summarized below are subject to changes in federal income tax laws and regulations, and the effects of such provisions relate only to individuals who are not dealers in securities or corporations or some other entity for federal income tax purposes. The tax consequences will not be the same for all taxpayers and may vary with individual circumstances. The following discussion necessarily condenses or eliminates many details that might adversely affect some taxpayers significantly.

Incentive Stock Options. ISOs granted under the 1997 Plan are intended to be incentive stock options as defined by Section 422 of the Code. Under present law, the recipient of an ISO will not realize taxable income upon the grant or the exercise of an ISO, and the Company will not receive an income tax deduction at either such time. Generally, if an optionee exercises an ISO at any time prior to three months after termination of the optionee's employment and does not sell the shares acquired upon exercise of an ISO within the later of either (i) two years after the grant of the ISO or (ii) one year after the date of exercise of the ISO, the gain upon a subsequent sale of the shares will be taxed as long-term capital gain. If the optionee does not satisfy these holding requirements and the optionee sells or disposes of the shares acquired through exercise of an ISO, then the overall gain or loss on such sale or disposition is bifurcated into compensation and capital elements. The overall gain or loss is an amount equal to the difference between the sale price of the shares and the exercise price. With respect to the compensation element, the optionee must recognize as ordinary compensation income upon such sale or disposition an amount equal to the difference between (a) the lower of (x) the fair market value of the shares at the date of the ISO exercise or (y) the sale price of the shares, and (b) the exercise price. The Company would be entitled to a corresponding income tax deduction equal to the amount recognized as ordinary income by the optionee. However, the optionee will not be subject to withholding on the compensation element. With respect to the capital element, the optionee must recognize as capital gain or loss the difference between the overall gain (or

loss) and the compensation element. If the shares have been held for more than 12 months, then any such gain or loss will be long-term capital gain or loss.

Upon the exercise of an ISO, the excess of the stock's fair market value on the date of exercise over the exercise price will be included in the optionee's alternative minimum taxable income (AMTI) and may result in the imposition of alternative minimum tax on such AMTI. Liability for the alternative minimum tax is complex and depends upon an individual's overall tax situation.

Non-Qualified Stock Options. Generally, upon the grant of an NQO, neither the Company nor the optionee will experience any tax consequences, unless the NQO has a readily ascertainable value. Upon exercise of an NQO granted under the 1997 Option Plan, or upon the exercise of an Option initially intended to be an ISO that does not qualify for the tax treatment described above, the optionee will realize ordinary income in an amount equal to the excess of the fair market value of the shares of common stock received over the exercise price paid by the optionee with respect to such shares. The amount recognized as ordinary income by the optionee will increase the optionee's basis in the stock acquired pursuant to the exercise of the NQO. Optionees who are employees will be subject to withholding with respect to income recognized upon exercise of an NQO. The Company will be allowed a federal income tax deduction for the amount recognized as ordinary income by the optionee upon the optionee's exercise of the NQO. Upon a subsequent sale of the stock, the optionee will recognize short-term or long-term capital gain or loss depending upon the holding period for the stock and upon the stock's subsequent appreciation or depreciation in value.

Restricted Stock Awards. A participant who receives an award of restricted stock under the 1997 Plan generally will recognize ordinary income at the time at which the restrictions on such shares (the Restrictions) lapse, in an amount equal to the excess of (i) the fair market value of such shares at the time the Restrictions lapse, over (ii) the price, if any, paid for such shares. However, if the participant makes an election with respect to such shares under Section 83(b) of the Code not later than 30 days after the date shares are transferred to the participant pursuant to such award, the participant will recognize ordinary income at the time of the restricted stock award in an amount equal to the excess of (i) the fair market value of the shares covered by the award (determined without regard to any Restriction other than a Restriction which by its terms will never lapse) at the time of such award over (ii) the price, if any, paid for such shares. If, subsequent to the lapse of Restrictions on his or her shares, the participant sells such shares, the difference, if any, between the amount realized from such sale and the tax basis of such shares to the holder will be taxed as long-term or short-term capital gain or loss, depending on the participant's holding period for such shares and upon the shares' subsequent appreciation or depreciation in value.

Performance Units. A recipient of a performance unit normally will not recognize taxable income at the time the performance unit is granted. Thereafter, the recipient will recognize ordinary income as his or her rights under the performance unit vest, and he or she receives a payment of the economic value of a vested performance unit in the form of cash, common stock, or any combination thereof. The amount of such ordinary income will be equal to the amount of cash received, the market value of common stock received, or a combination thereof. A subsequent sale of any common stock received under the performance unit will be taxed as long-term or short-term capital gain or loss, depending on the participant's holding period for such stock and upon the stock's subsequent appreciation or depreciation in value. The Company or its appropriate subsidiary generally will be allowed an income tax deduction equal to the ordinary income recognized by the recipient.

Stock Bonus. A recipient of a stock bonus normally will recognize ordinary income at the date of the stock award equal to the value of the stock received, unless rights to all or part of the stock are not immediately vested or are subject to restrictions. The Company or its appropriate subsidiary will generally be allowed an income tax deduction equal to the ordinary income recognized by the recipient. Upon a subsequent sale of the stock, short-term or long-term capital gain or loss will be recognized depending upon the holding period for the stock and upon the stock's subsequent appreciation or depreciation in value.

The other principal features and effects of the 1997 Plan are discussed in this proxy statement under the heading "Information Concerning Directors, Nominees and Executive Officers - 1997 Stock Option and Incentive Plan."

Shareholder Approval

The affirmative vote of a majority of the shares of common stock of the Company represented at the Annual Meeting either in person or by proxy, assuming a quorum is present, is required to approve the amendment to the 1997 Plan increasing the number of shares subject to the 1997 Plan.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE *FOR* APPROVAL OF THE AMENDMENT TO THE 1997 PLAN AS SET FORTH IN PROPOSAL 2.

APPROVAL OF AMENDMENT TO 1997 DIRECTOR STOCK

OPTION PLAN TO INCREASE THE NUMBER OF SHARES

SUBJECT TO AUTOMATIC OPTION GRANTS TO NON-EMPLOYEE DIRECTORS

(Proposal 3)

The Vital Images, Inc. 1997 Director Stock Option Plan ("Director Plan") was adopted by the Board of Directors on March 19, 1997 and approved by the sole shareholder of the Company on May 1, 1997. The Director Plan now provides that the total number of shares of the Company's common stock that may be subject to options granted under the Director Plan shall not exceed 300,000 shares. On March 10, 2005, the Board of Directors voted to increase the number of shares reserved for issuance under the Director Plan to 500,000 shares, subject to the approval of the Company's shareholders. **The shareholders are being asked to approve the amendment to the 1997 Director Plan to increase the number of shares reserved for issuance thereunder under automatic option grants pursuant to the 1997 Director Plan at the Annual Meeting.**

The Director Plan is intended to assist the Company in attracting, motivating and retaining well-qualified individuals to serve as directors of the Company. Management believes that the granting of options will serve as partial consideration for and give well-qualified directors an additional inducement to remain in the service of the Company and provide them with an increased incentive to work for the Company's success. Under the current Director Plan, the Company grants each newly-elected or appointed non-employee director an initial option to purchase 18,000 shares of common stock and an additional option to purchase 18,000 shares of common stock on the third anniversary of the initial option grant and on each successive third anniversary thereafter, provided that the director was a non-employee director on each such date. To enable the Company to continue to grant options under the Director Plan, the Board recommends that the shareholders approve the proposed increase of the total number of shares for which options may be granted under the Director Plan.

Administration and Eligibility

The Board of Directors of the Company has full authority to administer the Director Plan, including authority to interpret and construe any provisions of the Director Plan and any stock options granted thereunder. Notwithstanding the authority of the Board of Directors to administer the Plan, certain grants of stock options under the Director Plan and the amounts and terms of the options so granted will be automatically determined under the Director Plan. As such, the Board of Directors will have no authority to determine the grant or terms of such automatic options.

The only persons eligible to receive options under the Director Plan are members of the Board of Directors of the Company. The only persons eligible to receive automatic grants of options under the Director Plan are those directors of the Company who are not also employees of the Company ("Non-Employee Directors").

The Director Plan will terminate on the earlier of the date on which the Director Plan is terminated by the Board of Directors of the Company or March 19, 2007. Option rights outstanding at the termination of the Director Plan may continue to be exercised in accordance with their terms after such termination. The Director Plan may be amended at any time by the Board of Directors. However, without the approval of a majority of the Company's shareholders voting at a meeting at which a quorum is present, no such amendment may (i) materially increase the benefits accruing to participants under the Director Plan; (ii) increase the number of shares available for issuance or sale pursuant to the Director Plan (other than as permitted in certain circumstances provided by the Director Plan); or (iii) materially modify the requirements as to eligibility for participation in the Director Plan.

Shares Subject to the Director Plan

The Director Plan now provides that the total number of shares of the Company's common stock that may be purchased pursuant to the exercise of options shall not exceed 300,000 shares, subject to adjustment as provided in the Director Plan. The Board of Directors has recommended that this amount be increased to 500,000 shares. The shares to be issued upon the exercise of options and restricted stock awards granted under the Director Plan will be currently authorized but unissued shares of common stock of the Company. The number of shares of the Company's common stock available under the Director Plan or the exercise price of an option may be adjusted by the Board of Directors in its sole discretion upon any stock dividend or split, recapitalization, reclassification, combination, exchange of shares, or other similar corporate change, if the Board of Directors determines that such change necessarily or equitably requires such an adjustment.

Plan Awards

Under the Director Plan, eligible individuals may receive discretionary or automatic grants of options to purchase shares of common stock of the Company. Each option granted under the Director Plan is evidenced by a written agreement between the Company and the recipient of the option. Such agreements may not be identical for all individuals to whom options are granted, and the terms and conditions of such agreements may be modified with the consent of persons to whom the option was granted. The Director Plan permits the granting of ISOs meeting the requirements of Section 422 of the Code and NQOs that do not meet the requirements of Section 422.

Options granted under the Director Plan are non-transferable except to the extent permitted by the agreement evidencing such option. However, no option will be transferable by any optionee other than by will or the laws of descent and distribution. If, pursuant to the agreement evidencing any option, such option remains exercisable after the optionee's death, it may be exercised to the extent permitted by such agreement by the personal representative of the optionee's estate or by any person who acquired the right to exercise such option by bequest, inheritance, or otherwise, by reason of the optionee's death. If an optionee's term as a director of the Company shall terminate for any reason, any option then held by the optionee, to the extent then exercisable under the applicable option agreement, shall remain exercisable after the termination of the optionee's director status for a period of ninety (90) days (but in no event beyond eight years from the date of grant of the option).

Automatic Option Grants. The Director Plan provides Non-employee Directors of the Company (each an Eligible Director) with automatic grants of NQOs. Currently, each Eligible Director is automatically granted initial NQOs to purchase 18,000 shares on the date of his or her initial election or appointment to the Board of Directors (in each case, an Initial Grant). On the third anniversary date of the date of the Initial Grant to each Eligible Director and on each successive third anniversary thereafter, such Eligible Director currently will automatically receive NQOs under the Director Plan to purchase an additional 18,000 shares of the Company's common stock. All NQOs automatically granted under the Director Plan will expire eight (8) years after the date of grant. The exercise price per share for each NQO granted under the Director Plan cannot be less than the fair market value of a share of the Company's common stock on the date such NQO is granted. NQOs automatically granted under the Director Plan vest and become exercisable as to one-third of the NQO shares on the first, second and third December 31 following the date of grant. Payment of the exercise price of NQOs automatically granted under the Director Plan may be made in cash or, in the discretion of the Board of Directors, by delivery of shares of common stock of the Company having an aggregate fair market value on the date of exercise which is

not less than the exercise price of the NQO, or by a combination thereof. In addition to such automatic NQO grants, the Director Plan also permits the Board of Directors to make discretionary grants of stock options to any and all Directors, including Eligible Directors, as described below.

Discretionary Option Grants. Upon the discretionary grant of an option, the Board of Directors fixes the number of shares of the Company's common stock that the optionee may purchase upon exercise of the option and the price at which the shares may be purchased. The exercise price of such options cannot be less than the fair market value of the common stock at the time the option is granted. Each option will be exercisable by the optionee only during the term fixed by the Board of Directors, with such term ending not later than eight years after the date of grant (ten years in the case of ISOs). Upon exercise of any option, payment for shares as to which the option is exercised may be made in cash, in shares of the Company's common stock having an aggregate fair market value on the date of exercise which is not less than the exercise price of the option, or by a combination of cash and such shares, as the Board of Directors may determine.

Immediate Acceleration of Awards

The Director Plan provides that, notwithstanding any other provisions contained in the Director Plan or the agreement evidencing any restricted stock or option award thereunder, the restrictions on all shares of restricted stock shall lapse immediately, and all outstanding options will become exercisable immediately, if any of the following events occur: (i) the sale, lease, exchange or other transfer of substantially all of the assets of the Company; (ii) the liquidation or dissolution of the Company; (iii) certain mergers or consolidations of the Company which result in a reduction in the voting power of the current shareholders of the Company; (iv) any person becomes the beneficial owner of more than 20% of the Company's common stock without the advance approval of the incumbent directors or more than 50% of the voting power of the Company's outstanding stock without regard to consent by the incumbent directors; (v) the incumbent directors cease for any reason to constitute at least a majority of the Board; or (vi) any other change in control of the Company of a nature that would be required to be reported pursuant to Section 13 or 15(d) of the Exchange Act.

Federal Income Tax Consequences

See Approval of Amendment to 1997 Stock Option and Incentive Plan to Increase the Number of Shares Subject to Awards That May Be Granted Federal Income Tax Consequences for a description and general summary of the current federal income tax provisions relating to the grant and exercise of ISOs and NQOs under the Director Plan and the sale of shares of common stock acquired upon exercise of options. The provisions summarized therein are subject to changes in federal income tax laws and regulations, and the effects of such provisions may vary with individual circumstances.

The other principal features and effects of the current Director Plan are discussed in this proxy statement under the heading Information Concerning Directors, Nominees and Executive Officers Director Compensation 1997 Director Stock Option Plan.

Shareholder Approval

The affirmative vote of a majority of the shares of common stock of the Company represented at the Annual Meeting either in person or by proxy, assuming a quorum is present, is required to approve the amendment to the Director Plan increasing the number of shares subject to the Director Plan.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR APPROVAL OF THE AMENDMENT TO THE DIRECTOR PLAN AS SET FORTH IN PROPOSAL 3.

REPORT OF THE AUDIT COMMITTEE

Notwithstanding anything to the contrary set forth in any of our previous or future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate future filings by reference, including this proxy statement, in whole or in part, the following report of the Audit Committee shall not be deemed to be incorporated by reference into any such filings and shall not otherwise be deemed filed under such acts.

The Audit Committee is responsible for reviewing the Company's financial reporting process, its systems of internal controls, the audit process and compliance with laws and regulations. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls. In this context, the Audit Committee has met and held discussions with management and the Company's independent registered public accounting firm. The Audit Committee also has the authority and responsibility to select, evaluate and, when it deems it to be appropriate, replace the independent registered public accounting firm.

The Audit Committee is composed of three directors who are independent as provided in Rule 4500(a)(15) of NASDAQ's Marketplace Rules and Rule 10A-3 under the Securities Exchange Act of 1934. The members of the Audit Committee are appointed annually by the Board of Directors. James B. Hickey, Jr., Richard W. Perkins and Sven A. Wehrwein served as members of the Audit Committee throughout 2004. Michael W. Vannier, M.D. served as a member of the Audit Committee throughout 2004 until December 9, 2004.

The Audit Committee has reviewed and discussed with management the Company's audited financial statements for the year ended December 31, 2004; discussed with the Company's independent registered public accounting firm the matters required to be discussed by *Statement On Auditing Standards Nos. 61 and 90 (Communications with Audit Committees)*, as it may be modified or supplemented; discussed with the Company's independent registered public accounting firm their respective audits and assessments, including internal control testing under Section 404 of the Sarbanes-Oxley Act, which is still in progress and is expected to be completed by May 2, 2005; received the written disclosures and the letter from the independent registered public accounting firm required by Independence Standards Board Standard No. 1, as it may be modified or supplemented; and discussed with the independent registered public accounting firm their independence. The Audit Committee also periodically met in executive session.

Based on the review and discussions described above, the Audit Committee recommended to the Board of Directors that the Company's audited financial statements for the year ended December 31, 2004 be included in the Company's Annual Report on Form 10-K for filing with the Securities and Exchange Commission.

In voluntary early compliance with the Sarbanes-Oxley Act of 2002, on February 6, 2003, the Board of Directors adopted a written charter for the Audit Committee. The charter was attached as *Exhibit A* to the Company's proxy statement dated April 17, 2003. Also in voluntary early compliance with Sarbanes-Oxley, the Audit Committee established procedures for the receipt, retention and treatment of any complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by the Company's employees of any concerns regarding questionable accounting or auditing matters.

By the Audit Committee:

Sven A. Wehrwein, Chairman

James B. Hickey, Jr.

Richard W. Perkins

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has selected the firm of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the year ending December 31, 2005, and the selection was ratified by the Board. A representative of PricewaterhouseCoopers LLP will be present at the Annual Meeting, will have an opportunity to make a statement if he desires to do so, and will be available to respond to appropriate questions from shareholders.

Audit and Other Professional Fees

The aggregate fees billed for professional services rendered by PricewaterhouseCoopers LLP for the audit of the Company's annual financial statements for the Company's last two fiscal years and fees billed for other services rendered by PricewaterhouseCoopers LLP during those years are set forth in the following table:

	2004	2003
Audit Fees (1)	\$ 464,534	\$ 141,472
Audit-related fees (2)	107,875	11,500
Tax fees (3)	41,875	25,550
All other fees (4)	1,500	0
Total	\$ 615,784	\$ 178,522

(1) Audit fees are fees the Company paid for professional services performed by PricewaterhouseCoopers LLP for the audit of the Company's annual financial statements, the review of financial statements included in the Company's Quarterly Reports on Form 10-Q and services that are normally provided in connection with statutory and regulatory filings or engagements. Fees for 2004 include \$111,700 related to acquisition activity and \$120,000 related to work regarding compliance with Section 404 of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley).

(2) Audit-related fees are fees for assurance and related services performed by PricewaterhouseCoopers LLP that are reasonably related to the performance of the audit or review of the Company's financial statements. This includes consultations concerning financial accounting and reporting issues. Fees for 2004 include a Sarbanes-Oxley readiness assessment performed in 2004.

(3) Tax fees are fees for professional services performed by PricewaterhouseCoopers LLP with respect to tax compliance, tax advice and tax planning. This includes preparation of original and amended tax returns for the Company, any refund claims, payment planning, tax audit assistance, tax advice related to mergers and acquisitions, and tax work stemming from audit-related items.

(4) All other fees are fees for other permissible work performed by PricewaterhouseCoopers LLP that does meet the above category descriptions.

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As provided in the Audit Committee's Charter, a copy of which was included in the Company's proxy statement for its Annual Meeting of Shareholders held in 2003, all engagements for any non-audit services by the Company's independent registered public accounting firm must be approved by the Audit Committee before the commencement of any such services. The Audit Committee may designate a member or members of the Audit Committee to represent the entire Committee for purposes of approving non-audit services, subject to review by the full Audit Committee at the next regularly scheduled meeting.

The Audit Committee considers the provision of services by PricewaterhouseCoopers LLP to the Company, over and above the external audit fees, to be compatible with PricewaterhouseCoopers LLP's ability to maintain its independence.

AVAILABLE INFORMATION

Shareholders of record on March 25, 2005 will receive a proxy statement and the Company's Annual Report to Shareholders which contains detailed financial information concerning the Company. The Annual Report to Shareholders is not incorporated in this Proxy Statement and is not deemed a part hereof.

By Order of the Board of Directors

/s/ Michael H. Carrel

Michael H. Carrel, *Secretary*

April 12, 2005

PROXY

VITAL IMAGES, INC.

PROXY SOLICITED BY BOARD OF DIRECTORS

For Annual Meeting of Shareholders

May 11, 2005

The undersigned, revoking all prior proxies, hereby appoints Jay D. Miller and Michael H. Carrel, or either of them, as proxy or proxies, with full power of substitution and revocation, to vote all shares of common stock of Vital Images, Inc. (the Company) of record in the name of the undersigned at the close of business on March 25, 2005, at the Annual Meeting of Shareholders to be held on Wednesday, May 11, 2005, or at any adjournment thereof, upon the following matters:

1. Election of the following nominees as directors:

Douglas M. Pihl, Jay D. Miller, Vincent J. Argiro, Ph.D., James B. Hickey, Jr.,

Richard W. Perkins, Michael W. Vannier, M.D., and Sven A. Wehrwein

FOR ALL NOMINEES WITHHOLD FOR ALL NOMINEES

FOR ALL NOMINEES EXCEPT THE FOLLOWING:

(Write the name(s) of the nominee(s) withheld in the space provided below.)

2. Approval of amendment to the 1997 Stock Option and Incentive Plan to increase the number of shares subject to awards that may be granted.

FOR AGAINST ABSTAIN

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3. Approval of amendment to the 1997 Director Stock Option Plan to increase the number of shares subject to automatic option grants to non-employee directors.

FOR AGAINST ABSTAIN

In their discretion, the proxies are authorized to vote upon such matters as may properly come before the meeting.

Please mark, date, sign, and mail this proxy promptly in the enclosed envelope.

This proxy, when properly executed, will be voted in the manner directed herein by the undersigned shareholder. If no direction is made, this proxy will be voted **FOR** Proposals 1, 2 and 3. The Board of Directors recommends a vote **FOR** Proposals 1, 2 and 3.

No. of Shares:

Dated:

, 2005.

(Print Name)

(Signature of Shareholder)

(Print Name)

(Signature of Shareholder)

Please sign your name exactly as it appears to the left on this proxy. In the case of shares owned in joint tenancy or as tenants in common, all should sign. Fiduciaries should indicate their title and authority.