# United States
## SECURITIES AND EXCHANGE COMMISSION
## WASHINGTON, D. C. 20549

# FORM 10-Q

## Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

**For the quarterly period ended June 30, 2007**

**Commission File Number 1-8644**

**IPALCO ENTERPRISES, INC.**
(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| **Indiana**<br>(State or other jurisdiction of incorporation or organization) | **35-1575582**<br>(I.R.S. Employer Identification No.) |
| **One Monument Circle**<br>**Indianapolis, Indiana**<br>(Address of principal executive offices) | **46204**<br>(Zip Code) |

Registrant's telephone number, including area code: **317-261-8261**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days. Yes __X__ No ____

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

Large accelerated filer _______ Accelerated filer _______ Non-accelerated filer __X__

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

At August 8, 2007, 89,685,177 shares of IPALCO Enterprises, Inc. common stock were outstanding. All of such shares were owned by The AES Corporation.

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**IPALCO ENTERPRISES, INC. and SUBSIDIARIES**
**Unaudited Consolidated Statements of Income**
***(In Thousands)***

| | Three Months Ended, June 30, | | Six Months Ended, June 30, | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| **UTILITY OPERATING REVENUES** | $ 258,430 | $ 250,907 | $ 521,067 | $ 506,523 |
| **UTILITY OPERATING EXPENSES:** | | | | |
| Operation: | | | | |
| Fuel | 61,917 | 73,779 | 121,959 | 140,372 |
| Other operating expenses | 40,885 | 40,618 | 81,065 | 80,487 |
| Power purchased | 8,882 | 8,141 | 24,302 | 19,623 |
| Maintenance | 21,978 | 28,391 | 42,223 | 56,122 |
| Depreciation and amortization | 35,431 | 33,703 | 70,320 | 67,394 |
| Taxes other than income taxes | 10,846 | 9,671 | 20,986 | 19,782 |
| Income taxes - net | 27,133 | 19,316 | 55,710 | 41,363 |
| Total utility operating expenses | 207,072 | 213,619 | 416,565 | 425,143 |
| **UTILITY OPERATING INCOME** | 51,358 | 37,288 | 104,502 | 81,380 |
| **OTHER INCOME AND (DEDUCTIONS):** | | | | |
| Allowance for equity funds used during construction | 1,418 | 1,104 | 2,244 | 1,842 |
| Other - net | (67) | 203 | (283) | (1,277) |
| Income tax benefit - net | 6,443 | 8,439 | 12,957 | 19,007 |
| Total other income and (deductions) - net | 7,794 | 9,746 | 14,918 | 19,572 |
| **INTEREST AND OTHER CHARGES:** | | | | |
| Interest on long-term debt | 28,185 | 27,806 | 55,767 | 55,527 |
| Other interest | 497 | 798 | 1,422 | 1,575 |
| Allowance for borrowed funds used during construction | (1,178) | (733) | (1,918) | (1,309) |
| Amortization of redemption premiums and expense on debt | 800 | 778 | 1,583 | 1,581 |
| Preferred dividends of subsidiary | 804 | 804 | 1,607 | 1,607 |
| Total interest and other charges - net | 29,108 | 29,453 | 58,461 | 58,981 |
| **NET INCOME** | 30,044 | 17,581 | 60,959 | 41,971 |
| Other comprehensive income | - | 778 | - | 1,456 |
| **TOTAL COMPREHENSIVE INCOME** | $ 30,044 | $ 18,359 | $ 60,959 | $ 43,427 |

See notes to unaudited consolidated financial statements.

**IPALCO ENTERPRISES, INC. and SUBSIDIARIES**
**Unaudited Consolidated Balance Sheets**
***(In Thousands)***

| ASSETS | June 30, 2007 | December 31, 2006 |
|---|---|---|
| **UTILITY PLANT:** | | |
| Utility plant in service | $ 3,604,229 | $ 3,578,525 |
| Less accumulated depreciation | 1,524,292 | 1,485,459 |
| Utility plant in service - net | 2,079,937 | 2,093,066 |
| Construction work in progress | 217,256 | 152,801 |
| Spare parts inventory | 1,510 | 1,587 |
| Property held for future use | 591 | 591 |
| Utility plant - net | 2,299,294 | 2,248,045 |
| **OTHER ASSETS:** | | |
| Nonutility property - at cost, less accumulated depreciation | 705 | 709 |
| Other investments | 10,059 | 10,141 |
| Other assets - net | 10,764 | 10,850 |
| **CURRENT ASSETS:** | | |
| Cash and cash equivalents | 21,692 | 8,645 |
| Restricted cash | 95,640 | 31,720 |
| Accounts receivable and unbilled revenue (less allowance for doubtful accounts of $2,061 and $1,802, respectively) | 68,548 | 67,875 |
| Fuel - at average cost | 25,758 | 30,589 |
| Materials and supplies - at average cost | 53,352 | 53,045 |
| Net income tax refunds receivable | 2,552 | 5,800 |
| Deferred tax asset - current | 2,978 | - |
| Regulatory assets | 1,159 | 4,508 |
| Prepayments and other current assets | 22,058 | 8,065 |
| Total current assets | 293,737 | 210,247 |
| **DEFERRED DEBITS:** | | |
| Regulatory assets | 313,166 | 320,413 |
| Miscellaneous | 21,603 | 18,410 |
| Total deferred debits | 334,769 | 338,823 |
| **TOTAL** | $ 2,938,564 | $ 2,807,965 |
| **CAPITALIZATION AND LIABILITIES** | | |
| **CAPITALIZATION:** | | |
| Common shareholder's deficit: | | |
| Premium on 4% cumulative preferred stock | $ 649 | $ 649 |
| Paid in capital | 4,249 | 3,479 |
| Accumulated deficit | (23,611) | (54,808) |
| Accumulated other comprehensive loss | - | (2) |
| Total common shareholder's deficit | (18,713) | (50,682) |
| Cumulative preferred stock of subsidiary | 59,135 | 59,135 |
| Long-term debt | 1,646,542 | 1,481,516 |
| Total capitalization | 1,686,964 | 1,489,969 |
| **CURRENT LIABILITIES:** | | |
| Line of credit and current portion of long-term debt | 80,000 | 155,000 |
| Accounts payable and accrued expenses | 73,543 | 74,472 |
| Accrued real estate and personal property taxes | 19,191 | 15,908 |
| Accrued income taxes | 762 | - |
| Accrued interest | 25,986 | 26,096 |
| Customer deposits | 15,249 | 14,446 |
| Other current liabilities | 11,638 | 10,049 |
| Total current liabilities | 226,369 | 295,971 |
| **DEFERRED CREDITS AND OTHER LONG-TERM LIABILITIES:** | | |
| Accumulated deferred income taxes - net | 393,462 | 425,638 |
| Non-current income tax liability | 24,063 | - |
| Asset retirement obligations | 443,345 | 431,993 |
| Unamortized investment tax credit | 18,911 | 20,216 |
| Accrued pension and other postretirement benefits | 135,127 | 132,453 |
| Miscellaneous | 10,323 | 11,725 |
| Total deferred credits and other long-term liabilities | 1,025,231 | 1,022,025 |
| **COMMITMENTS AND CONTINGENCIES (Note 9)** | | |
| **TOTAL** | $ 2,938,564 | $ 2,807,965 |

See notes to unaudited consolidated financial statements.

**IPALCO ENTERPRISES, INC. and SUBSIDIARIES**
**Unaudited Consolidated Statements of Cash Flows**
***(In Thousands)***

| | Six Months Ended, June 30, 2007 | Six Months Ended, June 30, 2006 |
|---|---|---|
| **CASH FLOWS FROM OPERATIONS:** | | |
| Net income | $ 60,959 | $ 41,971 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 69,186 | 66,857 |
| Amortization of regulatory assets | 3,359 | 2,126 |
| Deferred income taxes and investment tax credit adjustments - net | (5,978) | 19,757 |
| Gains on sales and exchange of environmental emissions allowances | (655) | (4,690) |
| Gain on sales of assets - net | (3) | 116 |
| Noncash dividend income | - | (410) |
| Preferred dividends of subsidiary | 1,607 | 1,607 |
| Allowance for equity funds used during construction | (2,200) | (1,821) |
| Change in certain assets and liabilities: | | |
| Accounts receivable | (673) | (2,918) |
| Fuel, materials and supplies | 4,524 | (7,527) |
| Income taxes receivable or payable | 4,748 | 6,560 |
| Accounts payable and accrued expenses | 1,280 | (5,326) |
| Accrued real estate and personal property taxes | 3,282 | 505 |
| Accrued interest | (110) | 431 |
| Pension and other postretirement benefit expenses | 2,674 | 8,231 |
| Short-term and long-term regulatory assets and liabilities | 1,663 | 24,614 |
| Other - net | (7,915) | (5,243) |
| Net cash provided by operating activities | 135,748 | 144,840 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Capital expenditures - utility | (101,730) | (98,691) |
| Increase in restricted cash | (63,415) | - |
| Purchase of environmental emissions allowances | (1,298) | (14,299) |
| Purchase of short-term investments | (63,750) | (19,150) |
| Proceeds from sales and maturities of short-term investments | 56,591 | 20,075 |
| Other | (5,035) | (3,639) |
| Net cash used in investing activities | (178,637) | (115,704) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Short-term borrowings - net | (75,000) | 14,300 |
| Long-term borrowings | 164,985 | - |
| Dividends on common stock | (30,200) | (43,500) |
| Preferred dividends of subsidiary | (1,607) | (1,607) |
| Other | (2,242) | (569) |
| Net cash used in financing activities | 55,936 | (31,376) |
| Net change in cash and cash equivalents | 13,047 | (2,240) |
| Cash and cash equivalents at beginning of period | 8,645 | 6,008 |
| Cash and cash equivalents at end of period | $ 21,692 | $ 3,768 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest (net of amount capitalized) | $ 56,962 | $ 55,411 |
| Income taxes | $ 43,984 | ($3,962) |

See notes to unaudited consolidated financial statements.

## IPALCO ENTERPRISES, INC. and SUBSIDIARIES
**Notes to Unaudited Consolidated Financial Statements**

### 1. ORGANIZATION

IPALCO Enterprises, Inc. (“IPALCO”) is a wholly-owned subsidiary of The AES Corporation (“AES”). IPALCO owns all of the outstanding common stock of its subsidiaries. These include its regulated electric utility subsidiary, Indianapolis Power & Light Company (“IPL”), and its unregulated subsidiary, Mid-America Capital Resources, Inc. (“Mid-America”). Substantially all of IPALCO’s business consists of the generation, transmission, distribution and sale of electric energy conducted through IPL. IPL has approximately 468,000 retail customers in the city of Indianapolis and neighboring cities, towns and communities, and adjacent rural areas all within the state of Indiana, the most distant point being approximately forty miles from Indianapolis. IPL has an exclusive right to provide electric service to those customers. IPL owns and operates two primarily coal-fired generating plants, one combination coal and gas-fired plant and two separately-sited combustion turbines that are all used for generating electricity. IPL’s net electric generation capability for winter is 3,500 megawatts and net summer capability is 3,361 megawatts, which includes the acquisition of an 80 megawatt combustion turbine purchased on July 24, 2007 (see Note 10, “Subsequent Event”). Mid-America conducts IPALCO’s unregulated activities.

### 2. BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of IPALCO, IPL and Mid-America. All significant intercompany amounts have been eliminated. The accompanying financial statements are unaudited; however, they have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by GAAP for annual fiscal reporting periods. In the opinion of management all adjustments of a normal recurring nature necessary for fair presentation have been included. The electric utility business is affected by seasonal weather patterns throughout the year and, therefore, the operating revenues and associated operating expenses are not generated evenly by month during the year. These unaudited financial statements have been prepared in accordance with the accounting policies described in IPALCO's audited financial statements for the year ended December 31, 2006, included in its annual report on Form 10-K/A and should be read in conjunction therewith.

The preparation of financial statements in conformity with GAAP requires that management make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. The reported amounts of revenues and expenses during the reporting period may also be affected by the estimates and assumptions management is required to make. Actual results may differ from those estimates.

### 3. NEW ACCOUNTING PRONOUNCEMENTS

**Financial Accounting Standards Board (“FASB”) Interpretation No. 48 “Accounting for Uncertainty in Income Taxes”**

In July 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN No. 48”), which clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements in accordance with FASB Statement No. 109, “Accounting for Income Taxes.” The interpretation prescribes a recognition threshold and measurement criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

IPALCO adopted the provisions of FIN No. 48 on January 1, 2007. Under FIN No. 48, IPALCO must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. The impact of IPALCO’s reassessment of its tax positions in accordance with FIN No. 48 did not have a material effect on the results of operations, financial condition or liquidity. See Note 5 “Income Taxes”.

**Statement of Financial Accounting Standards ("SFAS") No. 157 "Fair Value Measurements"**

In September 2006, the FASB released SFAS No. 157, "Fair Value Measurements," to define fair value, establish a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America, and expand disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Management has determined that SFAS No. 157 will not have a material impact on our results of operations or financial position.

**SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities"**

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for IPALCO beginning in 2008, but early adoption is permitted. IPALCO has chosen not to early adopt and management does not believe SFAS No. 159 will have a material impact on our results of operations or financial position.

## 4. SEGMENT INFORMATION

Operating segments are components of an enterprise for which separate financial information is available and is evaluated regularly by the chief operating decision maker in assessing performance and deciding how to allocate resources. Substantially all of our business consists of the generation, transmission, distribution and sale of electric energy conducted through IPL. IPALCO's reportable business segments are electric and "all other." The "all other" category primarily includes the IPALCO $750 million Senior Secured Notes as of June 30, 2007 and December 31, 2006, approximately $2.9 million and $0.9 million of nonutility cash and cash equivalents, as of June 30, 2007 and December 31, 2006, respectively; long-term nonutility investments of $9.0 million at each of June 30, 2007 and December 31, 2006, and income taxes and interest related to those items. There was no utility operating income other than the activities of IPL during the periods covered by this report. Nonutility assets represented less than 1% of IPALCO's total assets as of June 30, 2007 and December 31, 2006 and there were no nonutility capital expenditures during the six-month periods ended June 30, 2007 and June 30, 2006.

## 5. INCOME TAXES

IPALCO's effective combined state and federal income tax rates for the six month periods ended June 30, 2007 and 2006 were 41.2% and 34.8%, respectively. The lower effective rate reported in 2006 was primarily caused by the recognition of interest income related to income taxes recorded during the first quarter of 2006 as a result of the completion of an IRS examination of our filings for the period 1996 through March of 2001.

AES files federal and state income tax returns which consolidate IPALCO and its subsidiaries. Under a tax sharing agreement with AES, IPALCO is responsible for the income taxes associated with its own taxable income. As a subsidiary of AES, IPALCO files income tax returns in the U.S. federal jurisdiction and the state of Indiana. IPALCO is no longer subject to U.S. or state income tax examinations for tax years prior to December 31, 2001.

As described in Note 3, "New Accounting Pronouncements", IPALCO adopted the provisions of FIN No. 48, "Accounting for Uncertainty in Income Taxes," on January 1, 2007. The implementation of FIN No. 48 resulted in primarily a reclassification of Accumulated deferred tax liabilities to Non-current income taxes payable and no significant cumulative impact to Accumulated Deficit. The gross unrecognized tax benefit balance as of the date of adoption was $22.8 million. The balance of unrecognized tax benefits represents tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. It is expected that the amount of unrecognized tax benefits may change in the next twelve months; however, management does not expect the change to have a significant impact on IPALCO's financial statements.

Tax-related interest expense is reported as a part of the provision for federal and state income taxes. Penalties, if incurred, would also be recognized as a component of tax expense. As of January 1, 2007, IPALCO has recorded a liability of $3.3 million for the payments of interest and a receivable of $0.7 million for a refund of interest. Included in the recorded interest is a $1.9 million liability and a $0.7 million receivable anticipated to be paid/received within 12 months of the reporting date. The liability/receivable for the payment/receipt of interest did not materially change as of June 30, 2007.

## 6. INDEBTEDNESS

On June 15, 2007 IPL issued $165 million of first mortgage bonds, 6.60% Series, due June 1, 2037. Proceeds from this offering were used to effect the repayment upon maturity of IPL's first mortgage bonds, 7.375% Series, due August 1, 2007 in the aggregate principal amount of $80 million and to finance a portion of its construction program, reimburse its treasury, repay outstanding short-term borrowings incurred by IPL for such purposes, and for other general corporate purposes. As of June 30, 2007 the proceeds used to effect the repayment of the August 1, 2007 maturity were held in escrow with the trustee and included in restricted cash on the accompanying unaudited consolidated balance sheet. In addition, $15.6 million of restricted cash remains from the $31.7 million at the beginning of 2007, which is being held to reimburse IPL for expenditures on certain qualifying environmental facilities.

## 7. PENSION AND OTHER POSTRETIREMENT BENEFITS

**Employees' Retirement Plan:** Approximately 90% of IPL's active employees are covered by the Employees' Retirement Plan of Indianapolis Power & Light Company ("Defined Benefit Pension Plan"); as well as, the Employees' Thrift Plan of Indianapolis Power & Light Company ("Thrift Plan"). The Defined Benefit Pension Plan is a qualified defined benefit plan, while the Thrift Plan is a qualified defined contribution plan. The remaining 10% of active employees are covered by the AES Retirement Savings Plan ("RSP Plan"). The RSP Plan is a qualified defined contribution plan containing a profit sharing component. All non-union new hires are covered under the RSP Plan, while International Brotherhood of Electrical Workers ("IBEW") physical bargaining unit union new hires are covered under the Defined Benefit Pension Plan and Thrift Plan. As a result of ratifying a new four-year labor agreement between the IBEW clerical-technical unit and IPL in March 2007, new hires in this bargaining unit are no longer covered under the Defined Benefit Pension Plan but will receive, based on company performance, an annual lump sum company contribution into the Thrift Plan. The Defined Benefit Pension Plan is noncontributory and is funded through a trust. Benefits are based on each individual employee's pension band and years of service as opposed to their compensation. Pension bands are based primarily on job duties and responsibilities. Management does not currently expect any of the pension assets to revert back to IPL during 2007.

In addition, IPL will change its measurement date from November 30 to December 31 coinciding with the plan year ending December 31, 2008.

**Supplemental Retirement Plan:** Additionally, a small group of former officers and their surviving spouses are covered under a funded non-qualified supplemental pension plan.

**Pension Funding:** IPL's funding policy for the Defined Benefit Pension Plan and the Supplemental Retirement Plan is to contribute annually no less than the minimum required by applicable law, nor more than the maximum amount that can be deducted for federal income tax purposes, with the plan to avoid the "at risk" status and to meet targeted funding levels necessary to qualify under standards of the Pension Benefit Guaranty Corporation for exemption from certain administrative requirements.

For funding purposes, the Defined Benefit Pension Plan will be exempt from any required funding during 2007. At this time, IPL does not intend to make any contributions to the Defined Benefit Pension Plan during 2007; however, management will continue to review possible funding scenarios throughout 2007. The Supplemental Retirement Plan is not projected to have any contributions; however, depending on the return on assets, contributions may be required in 2007. If funding is required, the amount is not expected to be material.

The following table presents information relating to the Pension Plans combined:

| Pension Benefits | For the Three Months Ended, June 30, | | For the Six Months Ended, June 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| **Components of net periodic benefit cost** | *(In Thousands)* | | | |
| Service cost | $ 1,472 | $ 1,368 | $ 2,943 | $ 2,737 |
| Interest cost | 7,152 | 6,969 | 14,304 | 13,936 |
| Expected return on plan assets | (7,703) | (6,777) | (15,406) | (13,554) |
| Amortization of actuarial loss | 1,409 | 1,299 | 2,818 | 2,599 |
| Amortization of prior service cost | 687 | 565 | 1,374 | 1,130 |
| Net periodic benefit cost | $ 3,017 | $ 3,424 | $ 6,033 | $ 6,848 |

*Expected amortization*: The estimated net loss and prior service cost for the pension plans that will be amortized from the regulatory asset into net periodic benefit cost over the 2007 plan year are $5.7 million and $2.7 million, respectively (Defined Benefit Pension Plan of $5.5 million and $2.7 million, respectively; and the Supplemental Retirement Plan of $0.2 million and $0.0 million, respectively).

**Other Postretirement Benefits:** IPL provides postretirement health care benefits to certain retired or active employees and the spouses of certain retired or active employees. Other postretirement benefit costs for the six month periods ended June 30, 2007 and 2006, were $1.0 million and $1.4 million, respectively.

The following table presents information relating to other postretirement benefits:

| Other Postretirement Benefits | For the Three Months Ended, June 30, | | For the Six Months Ended, June 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| **Components of net periodic benefit cost** | *(In Thousands)* | | | |
| Service cost | $ 330 | $ 362 | $ 661 | $ 723 |
| Interest cost | 145 | 159 | 290 | 317 |
| Amortization of prior service cost | 2 | 171 | 3 | 343 |
| Net periodic benefit cost | $ 477 | $ 692 | $ 954 | $ 1,383 |

*Expected amortization*: The estimated net loss and prior service cost for the other postretirement plan that will be amortized from the regulatory asset into net periodic benefit cost over the 2007 plan year are not expected to be material.

## 8. REGULATORY MATTERS

**Empower:** On August 23, 2006, we filed a petition with the Indiana Utility Regulatory Commission ("IURC") in which we sought approval for a new customer choice plan called Empower. The three elements of Empower were: (1) renewable energy options, (2) energy efficiency options and (3) customer service and pricing options. The renewable energy options include a Green Power initiative, renewable energy education and a commitment to invest in a renewable energy project. Energy efficiency options are demand-side management ("DSM") options with a focus on energy efficiency. The customer pricing options would have provided a voluntary alternative to our regulated rates and services and included choices for a Sure Bill, Fixed Rate or Time of Use program. The Empower plan was proposed to replace Elect Plan to allow revenues and expenses related to customers within the plan to be treated as non-jurisdictional in our authorized jurisdictional net operating income calculation. In March 2007, we withdrew this petition and the IURC dismissed the petition in July 2007. As a result of the expiration of Elect Plan and the withdrawal of Empower, net operating income from customers that previously participated in Elect Plan programs is now included in our authorized jurisdictional net operating income calculation. The IURC has initiated state-wide proceedings into the effectiveness of DSM programs offered across Indiana, as well as time-based pricing and other demand response programs. These were also features of the proposed Empower filing. We are participating in each of these proceedings.

**Green Power and Demand Side Management:** In June 2007, IPL received IURC approval to offer Green Power as a tariff rate in order to continue to provide this customer option without interruption. In addition, IPL received IURC approval in July 2007 of a new DSM petition requesting an extension of the DSM programs currently in place until June 30, 2009.

**Fuel Adjustment Charge:** IPL may apply to the IURC for a change in its fuel charge every three months to recover its estimated fuel costs, including the fuel portion of purchased power costs, which may be above or below the levels included in IPL's basic rates and charges. IPL must present evidence in each fuel adjustment charge (“FAC”) proceeding that it has made every reasonable effort to acquire fuel and generate or purchase power, or both, so as to provide electricity to its retail customers at the lowest fuel cost reasonably possible.

In IPL's March 2006 FAC proceeding, a consumer advocacy group representing some of our industrial customers requested that a sub-docket be established to review our fuel costs. The hearing on instituting this FAC sub-docket was held on May 3, 2006 and IPL received an Order on May 24, 2006 approving the establishment of a sub-docket to review its fuel costs. Our recent FAC Orders approved FAC factors on an interim basis, subject to refund, due to the establishment of the sub-docket. To date, no procedural schedule for this proceeding has been established.

Purchased power costs below an established benchmark are presumed to be recoverable energy costs. Under a settlement agreement amended and approved by the IURC in March 2007, which expires April 30, 2008, the benchmark for IPL is established prospectively each month based on the lesser of the futures settlement price on the last trading day of the current month for next month, for natural gas or No. 2 fuel oil. The settlement also generally provides for recovery of 85% of power purchased up to $700/MWh to replace capacity losses for certain full forced outages and environmental derates (unit impairment for environmental conditions) for power purchases up to the first 11% of IPL’s total rated summer capacity in any hour and full recovery for power purchases exceeding 11% of IPL’s total rated summer capacity in any hour.

## 9. COMMITMENTS AND CONTINGENCIES

### *Legal*

IPALCO and certain former officers and directors of IPALCO are defendants in a class action lawsuit under the Employment Retirement Income Security Act, filed in the U.S. District Court for the Southern District of Indiana, regarding matters arising from the acquisition of IPALCO by AES. The lawsuit was filed in March 2002 and alleged breach of fiduciary duties with respect to shares held in IPL’s 401(k) Thrift Plan. A bench trial was held in February 2006 to determine whether there were any breaches of fiduciary duties. On March 28, 2007 the court issued its judgment, finding for the defendants. An appeal is pending.

As of June 30, 2007 and December 31, 2006, IPL was a defendant in approximately 116 and 114 pending lawsuits, respectively, alleging personal injury or wrongful death stemming from exposure to asbestos and asbestos containing products formerly located in IPL power plants. IPL has been named as a “premises defendant” in that IPL did not mine, manufacture, distribute or install asbestos or asbestos containing products. These suits have been brought on behalf of persons who worked for contractors or subcontractors hired by IPL. IPL has insurance which may cover some portions of these claims; currently, these cases are being defended by counsel retained by various insurers who wrote policies applicable to the period of time during which much of the exposure has been alleged.

It is possible that material additional loss with regard to the asbestos lawsuits could be incurred. At this time, an estimate of additional loss cannot be made. IPL has settled a number of asbestos related lawsuits for amounts which, individually and in the aggregate, are not material to IPL or IPALCO’s financial position, results of operations, or cash flows. Historically, settlements paid on IPL’s behalf have been comprised of proceeds from one or more insurers along with comparatively smaller contributions by IPL. We are unable to estimate the number of, the effect of, or losses or range of loss which are reasonably possible from the pending lawsuits or any additional asbestos suits. Furthermore, we are unable to estimate the portion of a settlement amount, if any, that may be paid from any insurance coverage for any known or unknown claims. Accordingly, there is no assurance that the pending or any additional suits will not have a material adverse effect on IPALCO’s consolidated financial statements.

In June 2007, IPL received a letter from an attorney purportedly representing a group of IPL employees and retirees (the “complainants”). The letter claims that IPL is recovering in rates on average approximately $19 million per year allegedly intended for the funding of the IPALCO Voluntary Employee Beneficiary Association Trust (“VEBA Trust”), which provides healthcare and life insurance benefits for certain IPL retirees. The VEBA Trust was spun off to independent trustees by IPALCO in 2000. The spin off of the VEBA Trust was publicly disclosed by IPALCO in the Agreement and Plan of Share Exchange at the time of IPALCO’s acquisition by AES. The letter asserts that IPL remains responsible for funding the VEBA Trust and requests that IPL back-fund the trust at the $19 million per year level and fund at the same level going forward. The letter further states that the complainants may file a complaint at the Indiana Utility Regulatory Commission if IPL does not fund the VEBA Trust as demanded. To date, no complaint has been filed. IPL believes it has meritorious defenses to the complainants’ claims and it will assert them vigorously in any formal proceeding; however, there can be no assurances that it will be successful in its efforts.

In addition, IPALCO and IPL are involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on IPALCO’s consolidated financial statements.

***Environmental***

IPALCO and IPL are subject to various federal, state and local environmental protection and health and safety laws and regulations governing, among other things, the generation, storage, handling, use, disposal and transportation of hazardous materials; the emission and discharge of hazardous and other materials into the environment; and the health and safety of our employees. These laws and regulations often require a lengthy and complex process of obtaining and renewing permits and other governmental authorizations from federal, state and local agencies. Violation of these laws, regulations or permits can result in substantial fines, other sanctions, permit revocation and/or facility shutdowns. We believe that we operate in material compliance with environmental laws, regulations and permits and health and safety laws. We cannot assure, however, that we have been or will be at all times in full compliance with such laws, regulations and permits. Please see Note 10 “Commitments and Contingencies – Environmental” of IPALCO's audited financial statements for the year ended December 31, 2006, included in its annual report on Form 10-K/A, for a more comprehensive discussion of environmental matters impacting IPALCO and IPL.

**10. SUBSEQUENT EVENT**

On June 13, 2007, IPL received an order from the IURC issuing a Certificate of Public Convenience and Necessity for the acquisition of a combustion turbine with a nominal nameplate capacity of 80 megawatts. Approval was granted by FERC on July 13, 2007 and this purchase was completed on July 24, 2007. The turbine is located at IPL’s Georgetown substation.

## Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations

### Cautionary Note Regarding Forward-Looking Statements

This Report on Form 10-Q includes ''forward-looking statements'' including, in particular, the statements about our plans, strategies and prospects under the heading ''Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.'' Forward-looking statements express an expectation or belief and contain a projection, plan or assumption with regard to, among other things, our future revenues, income, expenses or capital structure. Such statements of future events or performance are not guarantees of future performance and involve estimates, assumptions and uncertainties. The words ''could,'' ''may,'' ''predict,'' ''anticipate,'' ''would,'' ''believe,'' ''estimate,'' ''expect,'' ''forecast,'' ''project,'' ''objective,'' and similar expressions are intended to identify forward-looking statements.

Some important factors that could cause our actual results or outcomes to differ materially from those discussed in the forward-looking statements include, but are not limited to:

- changes in our credit ratings or the credit ratings of AES
- performance of pension plan assets
- fluctuations in customer growth and demand
- impacts of weather on retail sales and wholesale prices and weather-related damage to our electrical system
- fuel and other input costs
- generating unit availability and capacity
- transmission and distribution system reliability and capacity
- purchased power costs and availability
- regulatory action, including, but not limited to the review of our basic rates and charges by the IURC
- our ownership by AES
- federal and state legislation
- changes in financial or regulatory accounting policies
- environmental matters, including costs of compliance with current and future environmental requirements
- interest rates and other costs of capital
- the availability of capital
- labor strikes or other workforce factors
- facility or equipment maintenance, repairs and capital expenditures
- local economic conditions
- acts of terrorism, acts of war, pandemic events, or natural disasters such as floods, earthquakes, tornadoes or other catastrophic events
- costs and effects of legal and administrative proceedings, settlements, investigations and claims and the ultimate disposition of litigation
- issues related to our participation in the Midwest Independent Transmission System Operator ("Midwest ISO"), including recovery of costs incurred
- product development and technology changes

Most of these factors affect us through our consolidated subsidiary IPL. All such factors are difficult to predict, contain uncertainties that may materially affect actual results and many are beyond our control. We undertake no obligation to publicly update or review any forward-looking information, future events or otherwise.

### Overview

IPALCO is a holding company incorporated under the laws of the state of Indiana. Our principal subsidiary is IPL, a regulated electric utility operating in the state of Indiana. Substantially all of our business consists of the generation, transmission, distribution and sale of electric energy conducted through IPL. Our other direct subsidiary, Mid-America, is the holding company for our unregulated activities. Mid-America's only significant investment is a small minority ownership interest in EnerTech Capital Partners II L.P., a venture capital fund with a recorded value of $6.4 million, as of June 30, 2007. Our business segments are electric and "all other."

IPL is engaged primarily in generating, transmitting, distributing and selling electric energy to approximately 468,000 retail customers in the city of Indianapolis and neighboring areas within the state of Indiana. IPL has an exclusive right to provide electric service to those customers. IPL owns and operates four generating stations, all within the state of Indiana. Historically, approximately 99% of the total electricity produced by IPL has been generated from coal. Natural gas and fuel oil combined to provide the remaining kWh generation (primarily for peaking capacity). IPL's net electric generation capability for winter and summer is 3,500 and 3,361 megawatts, respectively, which includes the acquisition of an 80 megawatt combustion turbine purchased on July 24, 2007 (see also Liquidity and Capital Resources). Our corporate mission is to serve our customer's needs for electric power in ways that provide exceptional value to our customers, shareholders, people and communities.

We are subject to federal and state of Indiana income taxes. Our income tax provision requires significant judgment and is based on calculations and assumptions that are subject to examination by the Internal Revenue Service and other tax authorities.

Material changes in our consolidated financial condition and results of operations, except where noted, are attributed to the operations of IPL. Consequently, the following discussion is centered on IPL.

## Results of Operations

The electric utility business is affected by seasonal weather patterns throughout the year and, therefore, the operating revenues and associated operating expenses are not generated evenly by month during the year.

***Comparison of Quarters Ended June 30, 2007 and June 30, 2006***

Our second quarter 2007 net income of $30.0 million increased $12.4 million from net income of $17.6 million in the second quarter of 2006. The following discussion highlights the significant factors contributing to this change.

Utility Operating Revenues

Utility operating revenues increased by $7.5 million during the three months ended June 30, 2007 compared to the same period in 2006 as a result of the following (dollars in thousands):

| | June 30, 2007 | June 30, 2006 | Increase (Decrease) | Percentage Change |
|---|---|---|---|---|
| Retail Revenues | $ 232,583 | $ 235,551 | $ (2,968) | (1.3%) |
| Wholesale Revenues | 20,697 | 9,606 | 11,092 | 115.5% |
| Miscellaneous Revenues | 5,150 | 5,750 | (600) | (10.4%) |
| Total Utility Operating Revenues | $ 258,430 | $ 250,907 | $ 7,524 | 3.0% |
| Heating Degree Days | 476 | 445 | 31 | 7.0% |
| Cooling Degree Days | 446 | 276 | 170 | 61.6% |

The 1.3% decrease in retail revenues was primarily due to a 6.3% decrease in the weighted average price of kWhs sold ($14.9 million) partially offset by a 5.4% increase in the quantity of kWhs sold ($11.9 million). The $14.9 million decrease in revenue caused by the decreased weighted average price of kWhs sold was primarily due to an $11.6 million decrease in fuel charges, which is offset almost entirely within fuel and purchased power expenses (see discussion in operating expenses). The $11.9 million increase in revenue caused by the increase in the quantity of retail kWhs sold was primarily due to a 61.6% increase in cooling degree days during the comparable periods and because we increased our retail customer base by approximately 2,100 customers or 0.5% from June 30, 2006 to June 30, 2007.

The 115.5% increase in wholesale revenues is primarily due to a 100.0% increase in the quantity of kWhs sold ($10.3 million). The increase in the quantity of kWhs sold in the wholesale market in the second quarter of 2007 over the second quarter of 2006 was primarily due to a scheduled outage that began in March 2006 on one of our large base load coal fired units to enhance environmental emission technology that has significantly reduced pollutant emissions as part of IPL's multi-pollutant plan. This unit was placed back into service on June 24, 2006.

Utility Operating Expenses

The following table illustrates the primary operating expense changes from the quarter ended June 30, 2006 to the quarter ended June 30, 2007 for IPL (dollars in millions):

| | |
|---|---|
| Operating Expenses for the Quarter Ended June 30, 2006 | $213.6 |
| Decrease in fuel | (11.9) |
| Decrease in maintenance expenses | (6.4) |
| Increase in income taxes – net | 7.8 |
| Other miscellaneous variances | 4.0 |
| Operating Expenses for the Quarter Ended June 30, 2007 | $207.1 |

The decrease in fuel is primarily due to a $16.5 million decrease in the deferred fuel adjustment partially offset by a $4.5 million increase in actual fuel costs. The deferred fuel adjustment is the result of variances between estimated fuel and purchased power costs in IPL's FAC and actual fuel and purchased power costs. IPL is permitted to recover underestimated fuel and purchased power costs in future rates through the FAC proceedings and therefore the costs are deferred and amortized into expense in the same period that IPL's rates are adjusted. Actual fuel costs increased primarily due to a 15.0% increase in the quantity of coal consumed.

Maintenance expenses were higher in the second quarter of 2006 primarily due to maintenance performed to coincide with a scheduled outage on one of our large base load coal fired units to enhance environmental emission technology that has significantly reduced emissions as part of IPL's multi-pollutant plan. This unit was placed back into service on June 24, 2006.

The $7.8 million increase in income tax expense was primarily due to a $21.9 million increase in pretax net operating income.

Other Income and Deductions

Other income and deductions decreased from income of $9.7 million in the second quarter of 2006 to income of $7.8 million in the second quarter of 2007. Included in this decrease is a $2.0 million decrease in the income tax benefit partially primarily due to changes in previously recorded tax contingencies including a related interest benefit.

***Comparison of Six Month Periods Ended June 30, 2007 and June 30, 2006***

Net income during the six month period ended June 30, 2007 of $61.0 million increased $19.0 million from net income of $42.0 million during the same period in 2006. The following discussion highlights the significant factors contributing to this change.

Utility Operating Revenues

Utility operating revenues increased by $14.5 million during the six months ended June 30, 2007 compared to the same period in 2006 as a result of the following (dollars in thousands):

| | June 30, 2007 | June 30,2006 | Increase (Decrease) | Percentage Change |
|---|---|---|---|---|
| Retail Revenues | $ 475,854 | $ 470,745 | $ 5,109 | 1.1% |
| Wholesale Revenues | 35,530 | 21,905 | 13,625 | 62.2% |
| Miscellaneous Revenues | 9,683 | 13,873 | (4,190) | (30.2%) |
| Total Utility Operating Revenues | $ 521,067 | $ 506,523 | $ 14,544 | 2.9% |
| Heating Degree Days | 3,242 | 2,845 | 397 | 14.0% |
| Cooling Degree Days | 464 | 276 | 188 | 68.1% |

Retail revenues increased slightly (1.1%) primarily due to a 5.8% increase in the quantity of kWhs sold ($26.1 million) partially offset by a 4.5% decrease in the weighted average price of kWhs sold ($21.0 million). The increase in the quantity of retail kWhs sold was primarily due to an 18.7% increase in heating and cooling degree days during the comparable periods and because we increased our retail customer base by approximately 2,100 customers or 0.5% from June 30, 2006 to June 30, 2007. The decrease in the weighted average price of kWhs sold was primarily due to a $22.0 million decrease in fuel charges, which is offset almost entirely within fuel and purchased power expenses (see discussion below under "Utility Operating Expenses").

The 62.2% increase in wholesale revenues is primarily due to a 58.4% increase in the quantity of kWhs sold ($13.1 million). More kWhs were available for sale in the wholesale market during the first half of 2007 primarily due to a scheduled outage that began in March 2006 on one of our large base load coal fired units to enhance environmental emission technology that is significantly reducing pollutant emissions as part of IPL's multi-pollutant plan. This unit was placed back into service on June 24, 2006.

The $4.2 million decrease in miscellaneous revenues was primarily due to a $3.5 million gain in the first quarter of 2006 from exchanging 2,510 vintage 2007 sulfur dioxide ("$SO_2$") air emissions allowances for 2,500 vintage 2005 $SO_2$ air emissions allowances. The gain resulted from exchanging allowances that were granted to us by the Environmental Protection Agency at no charge and recorded at cost, which is zero, for allowances that were recorded at their fair market value.

Utility Operating Expenses

The following table illustrates the primary operating expense changes from the six months ended June 30, 2006 to the six months ended June 30, 2007 for IPL (dollars in millions):

| | |
|---|---|
| Operating Expenses for the Six Months Ended June 30, 2006 | $425.1 |
| Decrease in fuel | (18.4) |
| Decrease in maintenance expenses | (13.9) |
| Increase in income taxes – net | 14.3 |
| Increase in purchased power expense | 4.7 |
| Increase in depreciation and amortization | 2.9 |
| Other miscellaneous variances | 1.9 |
| Operating Expenses for the Six Months Ended June 30, 2007 | $416.6 |

The decrease in fuel is primarily due to a $28.5 million decrease in the deferred fuel adjustment offset by a $9.8 million increase in actual fuel costs. The deferred fuel adjustment is the result of variances between estimated fuel and purchased power costs in IPL's FAC and actual fuel and purchased power costs. IPL is permitted to recover underestimated fuel and purchased power costs in future rates through the FAC proceedings and therefore the costs are deferred and amortized into expense in the same period that IPL's rates are adjusted. Actual fuel costs increased primarily due to an 11.0% increase in the quantity of coal consumed.

Maintenance expenses were higher in the first six months of 2006 primarily due to maintenance performed to coincide with the scheduled outage described above.

The $14.3 million increase in income tax expense was primarily due to a $37.5 million increase in pretax net operating income.

Purchased power expense increased due to an increase in the market price of purchased power ($8.6 million) offset by a decrease in the volume of power purchased during the period ($4.0 million). The increased market price of purchased power is influenced by changes in the market price of delivered fuel (primarily natural gas), the price of environmental emission allowances, the supply of and demand for electricity, and the time of day in which power is purchased. The volume of power purchased decreased primarily due to the scheduled outage in the first half of 2006 described above. In addition, depreciation expense increased $1.2 million on $77.3 million of equipment placed in service related to this outage. The remaining increase in depreciation and amortization is primarily due to $1.5 million of deprecation on additional transmission and distribution equipment placed in service since June 2006.

Other Income and Deductions

Other income and deductions decreased from income of $19.6 million in the first six months of 2006 to income of $14.9 million in the first six months of 2007. Included in this decrease is a $6.0 million decrease in the income tax benefit primarily due to changes in previously recorded tax contingencies including a related interest benefit, partially offset by a $1.2 million reduction in consulting fees related to remediation efforts with respect to deferred income taxes and the related regulatory asset balances in 2006.

### Liquidity and Capital Resources

As of June 30, 2007, IPALCO had unrestricted cash and cash equivalents of $21.7 million and highly liquid short-term investments of $8.9 million (which are included in Prepayments and other current assets on the accompanying unaudited consolidated balance sheet). We also had $95.6 million of restricted cash, of which $15.6 million is held by a trustee to be made available to IPL as funds are invested on certain qualifying environmental facilities, while the remainder was used to effect the repayment of IPL's first mortgage bonds, 7.375% Series, due August 1, 2007 in the aggregate principal amount of $80 million (see the *Capital Resources* discussion below). As of June 30, 2007, IPL also had available borrowing capacity of $108.6 million under its $109.4 million committed credit facility after existing letters of credit. All long-term financing arrangements by IPL must first be approved by the IURC and the aggregate amount of IPL's short-term indebtedness must be approved by the Federal Energy Regulatory Commission ("FERC"). IPL has approval from FERC to borrow up to $500 million of short-term indebtedness outstanding at any time through July 27, 2008. However, we also have restrictions on the amount of new debt that may be issued due to contractual obligations of AES and by financial covenant restrictions under our existing debt obligations. We do not believe such restrictions will be a limiting factor in our ability to issue debt in the ordinary course of prudent business operations. We believe that existing restricted and unrestricted cash balances, short-term investments, cash generated from operating activities and borrowing capacity on IPL's committed credit facility will be adequate on a short-term and long-term basis to meet anticipated operating expenses, interest expense on outstanding indebtedness, recurring capital expenditures and pay dividends to AES. Sources for principal payments on outstanding indebtedness and nonrecurring capital expenditures are expected to be obtained from: (i) existing restricted and unrestricted cash balances; (ii) cash generated from operating activities; (iii) borrowing capacity on IPL's committed credit facility; and (iv) additional debt financing.

***Capital Requirements.*** IPL's construction program is composed of capital expenditures necessary for prudent utility operations and compliance with environmental laws and regulations, along with discretionary investments designed to improve overall performance. IPL's capital expenditures totaled $101.7 million and $98.7 million for the six months ended June 30, 2007 and 2006, respectively. Included in these amounts are approximately $72.5 and $52.2 of expenditures in 2007 and 2006, respectively, on technology designed to reduce environmental emissions related to IPL's clean coal technology projects. Construction expenditures during the first six months of 2007 were financed with internally generated cash provided by operations, borrowings on our credit facility, proceeds from the June 2007 issuance of $165 million first mortgage bonds (see below), and $16.6 million in draws from the construction fund associated with the issuance in September 2006 of $60 million first mortgage bonds. Our capital expenditure program for the three-year period 2007-2009 is currently estimated to cost approximately $500 million. It includes approximately $149 million for additions, improvements and extensions to transmission and distribution lines, substations, power factor and voltage regulating equipment, distribution transformers and street lighting facilities. The capital expenditure program also includes approximately $172 million for construction projects designed to reduce $SO_2$ and mercury emissions; $94 million for power plant related projects; $81 million for investments associated with additional generation including the cost of the acquisition of a combustion turbine discussed below, and $4 million for other miscellaneous equipment and furniture. The majority of the expenditures for construction projects designed to reduce $SO_2$ and mercury emissions are recoverable through jurisdictional retail rate revenue as part of IPL's Clean Coal Technology projects, subject to regulatory approval. Capital expenditures are financed with a combination of internally generated funds and short-term and long-term borrowings.

On June 13, 2007, IPL received an order from the IURC issuing a Certificate of Public Convenience and Necessity for the acquisition of a combustion turbine with a nominal nameplate capacity of 80 megawatts. Approval was granted by FERC on July 13, 2007 and this purchase was completed on July 24, 2007. The turbine is located at IPL's Georgetown substation.

***Capital Resources.*** IPL had approval from the IURC to refinance $80 million 7.375% first mortgage bonds due 2007 and to issue up to $85 million of new long-term debt at various times throughout the period ending December 2008 to fund, among other things, a portion of its construction program, and other corporate purposes.

Pursuant to this authority, on June 15, 2007 IPL issued $165 million of first mortgage bonds, 6.60% Series, due June 1, 2037. Proceeds from this offering were used to effect the repayment upon maturity of IPL's first mortgage bonds, 7.375% Series, due August 1, 2007 in the aggregate principal amount of $80 million and to finance a portion of its construction program, reimburse its treasury, repay outstanding short-term borrowings incurred by IPL for such purposes, and for other general corporate purposes. As of June 30, 2007 the proceeds used to effect the repayment of the August 1, 2007 maturity were held in escrow with the trustee and accounted for as restricted cash on the accompanying unaudited consolidated balance sheet.

Additionally, in May 2007, we amended our receivable sale agreement to extend the maturity date to May 27, 2008.

***Contractual Cash Obligations.*** Our 2006 Annual Report on Form 10-K/A contains a table, which details our contractual cash obligations as of December 31, 2006. Significant changes to our contractual cash obligations since December 31, 2006 include an uncertain tax liability of $24.1 million as of June 30, 2007 and the issuance of $165 million of first mortgage bonds due June 1, 2037 (See above for a detailed description of the bonds' significant terms). As described below in New Accounting Pronouncements, IPALCO adopted the provisions of FIN No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. It is not possible to determine in which future period it might be paid out.

***Pension Funding.*** The Pension Protection Act of 2006 ("The Act"), which contains comprehensive pension funding reform legislation, was enacted into law during the third quarter of 2006. The Act primarily affects the Defined Benefit Pension Plan. The pension funding provisions are effective January 1, 2008. The Act requires plans that are less than 100% funded to fully fund any funding shortfall in amortized level installments over seven years, beginning in the year of the shortfall. Then, each year thereafter, if the plan's underfunding increases to more than the present value of the remaining annual installments, the excess is separately amortized over a new seven year period. In addition to the amortized level installments, IPL must also contribute an amount equal to the service cost earned by active participants during the plan year. The Act contains special accelerated provisions for plans that are determined to be "at risk". IPL plans to fund to levels to avoid the "at risk" status. For funding purposes, the Defined Benefit Pension Plan will be exempt from any required funding during 2007. At this time, IPL does not intend to make any contributions to the Defined Benefit Pension Plan during 2007. However, management will continue to review possible funding scenarios throughout 2007. The Supplemental Retirement Plan is not projected to have any contributions; however, depending on the return on assets, contributions may be required in December 2007. If funding is required, the amount is not expected to be material.

IPL's funding policy for the Defined Benefit Pension Plan and the Supplemental Retirement Plan is to contribute annually no less than the minimum required by applicable law, nor more than the maximum amount that can be deducted for federal income tax purposes, with the plan to avoid the "at risk" status and to meet targeted funding levels necessary to qualify under standards of the Pension Benefit Guaranty Corporation for exemption from certain administrative requirements.

All non-union new hires are covered under the RSP Plan, while IBEW physical bargaining unit union new hires are covered under the Defined Benefit Pension Plan and Thrift Plan. As a result of ratifying a new four-year labor agreement between the IBEW clerical-technical unit and IPL in March 2007, new hires in this bargaining unit are no longer covered under the Defined Benefit Pension Plan but will receive, based on company performance, an annual lump sum company contribution into the Thrift Plan. The net cash flow impact of this change is not expected to be material.

***Dividends.*** All of our outstanding common stock is owned by AES. During the first six months of 2007, we paid $30.2 million in dividends to AES. Future distributions will be determined at the discretion of our board of directors and will depend primarily on dividends received from IPL. Dividends from IPL are affected by IPL's results of operations, cash flows, financial condition, capital requirements, financings, regulatory considerations, and such other factors as IPL's board of directors deems relevant.

## Environmental Matters

***National Ambient Air Quality Standards.*** On June 21, 2007, the Environmental Protection Agency proposed to lower the primary and secondary ozone standards. The proposal considers a wide range of options but indicates a preference for lowering the standard from 0.085 parts per million down to 0.070 parts per million. Once finalized, the more stringent standard will likely put additional counties into non-attainment for ozone including counties where IPL conducts business. Counties which are designated as non-attainment will be required to develop implementation plans to reduce emissions which contribute to ozone formation. At this time, IPL can not predict the timing or impact of this new standard.

### Industry Changes

***Midwest ISO's Ancillary Services Market.*** The Midwest ISO filed with FERC on February 15, 2007 for approval of a market redesign that includes the start-up of ancillary services markets to be implemented in the spring of 2008. The design initiates markets for supplemental reserves, spinning reserves, and regulation on a footprint wide basis and is compulsory. On June 22, 2007, FERC issued an order rejecting the filing without prejudice, finding the filing to be deficient in two key areas: (1) the Midwest ISO did not submit a market power analysis in support of the proposed market and (2) they did not submit a readiness plan (to also include a reversion plan) to ensure reliability during the transition from the current reserve and regulation system managed by individual balancing authorities to a centralized ancillary services market managed by the Midwest ISO. In its Order, FERC did not specifically address several issues material to IPL and other Midwest ISO participants; therefore, IPL filed a Request for Rehearing on July 23, 2007. The Midwest ISO plans to re-file with FERC in September 2007 and expects a definitive order by the end of 2007. IPL cannot predict if the market redesign will be accepted, in whole or in part, by FERC.

***Reliability Standards.*** On March 15, 2007, the FERC approved 83 of 107 reliability standards for the bulk-power system making them mandatory and enforceable. Enforcement of the 83 reliability standards began on June 18, 2007. Compliance with the standards is now mandatory and non-compliance may result in monetary fines up to $1 million per day. Enforcement of the reliability standards will be by the North American Electric Reliability Corporation ("NERC") as the designated Electric Reliability Organization.

The remaining 24 reliability standards address performance and physical and cyber security issues. Some of the standards require regional reliability organizations to develop regional procedures and submit particular criteria that would apply to a given region. Other standards, FERC has acknowledged, need clarification, improvement or strengthening, and this will be up to NERC to continue to improve the reliability standards over time. It is anticipated that these revisions will take place over the next 2-3 years.

At this time, we cannot fully predict the effect the new Electric Reliability Organization and reliability standards will have on IPL. We will continue to monitor the revisions to the reliability standards and will continue working towards assuring full compliance with all applicable reliability standards.

## New Accounting Pronouncements

#### FIN No. 48 "Accounting for Uncertainty in Income Taxes"

In July 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes", which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." The interpretation prescribes a recognition threshold and measurement criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

IPALCO adopted the provisions of FIN No. 48 on January 1, 2007. Under FIN No. 48, IPALCO must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. The impact of IPALCO's reassessment of its tax positions in accordance with FIN No. 48 did not have a material effect on the results of operations, financial condition or liquidity.

**SFAS No. 157, "Fair Value Measurements"**

In September 2006, the FASB released SFAS No. 157, "Fair Value Measurements," to define fair value, establish a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America, and expand disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Management has determined that SFAS No. 157 will not have a material impact on our results of operations or financial position.

**SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities"**

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for IPALCO beginning in 2008, but early adoption is permitted. IPALCO has chosen not to early adopt and management does not believe SFAS No. 159 will have a material impact on our results of operations or financial position.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in IPL's exposure to market risks since December 31, 2006 other than the issuance of $165 million of fixed rate first mortgage bonds, as described above in Liquidity and Capital Resources, which increases our exposure to changes in the fair value of debt.

## Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the chief executive officer ("CEO") and chief financial officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosures.

Evaluation of Disclosure Controls and Procedures. We carried out an evaluation, under the supervision and with the participation of our management, including the CEO and CFO, of the effectiveness of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15 (e) as required by paragraph (b) of the Exchange Act Rules 13a-15 or 15d-15) as of June 30, 2007. IPL's management, including the CEO and CFO, is engaged in a comprehensive effort to review, evaluate and improve our controls; however, management does not expect that our disclosure controls or our internal controls over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. In addition, any evaluation of the effectiveness of controls is subject to risks that those internal controls may become inadequate in future periods because of changes in business conditions, or that the degree of compliance with the policies or procedures deteriorates. We have interests in certain unconsolidated entities. As we do not control or manage these entities, our disclosure controls and procedures with respect to such entities is generally more limited than those we maintain with respect to our consolidated subsidiaries.

Based upon the controls evaluation performed, the CEO and CFO have concluded that as of June 30, 2007, our disclosure controls and procedures were effective to provide reasonable assurance that material information relating to us and our consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Controls In the course of our evaluation of disclosure controls and procedures, management considered certain internal control areas in which we have made and are continuing to make changes to improve and enhance controls. Based upon that evaluation, the CEO and CFO concluded that there were no changes in our internal controls over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the six months ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Compliance with Section 404 of the Sarbanes Oxley Act of 2002 Beginning with the year ending December 31, 2007, Section 404 of the Sarbanes-Oxley Act of 2002 will require us to include an internal control report of management with our annual report on Form 10-K. The internal control report must contain (1) a statement of management's responsibility for establishing and maintaining adequate internal controls over financial reporting for our Company, (2) a statement identifying the framework used by management to conduct the required evaluation of the effectiveness of our internal controls over financial reporting, and (3) management's assessment of the effectiveness of our internal controls over financial reporting as of the end of our most recent fiscal year, including a statement as to whether or not our internal controls over financial reporting are effective.

Management has developed a comprehensive plan in order to achieve compliance with Section 404 within the prescribed period and to review, evaluate and improve the design and effectiveness of our controls and procedures on an on-going basis. The comprehensive compliance plan includes (1) documentation and assessment of the adequacy of our internal controls over financial reporting, (2) remediation of control weaknesses, (3) validation through testing that controls are functioning as documented and (4) implementation of a continuous reporting and improvement process for internal controls over financial reporting. As a result of this initiative, we have made and will continue to make changes from time to time in our internal controls over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

Please see IPALCO's Form 10-Q for the quarterly period ending March 31, 2007 for a description of legal proceedings that occurred during the first quarter of 2007.

### Item 1A. Risk Factors

There have been no material changes to the risk factors as previously disclosed in IPALCO's 2006 annual report on Form 10-K/A.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Submission of Matters to a Vote of Security Holders

None.

### Item 5. Other Information

None.

## Item 6. Exhibits

| Exhibit No. | Document |
|---|---|
| 4.1 | Fifty-fourth supplemental indenture dated as of June 1, 2007. |
| 31.1 | Certification by Chief Executive Officer required by Rule 13a-14(a) or 15d-14(a). |
| 31.2 | Certification by Chief Financial Officer required by Rule 13a-14(a) or 15d-14(a). |
| 32 | Certification required by Rule 13a-14(b) or 15d-14(b) and by 18 U.S.C. Section 1350. |
| 99.1 | Fifth Amendment dated May 29, 2007 to Amended and Restated Receivables Sale Agreement Dated as of July 20, 2004. |

## Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

IPALCO ENTERPRISES, INC.
(Registrant)

Date: August 8, 2007

/s/ Frank P. Marino
Frank P. Marino
Senior Vice President and Chief Financial Officer
(Duly Authorized Officer)

Date: August 8, 2007

/s/ Kurt A. Tornquist
Kurt A. Tornquist
Controller
(Principal Accounting Officer)

**Exhibit 31.1**

## Certification

I, Ann D. Murtlow, certify that:

1. I have reviewed this quarterly report on Form 10-Q of IPALCO Enterprises, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2007

/s/ Ann D. Murtlow
Ann D. Murtlow
President and Chief Executive Officer

**Exhibit 31.2**

**Certification**

I, Frank P. Marino, certify that:

1. I have reviewed this quarterly report on Form 10-Q of IPALCO Enterprises, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2007

/s/ Frank P. Marino
Frank P. Marino
Senior Vice President and Chief Financial Officer

**Exhibit 32**

# Certification

The certification set forth below is being submitted in connection with the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007 (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Act of 1934 (the "Exchange Act") and section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

Ann D. Murtlow, President and Chief Executive Officer and Frank P. Marino, Senior Vice President and Chief Financial Officer of IPALCO Enterprises, Inc. (IPALCO), each certifies that, to the best of his or her knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of IPALCO.

| | |
|---|---|
| /s/ Ann D. Murtlow | /s/ Frank P. Marino |
| Ann D. Murtlow | Frank P. Marino |
| President and Chief Executive Officer | Senior Vice President and Chief Financial Officer |
| August 8, 2007 | August 8, 2007 |

A signed original of this written statement required by Section 906 has been provided to IPALCO and will be retained by IPALCO and furnished to the Securities and Exchange Commission or its staff upon request.