

NISOURCE INC/DE
Form S-3
October 05, 2004

As filed with the Securities and Exchange Commission on October 5, 2004

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

NiSource Inc.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

35-2108964

*(I.R.S. Employer
Identification Number)*

801 East 86th Avenue
Merrillville, Indiana 46410
(877) 647-5990

*(Address, including zip code and telephone number,
including area code, of registrant's principal executive office)*

David J. Vajda
Vice President and Treasurer
NiSource Inc.
801 East 86th Avenue
Merrillville, Indiana 46410
(219) 647-5520

*(Name, address, including zip code and telephone number,
including area code, of agent for service)*

Copy to:

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6600 Sears Tower
Chicago, Illinois 60606
(312) 258-5500

Copy to:

Morton A. Pierce, Esq.
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1301 Avenue of the Americas
New York, New York 10019
(212) 259-8000

Approximate date of commencement of proposed sale to the public: October 27, 2004.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to Be Registered	Proposed Maximum Offered Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Senior Debentures Due 2006	\$145,600,000	100.50%	\$146,328,000	\$18,540

- (1) The proposed maximum aggregate offering price per class of securities will be determined from time to time by the registrant in connection with the issuance of the securities hereunder.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED OCTOBER 5, 2004

PROSPECTUS

\$145,600,000

NiSource Inc.

% Senior Debentures Due 2006

In November 2000, NiSource Inc. issued an aggregate principal amount of \$145,600,000 of Senior Debentures due 2006 as part of NiSource's Stock Appreciation Income Linked Securities, or SAILS*. This is a remarketing of up to \$145,600,000 aggregate principal amount of those Debentures on behalf of the holders of SAILS. The Debentures will mature on November 1, 2006. The Debentures are senior, unsecured obligations of NiSource ranking equally in right of payment with other senior indebtedness of NiSource.

Interest on the Debentures is payable quarterly in arrears on February 1, May 1, August 1 and November 1 of each year. Interest on the Debentures will be reset on October 27, 2004. The new interest rate, which will take effect as of November 1, 2004, will be the rate per annum that the remarketing agent determines, in its sole judgment, to be the lowest rate per annum that will enable it to remarket all the Debentures tendered or deemed tendered for remarketing at 100.5% of their principal amount. The first interest payment date on the remarketed Debentures will be on February 1, 2005. The Debentures are not subject to optional redemption, mandatory redemption or any sinking fund payments prior to maturity.

Investing in the Debentures involves risks. See Risk Factors beginning on page 7.

	<u>Per Note</u>	<u>Total</u>
Price to Public	%	\$
Remarketing Fee to Remarketing Agent	%	\$
Net Proceeds(1)	%	\$

(1) NiSource will receive the proceeds of the remarketing of the Debentures in satisfaction of the obligations of the holders of SAILS under the stock purchase contracts and to pay the expenses of the remarketing. See Use of Proceeds.

The Debentures are expected to be delivered through the book-entry facilities of The Depository Trust Company on or about November 1, 2004.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Remarketing Agent

Credit Suisse First Boston

The date of this prospectus is October , 2004.

* SAILSSM and Stock Appreciation Income Linked SecuritiesSM are service marks of Credit Suisse First Boston LLC.

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You should rely only on the information contained or incorporated by reference in this prospectus. Neither we nor the remarketing agent has authorized anyone to provide you with additional or different information. If anyone provides you with additional or different information, you should not rely on it. Neither we nor the remarketing agent is making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained in this prospectus is accurate only as of its date and that any information we have incorporated by reference is accurate only as of the date of the document incorporated by reference. Our business, financial condition, results of operations and prospects may have changed since those dates.

The Debentures are offered for sale in those jurisdictions where it is lawful to make such offers. The distribution of this prospectus and the offering or sale of the Debentures in some jurisdictions may be restricted by law. This prospectus may not be used for or in connection with an offer or solicitation by any person in any jurisdiction in which that offer or solicitation is not authorized or to any person to whom it is unlawful to make that offer or solicitation.

ABOUT THIS PROSPECTUS

This prospectus provides you with a description of the Debentures being remarketed. The registration statement containing this prospectus, including the exhibits to the registration statement, provides additional information about us and the Debentures offered under this prospectus. The registration statement, including the exhibits, can be read at the SEC website or at the SEC offices mentioned under the heading Where You Can Find More Information.

References to NiSource refer to NiSource Inc. Unless the context requires otherwise, references to we, us or our refer collectively to NiSource and its subsidiaries.

WHERE YOU CAN FIND MORE INFORMATION

NiSource files annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document NiSource files at the SEC's public reference room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. You may obtain additional information about the public reference room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a site on the Internet (<http://www.sec.gov>) that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC, including NiSource.

The SEC allows us to incorporate by reference information into this prospectus. This means that we can disclose important information to you by referring you to another document that NiSource has filed separately with the SEC. The information incorporated by reference is considered to be part of this prospectus. Information that NiSource files with the SEC after the date of this prospectus will automatically modify and supersede the information included or incorporated by reference in this prospectus to the extent that the subsequently filed information modifies or supersedes the existing information. We incorporate by reference the following documents filed with the SEC:

our Annual Report on Form 10-K for the fiscal year ended December 31, 2003;

our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2004 and June 30, 2004; and

our Current Report on Form 8-K dated July 13, 2004.

We also incorporate by reference any future filings we make with the SEC under sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until all of the Debentures have been sold.

You may request a copy of any of these filings at no cost by writing to or telephoning us at the following address and telephone number: Gary W. Pottorff, NiSource Inc., 801 East 86th Avenue, Merrillville, Indiana 46410, telephone: (219) 647-6132.

We maintain an Internet site at <http://www.nisource.com>, which contains information concerning NiSource and its subsidiaries. The information contained at our Internet site is not incorporated by reference in this prospectus, and you should not consider it a part of this prospectus.

We have filed this prospectus with the SEC as part of a registration statement on Form S-3 under the Securities Act of 1933. This prospectus does not contain all of the information included in the registration statement. Any statement made in this prospectus concerning the contents of any contract, agreement or other document is only a summary of the actual document. If we have filed any contract, agreement or other document as an exhibit to the registration statement, you should read the exhibit for a more complete understanding of the document or matter involved. Each statement regarding a contract, agreement or other document is qualified in its entirety by reference to the actual document.

SUMMARY

This summary highlights certain information appearing elsewhere in this document. This summary is not complete and does not contain all of the information that you should consider before purchasing the Debentures. You should carefully read the Risk Factors section beginning on page 7 of this prospectus to determine whether an investment in our Debentures is appropriate for you.

NiSource Inc.

Overview. NiSource is a super-regional energy holding company that provides natural gas, electricity and other products and services to approximately 3.7 million customers located within the energy corridor that runs from the Gulf Coast through the Midwest to New England.

We are the largest regulated natural gas distribution company, as measured by number of customers, operating east of the Rocky Mountains. Our principal subsidiaries include Columbia Energy Group, a vertically-integrated natural gas distribution, transmission and storage holding company whose subsidiaries provide service to customers in the Midwest, the Mid-Atlantic and the Northeast; Northern Indiana Public Service Company, a vertically-integrated natural gas and electric company providing service to customers in northern Indiana; and Bay State Gas Company, a natural gas distribution company serving customers in New England. NiSource derives substantially all its revenues and earnings from the operating results of its subsidiaries. Our primary business segments are:

gas distribution;

gas transmission and storage; and

electric operations.

Strategy. We have focused our business strategy on our core, rate-regulated asset-based businesses, with virtually 100% of our operating income generated from the rate-regulated businesses. With the nation's fourth largest natural gas pipeline, the largest natural gas distribution network east of the Rocky Mountains and one of the nation's largest natural gas storage networks, we operate throughout the energy-intensive corridor that extends from the supply areas in the Gulf Coast through the consumption centers in the Midwest, Mid-Atlantic, New England and Northeast. This corridor includes 30% of the nation's population and 40% of its energy consumption. We believe natural gas will be the fuel preferred by customers to meet the corridor's growing energy needs.

Gas Distribution. We are the nation's third largest regulated gas distribution company based on volume of gas sales, with an average volume of over 2.3 billion cubic feet per day. Through our wholly-owned subsidiary, Columbia Energy Group, we own five distribution subsidiaries that provide natural gas under the Columbia Gas name to approximately 2.2 million residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky and Maryland. We also distribute natural gas to approximately 770,000 customers in northern Indiana through three subsidiaries: Northern Indiana Public Service Company, Kokomo Gas and Fuel Company and Northern Indiana Fuel and Light Company, Inc. Additionally, our subsidiaries Bay State Gas Company and Northern Utilities, Inc. distribute natural gas to more than 329,000 customers in the areas of Brockton, Lawrence and Springfield, Massachusetts, Lewiston and Portland, Maine, and Portsmouth, New Hampshire.

Gas Transmission and Storage. Our gas transmission and storage subsidiaries own and operate an interstate pipeline network of approximately 16,000 miles extending from offshore in the Gulf of Mexico to Lake Erie, New York and the eastern seaboard. Together, the companies serve customers in 19 northeastern, mid-Atlantic, midwestern and southern states, as well as the District of Columbia. In addition, Columbia Gas Transmission Corporation operates one of the nation's largest underground natural gas storage systems, capable of storing approximately 646 billion cubic feet of natural gas.

Electric Operations. We generate and distribute electricity through our subsidiary Northern Indiana Public Service Company. Northern Indiana provides electric service to approximately 440,000 customers in

21 counties in the northern part of Indiana. Northern Indiana owns and operates three coal-fired electric generating stations with a net capacity of 2,574 megawatts, five gas-fired combustion turbine generating units with a net capacity of 306 megawatts and two hydroelectric generating plants with a net capacity of 10 megawatts, for a total system net capacity of 2,890 megawatts. Northern Indiana is interconnected with five neighboring electric utilities. During the year ended December 31, 2003, Northern Indiana generated 77.2% and purchased 22.8% of its electric requirements.

Other Operations. We provide energy-related services, including gas marketing and power trading. Through our subsidiary EnergyUSA-TPC Corp., we provide natural gas sales to industrial and commercial customers and engage in natural gas marketing activities. We operate the Whiting Clean Energy project, located at BP's Whiting, Indiana refinery. We participate in real estate and other businesses.

Our executive offices are located at 801 East 86th Avenue, Merrillville, Indiana 46410, telephone: (877) 647-5990.

The Remarketing

Issuer	NiSource Inc.
Debentures Remarketed	Up to \$145,600,000 aggregate principal amount of % Senior Debentures Due 2006. The exact principal amount of Debentures to be remarketed will be known on October 25, 2004.
Maturity Date	The Debentures will mature on November 1, 2006.
Interest Rate	As of November 1, 2004, the interest rate on the Debentures will be % per annum.
Interest Payment Dates	February 1, May 1, August 1 and November 1 of each year, commencing February 1, 2005.
Redemption; Sinking Fund	The Debentures are not subject to optional redemption, mandatory redemption or any sinking fund payment prior to maturity.
Ranking	<p>The Debentures are senior, unsecured obligations of NiSource ranking equally in right of payment with other senior indebtedness of NiSource.</p> <p>The Indenture does not limit the amount of debt that NiSource or any of its subsidiaries may incur.</p>
Limitation on Liens	Subject to certain exceptions, as long as the Debentures are outstanding, neither NiSource nor any subsidiary of NiSource other than a utility may issue, assume or guarantee any secured debt, except intercompany indebtedness, without also securing the Debentures, unless the total amount of all of the secured debt would not exceed 5% of our consolidated net tangible assets.
The Remarketing	<p>NiSource issued the Debentures in November 2000 as part of its issuance and sale of SAILS. Each SAILS consists of a stock purchase contract and a Debenture. Pursuant to the stock purchase contracts, unless a SAILS holder elects otherwise, the Debentures will be sold in a remarketing, and the proceeds will be paid to NiSource in satisfaction of the SAILS holders obligations under the stock purchase contracts.</p> <p>On October 27, 2004, the remarketing agent will use commercially reasonable efforts to reset the rate of interest payable on the remarketed Debentures to a rate it believes is sufficient to cause the market value of each Debenture to be equal to 100.5% of the stated principal amount.</p>
Use of Proceeds	NiSource will advance the payments received under the stock purchase contracts to NiSource Finance Corp. to repay short-term indebtedness and for general corporate purposes.
Denomination	The Debentures will be remarketed in denominations of \$1,000 and integral multiples of \$1,000.
Trustee, Registrar and Paying Agent	JPMorgan Chase Bank.
	For additional information regarding the Debentures, see Description of the Debentures.

RISK FACTORS

In deciding whether to invest in the Debentures, you should consider carefully the following factors that could materially adversely affect our operating results and financial condition. Although we have tried to discuss key factors, please be aware that other risks may prove to be important in the future. New risks may emerge at any time, and we cannot predict those risks or estimate the extent to which they may affect our financial performance. You should also consider the information included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and our subsequent reports on Form 10-Q and Form 8-K. Each of the risks described below could result in a decrease in the value of the Debentures and your investment therein.

We have substantial indebtedness, which could adversely affect our financial condition.

We have a significant amount of indebtedness outstanding as a result of our acquisition of Columbia Energy Group. We had total consolidated indebtedness of approximately \$6.1 billion outstanding as of June 30, 2004.

Our substantial indebtedness could have important consequences to you. For example, it could:

limit our ability to borrow additional funds or increase the cost of borrowing additional funds;

reduce the availability of cash flow from operations to fund working capital, capital expenditures and other general corporate purposes;

limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;

lead parties with whom we do business to require additional credit support, such as letters of credit, in order for us to transact such business;

place us at a competitive disadvantage compared to our competitors that are less leveraged;

result in a downgrade in our credit ratings; and

increase our vulnerability to general adverse economic and industry conditions.

Some of our debt obligations contain financial covenants related to debt-to-capital ratios and interest coverage ratios and cross-default provisions. Our failure to comply with any of these covenants could result in an event of default which, if not cured or waived, could result in the acceleration of our outstanding debt obligations. Any such acceleration would cause a material adverse change in our financial condition.

Our costs of compliance with environmental laws are significant. The costs of compliance with future environmental laws and the incurrence of environmental liabilities could harm our cash flow and profitability.

NiSource's subsidiaries are subject to extensive federal, state and local environmental requirements which, among other things, regulate air emissions, water discharges and the management of hazardous and solid waste. Compliance with these legal requirements requires us to commit significant expenditures for installation of pollution control equipment, environmental monitoring, emissions fees and permits at all of our facilities. These expenditures are significant, and we expect that they will increase in the future. For example, construction expenditures to comply with the nitrogen oxide emission reduction requirements are expected to range from \$250 to \$300 million, of which approximately \$230 million has been spent as of September 30, 2004.

If we fail to comply with environmental laws and regulations, even if caused by factors beyond our control, that failure may result in the assessment of civil or criminal penalties and fines against NiSource and its subsidiaries. In September 2004, the Environmental Protection Agency issued a notice of violation to Northern Indiana Public Service Company alleging violations of the new source review provisions of the Clean Air Act. An adverse outcome in this matter could require substantial capital expenditures that cannot be determined at this time and could require payment of substantial penalties.

Existing environmental laws and regulations may be revised, and new laws and regulations seeking to protect the environment may be adopted or become applicable to us. Revised or additional laws and regulations could result in significant additional expense and operating restrictions on our facilities or increased compliance costs, which may not be fully recoverable from our customers and would therefore reduce our net income. The cost impact of any new or amended legislation would depend upon the specific requirements enacted and cannot be determined at this time.

A significant portion of the gas and electricity we sell is used for heating and air conditioning. Accordingly, our operating results fluctuate depending on the weather.

Our energy sales are sensitive to variations in weather conditions. We forecast energy sales on the basis of normal weather, which represents a long-term historical average. Significant variations from normal weather could have, and have had, a material impact on energy sales.

Our electric operations are subject to economic conditions in certain industries.

Our electric operations in northern Indiana have been and may continue to be adversely affected by substantial declines in sales to industrial customers. In particular, the steel and steel related industries have been adversely impacted by recent events and market conditions, with two major customers declaring bankruptcy. There can be no assurances whether sales will return to historical levels.

Recent events that are beyond our control have increased the level of public and regulatory scrutiny of our industry. Governmental and market reactions to these events may have negative impacts on our business, financial condition and access to capital.

As a result of the energy crisis in California during the summer of 2001, the recent volatility of natural gas prices in North America, the bankruptcy filing by Enron Corporation, the blackout in the Northeast in 2003, accounting irregularities at public companies in general and energy companies in particular, and investigations by governmental authorities into energy trading activities, companies in the regulated and unregulated utility business have been under a generally increased amount of public and regulatory scrutiny and suspicion. Accounting irregularities have caused regulators and legislators to review current accounting practices, financial disclosures and companies' relationships with their independent auditors. The capital markets and ratings agencies also have increased their level of scrutiny. We believe that we are complying with all applicable laws and accounting standards, but it is difficult or impossible to predict or control what effect these types of events may have on our business, financial condition or access to the capital markets.

As a result of these events, Congress passed the Sarbanes-Oxley Act of 2002, and the SEC implemented numerous new regulations. It is unclear what additional laws or regulations may develop, and we cannot predict the ultimate impact of any future changes in accounting regulations or practices in general with respect to public companies, the energy industry or our operations specifically.

Our Whiting merchant energy project is operating at a loss.

We own and operate a merchant energy facility at BP's Whiting, Indiana refinery. This facility uses natural gas to generate electricity for sale in the wholesale markets and is expected, after plant modifications, to generate steam for industrial use. Recent developments in the wholesale power market have resulted in depressed wholesale power prices, which have substantially reduced revenues for participants in the market. We expect that the facility will operate at a loss in the near term based on the current market view of forward pricing for gas and electricity. The after-tax loss for 2003 was \$30.0 million, and the 2004 after-tax loss is expected to be similar to 2003 based on a similar market for gas and electricity. The profitability of the project in future periods will depend on, among other things, prevailing prices in the energy markets and regional load dispatch patterns.

The Debentures are obligations of NiSource and not of its subsidiaries and will be effectively subordinated to the claims of the subsidiaries creditors.

The Debentures are obligations exclusively of NiSource and not its subsidiaries. NiSource is a holding company and, accordingly, substantially all of our operations are conducted through our subsidiaries. As a result, our cash flow and our ability to service our debt, including the Debentures, depends upon the earnings of our operating subsidiaries and on the distribution of earnings, loans or other payments by our subsidiaries to us.

Our subsidiaries are separate and distinct legal entities. Our subsidiaries have no obligation to pay any amounts due on the Debentures or to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. In addition, any payment of dividends, distributions, loans or advances by our subsidiaries to us could be subject to statutory or contractual restrictions. Payments to us by our subsidiaries will also be contingent upon our subsidiaries' earnings and business considerations. As of August 31, 2004, our operating subsidiaries had approximately \$2,244 million of indebtedness.

Our right to receive any assets of any of our subsidiaries upon their liquidation or reorganization, and therefore the rights of the holders of the Debentures to participate in those assets, will be effectively subordinated to the claims of that subsidiary's creditors. In addition, even if we were a creditor of any of our subsidiaries, our rights as a creditor would be subordinate to any security interest in the assets of our subsidiaries and any indebtedness of our subsidiaries senior to that held by us.

FORWARD-LOOKING STATEMENTS

Some of the information included in this prospectus and in the documents incorporated by reference are forward-looking statements within the meaning of the securities laws. These statements concern our plans, expectations and objectives for future operations. Any statement that is not a historical fact is a forward-looking statement. We use the words estimate, intend, expect, believe, anticipate and similar expressions to identify forward-looking statements, but some of these statements may use other phrasing. We undertake no obligation to release any revisions to these forward-looking statements publicly to reflect events or circumstances after the date of this prospectus or to reflect the occurrence of unanticipated events. While we make the forward-looking statements in good faith and believe they are based on reasonable assumptions, these statements are subject to risks and uncertainties. Important factors that could cause actual results to differ materially from those suggested by the forward-looking statements include:

- increased competition in deregulated energy markets;
- the weather;
- fluctuations in supply and demand for energy commodities;
- growth opportunities for NiSource's businesses;
- increased competition in deregulated energy markets;
- dealings with third parties over whom NiSource has no control;
- actual operating experience of acquired assets;
- the regulatory process;
- regulatory and legislative changes;
- changes in general economic, capital and commodity market conditions;
- counter-party credit risk; and

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other uncertainties, all of which are difficult to predict, and many of which are beyond our control, including factors we discuss in this prospectus and our filings with the SEC.

Accordingly, you should not rely on the accuracy of predictions contained in forward-looking statements.

USE OF PROCEEDS

Up to \$145,600,00 aggregate principal amount of Debentures are being remarketed to investors on behalf of holders of NiSource's SAILS issued in 2000. Each SAILS consists of a Debenture and a stock purchase contract obligating the holder to purchase a certain fraction of a share of NiSource common stock for \$2.60 on November 1, 2004. The proceeds of the remarketing of these Debentures through this prospectus will be paid to NiSource in satisfaction of the obligations of the SAILS holders under the stock purchase contracts and to pay the expenses of the remarketing. We will advance the payments received under the stock purchase contracts to NiSource Finance Corp. to repay short-term bank borrowings having an annual interest rate of 2.525% as of September 30, 2004 and for general corporate purposes.

CAPITALIZATION

The following table shows our capitalization and short-term indebtedness at June 30, 2004 (i) on a consolidated basis and (ii) on a consolidated basis as adjusted to reflect the issuance and sale of the Debentures and the use of the net proceeds as set forth under Use of Proceeds. This table should be read in conjunction with our consolidated financial statements and related notes for the year ended December 31, 2003, incorporated by reference in this prospectus. See Where You Can Find More Information.

	June 30, 2004	
	Actual	As Adjusted
	(in millions)	
Long-term debt (excluding amounts due within one year)	\$ 5,573.1	\$
Cumulative preferred stock	81.1	
Common stockholders' equity	4,500.8	
	<u> </u>	<u> </u>
Total capitalization	\$ 10,155.0	\$
	<u> </u>	<u> </u>
Short-term borrowings (including current portion of long-term debt)	\$ 509.6	\$
	<u> </u>	<u> </u>

RATIOS OF EARNINGS TO FIXED CHARGES

The following are ratios of our earnings to fixed charges for each of the periods indicated:

Six Months Ended	Fiscal Year Ended December 31				
	June 30, 2004	2003	2002	2001	2000
2.89	2.36	2.12	1.57	1.74	2.14

For purposes of calculating the ratio of earnings to fixed charges, earnings consist of income from continuing operations before income taxes plus fixed charges. Fixed charges consist of interest on all indebtedness, amortization of debt expense, the portion of rental expenses on operating leases deemed to be representative of the interest factor and preferred stock dividend requirements of consolidated subsidiaries.

DESCRIPTION OF THE DEBENTURES

We issued the Debentures under an indenture dated as of November 1, 2000, as supplemented by a first supplemental indenture dated as of November 1, 2000, each between NiSource and JPMorgan Chase Bank, as successor to The Chase Manhattan Bank, as trustee. Concurrently with the remarketing of the Debentures, we will execute a second supplemental indenture to the indenture in order to make certain

mechanical amendments to the Debentures relating to the remarketing and the related procedures of The Depository Trust Company, or DTC. We refer to the indenture, as supplemented by the first supplemental indenture and the second supplemental indenture, as the Indenture.

We initially issued the Debentures in 2000 as part of the SAILS in connections with our acquisition of Columbia Energy Group. Each SAILS is a hybrid security consisting of (i) a stock purchase contract obligating the holder to purchase a certain fraction of a share of NiSource common stock on or before November 1, 2004 for \$2.60 and (ii) a Debenture with a stated principal amount of \$2.60, which was pledged as collateral to secure the holder's obligation to purchase NiSource common stock under the stock purchase contract. Unless a SAILS holder elects to make a cash payment of \$2.60 for the NiSource common stock the holder is obligated to purchase, the pledged Debentures will be sold to investors in a remarketing, and the proceeds will be paid to NiSource in satisfaction of the SAILS holders' obligations under the stock purchase contracts. In connection with the remarketing, the Debentures are being redenominated in integral multiples of \$1,000.

This section briefly summarizes some of the terms of the Debentures and the Indenture, but it does not contain a complete description of them. The description of the Debentures is qualified in its entirety by the provisions of the Indenture. References to section numbers in this description, unless otherwise indicated, are references to section numbers of the Indenture.

General

The Debentures:

are direct, senior unsecured obligations of NiSource; and

are equal in right of payment to any other senior, unsecured obligations of NiSource.

Principal, Maturity, Interest and Payment

In November 2000, we issued \$145,600,000 aggregate principal amount of Debentures as part of the SAILS issuance. The exact aggregate principal amount of Debentures to be remarketed pursuant to this prospectus will not be known until October 25, 2004 (the date by which holders electing not to participate in the remarketing must deliver their cash payments) but in any event will not exceed \$145,600,000. The Debentures will mature on November 1, 2006.

Interest on the Debentures will accrue from November 1, 2004 at the annual rate of ____%. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. Interest is payable quarterly in arrears on February 1, May 1, August 1 and November 1, with the first payment due on February 1, 2005. If an interest payment date falls on a day that is not a business day, interest will be payable on the next succeeding business day with the same force and effect as if made on such interest payment date. As long as the Debentures are held in book-entry only form, we will make each interest payment to the holders of record of the Debentures on the business day immediately preceding the relevant interest payment date. If the Debentures do not remain in book-entry only form, we will pay interest to the holders of record on the 15th business day before the relevant interest payment date.

Redemption

The Debentures are not subject to redemption at our option prior to maturity, nor are they subject to redemption through the operation of a sinking fund.

Form and Denomination

We issued the Debentures as a global security, as described under the heading Book-Entry Issuance. The Debentures will continue to be represented by a global security after the remarketing. The Debentures were originally issued in denominations of \$2.60 and integral multiples of \$2.60 when they were part of the SAILS. In order to meet the requirements of DTC, the depository for the Debentures,

the denomination of the Debentures will be changed so that in conjunction with and after the remarketing, the Debentures will be issuable only in denomination of \$1,000 and integral multiples of \$1,000.

Consolidation, Merger, Conveyance, Transfer or Lease

NiSource may not consolidate or merge with any other corporation or convey, transfer or lease substantially all of its assets or properties to any entity unless:

that corporation or entity is organized under the laws of the United States or any state thereof;

that corporation or entity assumes NiSource's obligations, as applicable, under the Indenture;

after giving effect to the transaction, NiSource is not in default under the Indenture; and

NiSource delivers to the indenture trustee an officer's certificate and an opinion of counsel to the effect that the transaction complies with the Indenture.

(See Section 801.)

Limitation on Liens

As long as any Debentures remain outstanding, neither NiSource nor any subsidiary of NiSource other than a utility may issue, assume or guarantee any debt secured by any mortgage, security interest, pledge, lien or other encumbrance on any property owned by NiSource or that subsidiary, except intercompany indebtedness, without also securing the Debentures equally and ratably with (or prior to) the new debt, unless the total amount of all of the secured debt would not exceed 5% of the consolidated net tangible assets of NiSource and its subsidiaries (other than utilities).

In addition, the lien limitations do not apply to NiSource's and any subsidiary's ability to do the following:

create mortgages on any property and on certain improvements and accessions on such property acquired, constructed or improved after the date of the Indenture;

assume existing mortgages on any property or indebtedness of an entity which is merged with or into, or consolidated, with NiSource or any subsidiary;

assume existing mortgages on any property or indebtedness of an entity existing at the time it becomes a subsidiary;

create mortgages to secure debt of a subsidiary to NiSource or to another subsidiary;

create mortgages in favor of governmental entities to secure payment under a contract or statute or mortgages to secure the financing of constructing or improving property, including mortgages for pollution control or industrial revenue bonds;

create mortgages to secure debt of NiSource or its subsidiaries maturing within 12 months and created in the ordinary course of business;

create mortgages to secure the cost of exploration, drilling or development of natural gas, oil or other mineral property;

continue mortgages existing on the date of the Indenture; and

create mortgages to extend, renew or replace indebtedness secured by any mortgage referred to above, provided that the principal amount of indebtedness and the property securing the indebtedness shall not exceed the amount secured by the mortgage being extended, renewed or replaced.

(See Section 1008.)

Other Covenants

The Indenture does not give Debenture holders protection in the event of a highly leveraged transaction or other transaction involving NiSource. The Indenture also does not limit the ability of NiSource to incur indebtedness or to declare or pay dividends on its capital stock.

Events of Default

The Indenture provides that any of the following events constitutes an Event of Default with respect to the Debentures:

NiSource defaults in the payment of any interest upon any Debenture that becomes due and payable and the default continues for 30 days;

NiSource defaults in the payment of principal of any Debenture when due at its maturity, by declaration or otherwise, and the default continues for three business days;

NiSource defaults in the performance of or breaches any covenant or warranty in the Indenture for 60 days after written notice to NiSource from the indenture trustee or to NiSource and the indenture trustee from the holders of at least 25% of the outstanding Debentures;

NiSource defaults under any bond, debenture, note or other evidence of indebtedness for money borrowed by NiSource, or NiSource defaults under any mortgage, indenture or instrument under which there may be issued, secured or evidenced indebtedness constituting a failure to pay in excess of \$5 million of the principal or interest when due and payable, and in the event such debt has become due as the result of an acceleration, such acceleration is not rescinded or annulled or such debt is not paid within 60 days after written notice to NiSource from the indenture trustee or to NiSource and the indenture trustee from the holders of at least 25% of the outstanding Debentures; or

certain events of bankruptcy, insolvency or reorganization of NiSource.

(See Section 501.)

If an Event of Default occurs with respect to the Debentures, the indenture trustee or the holders of not less than 33% in principal amount of the outstanding Debentures may declare the Debentures due and payable immediately. At any time after the holders of the Debentures declare that the Debentures are due and immediately payable, the holders of a majority in principal amount of the outstanding Debentures may rescind and cancel the declaration and its consequences: (1) before the indenture trustee has obtained a judgment or decree for money, (2) if all defaults (other than the non-payment of principal which has become due solely by the declaration) have been waived or cured, and (3) NiSource has paid or deposited with the indenture trustee an amount sufficient to pay:

all overdue interest on the Debentures;

the principal of or interest on any Debentures which are due other than by the declaration;

interest on overdue interest (if lawful); and

sums paid or advanced by and amounts due to the indenture trustee under the Indenture.

(See Section 502.)

The holders of not less than a majority in principal amount of the outstanding Debentures will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the indenture trustee under the Indenture, or exercising any trust or power conferred on the indenture trustee with respect to the Debentures. The indenture trustee may refuse to follow directions that are in conflict with law or the Indenture, that expose the indenture trustee to personal liability or that are unduly prejudicial to other holders. The indenture trustee may take any other action it deems proper that is not inconsistent with those directions. (See Section 512.)

The holders of not less than a majority in principal amount of the outstanding Debentures may waive any past default under the Indenture and its consequences, except a default:

in respect of a payment of principal of or interest on any Debenture; or

in respect of a covenant or provision that cannot be modified or amended without the consent of the holder of each affected Debenture.
(See Section 513.)

Modification of Indenture

NiSource and the indenture trustee may modify or amend the Indenture, without the consent of the holders of any Debentures, for any of the following purposes:

to evidence the succession of another person as obligor under the Indenture;

to add to NiSource's covenants or to surrender any right or power conferred on NiSource under the Indenture;

to add events of default;

to add or change any provisions of the Indenture to provide that bearer securities may be registrable as to principal, to change or eliminate any restrictions on the payment of principal or premium on registered securities or of principal or premium or any interest on bearer securities, to permit registered securities to be exchanged for bearer securities or to permit the issuance of securities in uncertificated form (so long as the modification or amendment does not materially adversely affect the interest of the holders of debt securities of any series);

to change or eliminate any provisions of the Indenture (so long as there are no outstanding debt securities entitled to the benefit of the provision);

to secure the debt securities;

to establish the form or terms of debt securities of any series;

to evidence and provide for the acceptance of appointment by a successor indenture trustee or facilitate the administration of the trusts under the Indenture by more than one indenture trustee;

to cure any ambiguity, defect or inconsistency in the Indenture (so long as the cure or modification does not materially adversely affect the interest of the holders of debt securities of any series);

to effect assumption by one of NiSource's subsidiaries of NiSource's obligations under the Indenture; or

to conform the Indenture to any amendment of the Trust Indenture Act.

(See Section 901.)

The Indenture provides that we and the indenture trustee may amend the Indenture or the Debentures with the consent of the holders of not less than a majority in principal amount of the outstanding debt securities of each series affected by the amendment voting as one class. However, without the consent of each holder of any outstanding Debenture, an amendment or modification may not, among other things:

change the stated maturity of the principal or interest on any Debenture;

reduce the principal amount of, rate of interest on, any Debenture;

change the method of calculating the rate of interest on any Debenture;

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change any obligation of NiSource to pay additional amounts in respect of any Debenture;

change the place or currency of payment of principal of, or any interest on, any Debenture;

impair a holder's right to institute suit for the enforcement of any payment after the stated maturity or after any redemption date or repayment date;

reduce the percentage of holders of debt securities necessary to modify or amend the Indenture or to consent to any waiver under the Indenture;

change any obligation of NiSource to maintain an office or agency in each place of payment or to maintain an office or agency outside the United States; and

modify these requirements or reduce the percentage of holders of debt securities necessary to waive any past default of certain covenants. (See Section 902.)

Satisfaction and Discharge

Under the Indenture, NiSource can terminate its obligations with respect to the Debentures not previously delivered to the indenture trustee for cancellation when those Debentures:

have become due and payable; or

will become due and payable at their stated maturity within one year.

NiSource may terminate its obligations with respect to the Debentures by depositing with the indenture trustee, as trust funds dedicated solely for that purpose, an amount sufficient to pay and discharge the entire indebtedness on the Debentures. In that case, the Indenture will cease to be of further effect, and NiSource's obligations will be satisfied and discharged, with respect to the Debentures (except as to NiSource's obligations to pay all other amounts due under the Indenture and to provide certain officers' certificates and opinions of counsel to the indenture trustee). At the expense of NiSource, the indenture trustee will execute proper instruments acknowledging the satisfaction and discharge. (See Section 401.)

Book-Entry Issuance

DTC acts as the depository for Debentures issued as global securities. NiSource will issue a global security registered in the name of DTC's nominee, Cede & Co., in the aggregate principal amount of the Debentures, and will deposit the global security with DTC, or its custodian.

DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code, and a clearing agency registered under the provisions of Section 17A of the Securities Exchange Act. DTC holds securities that its participants deposit with DTC. DTC also facilitates the settlement among participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in participants' accounts, thereby eliminating the need for physical movement of securities certificates. DTC's direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to DTC's book-entry system is also available to others, such as securities brokers and dealers, banks and trust companies, that clear through or maintain a custodial relationship with a direct participant. The rules applicable to DTC and its participants are on file with the SEC.

Purchases of securities under DTC's system must be made by or through a direct participant, which will receive a credit for such securities on DTC's records. The ownership interest of each actual purchaser of each security—the beneficial owner—is in turn recorded on the records of direct and indirect participants. Beneficial owners will not receive written confirmation from DTC of their purchases, but they should receive written confirmations providing details of the transactions, as well as periodic statements of

their holdings, from the participants through which they entered into the transactions. Transfers of ownership interest in the securities are accomplished by entries made on the books of participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their securities, except in the event that use of the book-entry system for the securities is discontinued.

To facilitate subsequent transfers, all global securities that are deposited with, or on behalf of, DTC are registered in the name of DTC's nominee, Cede & Co. The deposit of global securities with, or on behalf of, DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the securities; DTC's records reflect only the identity of the direct participants to whose accounts such securities are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants and by direct and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. will consent or vote with respect to the global securities. Under its usual procedures, DTC will mail an omnibus proxy to NiSource as soon as possible after the applicable record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the securities are credited on the applicable record date (identified in a listing attached to the omnibus proxy).

Redemption proceeds, principal payments and any premium, interest or other payments on the global securities will be made to Cede & Co., as nominee of DTC. DTC's practice is to credit direct participants' accounts on the applicable payment date in accordance with their respective holdings shown on DTC's records, unless DTC has reason to believe that it will not receive payment on that date. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of the participant and not of DTC, NiSource or the indenture trustee, subject to any statutory or regulatory requirements in effect at the time. Payment of redemption payments, principal and any premium, interest or other payments to DTC is the responsibility of NiSource and the applicable paying agent, disbursement of payments to direct participants will be the responsibility of DTC, and disbursement of payments to the beneficial owners will be the responsibility of direct and indirect participants.

If applicable, redemption notices will be sent to Cede & Co.

A beneficial owner electing to have its interest in a global security repaid by NiSource will give any required notice through its participant and will effect delivery of its interest by causing the direct participant to transfer the participant's interest in the global securities on DTC's records to the appropriate party. The requirement for physical delivery in connection with a demand for repayment will be deemed satisfied when the ownership rights in the global securities are transferred on DTC's records.

DTC may discontinue providing its services as securities depository with respect to the global securities at any time by giving reasonable notice to NiSource or the indenture trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificates for the securities are required to be printed and delivered.

NiSource may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). Upon receipt of a withdrawal request from an issuer, DTC will take the following actions: (1) DTC will issue an important notice notifying its participants of the receipt of a withdrawal request from the issuer reminding participants that they may utilize DTC's withdrawal procedures if they wish to withdraw their securities from DTC, and (2) DTC will process withdrawal requests submitted by participants in the ordinary course of business, but will not effectuate withdrawals

based upon a request from an issuer. In that event, security certificates will be printed and delivered to DTC.

We have provided the foregoing information with respect to DTC to the financial community for information purposes only. We do not intend the information to serve as a representation, warranty or contract modification of any kind. We have received the information in this section concerning DTC and DTC's system from sources that we believe to be reliable, but we take no responsibility for the accuracy of this information.

Governing Law

The Indenture and the debt securities are governed by the internal laws of the State of New York.

Information Concerning the Indenture Trustee

Prior to default, the indenture trustee will perform only those duties specifically set forth in the Indenture. After default, the indenture trustee will exercise the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. The indenture trustee is under no obligation to exercise any of the powers vested in it by the Indenture at the request of any holder of Debentures unless the holder offers the indenture trustee reasonable indemnity against the costs, expenses and liability that the indenture trustee might incur in exercising those powers. The indenture trustee is not required to expend or risk its own funds or otherwise incur personal financial liability in the performance of its duties if it reasonably believes that it may not receive repayment or adequate indemnity. (See Section 601.)

The indenture trustee, JPMorgan Chase Bank, is also the indenture trustee for NiSource Finance Inc.'s senior debt indenture and NiSource Capital Markets' senior and subordinated debt indentures.

MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

The following summary describes the material United States federal income tax consequences of the purchase, ownership and disposition of the Debentures as of the date hereof. Except where noted, it deals only with Debentures held as capital assets within the meaning of section 1221 of the Internal Revenue Code of 1986, as amended, and does not deal with special situations, such as those of dealers in securities or currencies, financial institutions, tax-exempt entities, life insurance companies, persons holding Debentures as a part of a hedging or conversion transaction or a straddle, or United States persons whose functional currency is not the United States dollar. In addition, this discussion does not address the tax consequences to persons who purchase Debentures other than pursuant to this remarketing. Furthermore, the discussion below is based upon the provisions of the Code, final and proposed Treasury regulations under the Code and administrative rulings and judicial decisions as of the date of this prospectus. Such authorities may be repealed, revoked or modified at any time, with either forward-looking or retroactive effect, which could result in United States federal income tax consequences being different from those discussed below.

PROSPECTIVE PURCHASERS OF DEBENTURES ARE ADVISED TO CONSULT THEIR TAX ADVISORS AS TO THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF DEBENTURES IN LIGHT OF THEIR PARTICULAR CIRCUMSTANCES, AS WELL AS THE EFFECT OF ANY STATE, LOCAL OR OTHER TAX LAWS.

As used in this prospectus, a United States Holder means a beneficial owner of a Debenture that is a citizen or resident of the United States; a corporation created or organized in or under the laws of the United States or any political subdivision thereof; an estate, the income of which is subject to United States federal income taxation regardless of its source; or a trust, the administration of which is subject to the primary supervision of a court within the United States and for which one or more United States persons have the authority to control all substantial decisions or a trust that has a valid election in effect under applicable United States Treasury Regulations to be treated as a United States person. As used

herein, the term **Non-United States Holder** means a beneficial owner of a Debenture that is not a United States Holder.

If a partnership holds our Debentures, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our Debentures, you should consult your own tax advisors.

United States Holders

Payments of Interest

Stated interest on a Debenture will generally be taxable to a United States Holder as ordinary income at the time it is paid or accrued in accordance with the United States Holder's method of accounting for tax purposes.

A United States Holder that purchases a Debenture for an amount in excess of its stated principal amount will be considered to have purchased the Debenture at a premium. Such holder may elect to amortize such premium, as an offset to interest income, using a constant-yield method, over the remaining term of the Debenture. Such election, once made, generally applies to all debt instruments held by the United States Holder at the beginning of the first taxable year to which the election applies and to all debt instruments subsequently acquired by the United States Holder. Such election may be revoked only with the consent of the Internal Revenue Service. A United States Holder that elects to amortize such premium must reduce its tax basis in a Debenture by the amount of the premium amortized during its holding period. For a United States Holder that does not elect to amortize such premium, the amount of such premium will be included in the United States Holder's tax basis when the Debenture matures or is disposed of by the United States Holder. Therefore, a United States Holder that does not elect to amortize such premium and holds the Debenture to maturity will be required to treat the premium as capital loss when the Debenture matures.

Sale, Exchange and Redemption of the Debentures

Upon the sale, exchange or redemption of Debentures, a United States Holder will recognize gain or loss equal to the difference between (1) the amount realized upon the sale, exchange or redemption, other than amounts attributable to accrued but unpaid interest, and (2) such holder's adjusted tax basis in the Debentures. A United States Holder's adjusted tax basis will be, in general, its initial purchase price for the Debentures, net of accrued interest. Such gain or loss will be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or redemption, the Debentures have been held for more than one year. Under current law, the deductibility of capital losses is subject to limitations. Currently the net capital gains of individuals are taxed at lower rates than ordinary income.

Non-United States Holders

Payments of Interest

Subject to the discussion below concerning backup withholding, no withholding of United States federal income tax will be required with respect to the payment by us or any paying agent of interest on a Debenture held by a Non-United States Holder, provided that (1) interest paid on the Debentures is not effectively connected with the beneficial owner's conduct of a trade or business in the United States, (2) the beneficial owner does not actually or constructively own 10% or more of the total combined voting power of all classes of our stock entitled to vote within the meaning of Section 871(h)(3) of the Code and the regulations thereunder; (3) the beneficial owner is not a controlled foreign corporation related, directly or indirectly, to us through stock ownership; (4) the beneficial owner is not a bank for which the receipt of interest on a Debenture is described in Section 881(c)(3)(A) of the Code; and (5) the beneficial owner satisfies the statement requirement, described generally below, set forth in Section 871(h) and Section 881(c) of the Code and the regulations thereunder.

Currently, to satisfy the requirement referred to in clause (5) above, the beneficial owner of a Debenture, or a financial institution holding the Debenture on behalf of such owner, must provide, in accordance with specified procedures, us or our paying agent with a statement to the effect that the beneficial owner is not a United States person. These requirements will be met if (1) the beneficial owner provides his name and address and certifies, under penalties of perjury, that he is not a United States person, which certification may be made on an IRS Form W-8BEN; or (2) a financial institution holding the Debenture on behalf of the beneficial owner certifies, under penalties of perjury, that such statement has been received by it and furnishes a paying agent with a copy thereof. The statement requirement referred to in clause (5) above may also be satisfied with other documentary evidence with respect to an offshore account or through certain foreign intermediaries.

If a Non-United States Holder cannot satisfy the requirements described above, payments of interest made to such Non-United States Holder will be subject to a 30% withholding tax, unless the beneficial owner of the Debenture provides us or our paying agent, as the case may be, with a properly executed (1) IRS Form W-8BEN claiming an exemption from or reduction in withholding under the benefit of an applicable tax treaty or (2) IRS Form W-8ECI stating that interest paid on the Debenture is not subject to withholding tax because it is effectively connected with the beneficial owner's conduct of a trade or business in the United States. Alternative documentation may be applicable in certain situations. Interest paid to a Non-United States Holder that is effectively connected with the conduct by the holder of a trade or business in the United States is generally taxed on a net income basis at graduated rates in the same manner as United States persons. In the case of a Non-United States Holder that is a corporation, such effectively connected income may also be subject to the United States federal branch profits tax, which is generally imposed on a foreign corporation on the deemed repatriation from the United States of effectively connected earnings and profits, at a 30% rate, unless the rate is reduced or eliminated by an applicable income tax treaty and the Non-United States Holder is a qualified resident of the treaty country.

Sale, Exchange and Redemption of the Debentures

A Non-United States Holder will generally not be subject to United States federal income tax with respect to gain recognized on a sale, exchange or redemption of a Debenture unless (1) the gain is effectively connected with a trade or business of the Non-United States Holder in the United States; (2) in the case of a Non-United States Holder who is an individual and holds the Debenture as a capital asset, such holder is present in the United States for 183 or more days in the taxable year of the sale or other disposition and certain other conditions are met; or (3) the Non-United States Holder is subject to tax pursuant to certain provisions of the Code applicable to United States expatriates. However, any amount attributable to accrued but unpaid interest on the Debenture will be treated in the same manner as payments of interest made to such Non-United States Holder, as described above.

Gain derived by a Non-United States Holder from the sale or other disposition of a Debenture that is effectively connected with the conduct by the holder of a trade or business in the United States is generally taxed on a net income basis at graduated rates in the same manner as gains of United States persons. In the case of a Non-United States Holder that is a corporation, such effectively connected income may also be subject to the United States branch profits tax. If any individual Non-United States Holder falls under clause (2) of the preceding paragraph, such holder will be subject to a flat 30% tax on the gain derived from the sale or other disposition, which may be offset by certain United States source capital losses recognized within the same taxable year as such sale or other disposition.

Information Reporting and Backup Withholding

United States Holders

Payments of interest on, or the proceeds from the sale, retirement or other disposition of, Debentures are subject to information reporting unless the United States Holder establishes an exemption.

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Payments of the interest on, or the proceeds from the sale, retirement, or other disposition of, the Debentures may be subject to backup withholding tax of 28% if the United States Holder, among other things, (1) fails to furnish his or her social security number or other taxpayer identification number, or TIN, to the payor responsible for backup withholding (for example, the United States Holder's securities broker) on Form W-9 or a substantially similar form signed under penalty of perjury, (2) furnishes such payor an incorrect TIN, (3) fails to provide such payor with a certified statement, signed under penalties of perjury, that the TIN provided to the payor is correct and that the United States Holder is not subject to backup withholding, or (4) fails to properly report interest and dividends on his tax return. Backup withholding does not apply to certain payments made to exempt recipients, such as corporations.

Any amounts withheld under the backup withholding rules will be allowed as a credit or a refund against such holder's United States federal income tax liability, if certain required information is provided to the Internal Revenue Service.

Non-United States Holders

Non-United States Holders will be subject to information reporting but will not be subject to backup withholding on payments made by us or our paying agent if a statement described in clause (4) under *Non-United States Holders - Payment of Interest* has been received and the payor has no actual knowledge that the beneficial owner is a United States person.

In addition, backup withholding and information reporting will not apply to payments of principal or interest on the Debentures paid or collected by a foreign office of a custodian, nominee or other foreign agent on behalf of a Non-