

BLACK HILLS CORP /SD/
Form 424B5
April 25, 2003
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PROSPECTUS SUPPLEMENT

(To Prospectus dated February 5, 2003)

Filed pursuant to Rule 424(b)(5)

SEC File No. 333-101541

4,000,000 Shares

Black Hills Corporation

Common Stock

We are offering 4,000,000 shares of common stock. Our common stock is listed on The New York Stock Exchange under the symbol BKH. The last reported sale price on April 24, 2003, was \$27.26 per share.

The underwriters have an option to purchase a maximum of 600,000 additional shares to cover over-allotments of shares.

Investing in our common stock involves risks. See Risk Factors beginning on page S-10 of this prospectus supplement and page 3 of the accompanying prospectus.

	Underwriting	
Price to	Discounts and	Proceeds
Public	Commissions	to Us

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Per Share	\$27.00	\$1.283	\$25.717
Total	\$108,000,000	\$5,132,000	\$102,868,000

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

Lehman Brothers, on behalf of the underwriters, expects to deliver the shares to purchasers on or about April 30, 2003.

Joint Book-Running Managers

Credit Suisse First Boston

Lehman Brothers

Credit Lyonnais Securities (USA) Inc.

BMO Nesbitt Burns

Gerard Klauer Mattison

ABN AMRO Rothschild LLC

D.A. Davidson & Co.

NatCity Investments, Inc.

Scotia Capital

April 24, 2003

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You should rely only on the information contained in this prospectus supplement or the accompanying prospectus or to which we have referred you. We have not authorized anyone to provide you with information that is different. This prospectus supplement and the accompanying prospectus may only be used where it is legal to sell these securities. The information in this prospectus supplement may only be accurate on the date of this document.

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FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus include forward-looking statements as defined by the Securities and Exchange Commission, or SEC. We make these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this prospectus supplement and the accompanying prospectus that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements. These forward-looking statements are based on assumptions which we believe are reasonable based on current expectations and projections about future events and industry conditions and trends affecting our business. However, whether actual results and developments will conform to our expectations and predictions is subject to a number of risks and uncertainties that, among other things, could cause actual results to differ materially from those contained in the forward-looking statements, including:

the effects on our business resulting from the financial difficulties of other energy companies, including the effects on liquidity in the energy marketing and power generation businesses and market perceptions of the energy and energy marketing businesses;

the effects on our business resulting from a lowering of our credit rating (or actions we may take in response to changing credit ratings criteria), including demands for increased collateral by our current or new counterparties, refusal by our current or potential counterparties or customers to enter into transactions with us and our inability to obtain credit or capital in amounts or on terms favorable to us;

capital market conditions;

unanticipated developments in the western power markets, including unanticipated governmental intervention, deterioration in the financial condition of counterparties, defaults on amounts due from counterparties, adverse changes in current or future litigation, market disruption and adverse changes in energy and commodity supply, volume and pricing and interest rates;

pricing and transportation of commodities;

population changes and demographic patterns;

prevailing governmental policies and regulatory actions with respect to allowed rates of return, industry and rate structure, acquisition and disposal of assets and facilities, operation and construction of plant facilities, recovery of purchased power and other capital investments, and present or prospective wholesale and retail competition;

the continuing efforts by or on behalf of the State of California to restructure its long-term power purchase contracts and efforts by regulators and private parties in several western states to recover refunds for alleged price manipulation;

changes in and compliance with environmental and safety laws and policies;

weather conditions;

competition for retail and wholesale customers;

market demand, including structural market changes;

changes in tax rates or policies or in rates of inflation;

changes in project costs;

unanticipated changes in operating expenses or capital expenditures;

technological advances by competitors;

competition for new energy development opportunities;

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legal and administrative proceedings that influence our business and profitability;

the effects on our business, including the availability of insurance, resulting from terrorist actions or responses to such actions;

risk factors discussed in this prospectus supplement and the accompanying prospectus; and

other factors discussed from time to time in our filings with the SEC.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for us to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. We assume no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events, or otherwise.

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SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospectus and may not contain all of the information that is important to you. You should carefully read the more detailed information in the rest of this prospectus supplement and the accompanying prospectus about us and the common stock being sold in this offering, including Risk Factors, and the information to which we have referred you, including our consolidated financial statements and related notes. Unless the context otherwise requires, references in this prospectus supplement and the accompanying prospectus to Black Hills, the Company, we, us and our refer to Black Hills Corporation and all of its subsidiaries collectively.

About Black Hills Corporation

We are a diversified energy company operating principally in the United States with three major business groups integrated energy, electric utility and communications.

Integrated Energy

Our integrated energy group engages in the production of electric power through ownership of a diversified portfolio of generating plants and the sale of electric power primarily under long-term contracts, the production of natural gas, crude oil and coal primarily in the Rocky Mountain region, and the marketing and transportation of energy products. The integrated energy group consists of four segments: power generation, natural gas and crude oil exploration and production, coal mining and energy marketing and transportation.

Power Generation

Our power generation segment currently holds varying interests in operating gas-fired, coal-fired and hydroelectric independent power plants in California, Colorado, Massachusetts, Nevada, New York and Wyoming. We have a total net ownership interest of 1,040 megawatts, including minority interests in several power-related funds with a net ownership interest of 24 megawatts. Approximately 90% of our capacity is currently sold under long-term contracts.

Natural Gas and Crude Oil Exploration and Production

As of December 31, 2002, our oil and gas exploration and production segment operated 384 oil and gas wells, all of which are located in Wyoming, Colorado and Nebraska. The majority of these wells are in the Finn-Shurley Field area, located in Weston and Niobrara Counties in Wyoming. We also own a working interest in, but do not operate, an additional 440 wells located in California, Montana, Louisiana, Colorado, North Dakota, Texas, Wyoming, Oklahoma and offshore in the Gulf of Mexico. In addition, we have accumulated significant acreage in the Rocky Mountain region, which we plan to utilize for future oil and gas exploration. As of December 31, 2002, we had proved reserves of 4.9 million barrels of oil and 28.5 billion cubic feet of natural gas, with approximately 63% of current production consisting of natural gas.

In March 2003, we completed a merger with Mallon Resources Corporation pursuant to which Mallon became our wholly-owned subsidiary. Mallon is an independent energy company engaged in oil and natural gas exploration, development and production primarily in the San Juan Basin of New Mexico. We expect the merger to double our current proved oil and natural gas reserves on a BCFE, or billion cubic feet equivalent, basis and to increase our production by approximately 50% over previous levels.

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Coal Mining

Our coal mining segment mines and processes low-sulfur, sub-bituminous coal near Gillette, Wyoming. Our Wyodak mine is located in the Powder River Basin, one of the largest coal reserves in the United States, and had 2002 production of approximately 4.1 million tons. Our mining rights to the coal are based on four federal leases and one state lease. As of December 31, 2002, we had coal reserves of approximately 272.8 million tons, enough to satisfy present contracts for approximately 60 years. We sell substantially all of our current coal production under long-term contracts to Black Hills Power, Inc., our electric utility, and to PacifiCorp, a diversified energy company and a co-owner of the Wyodak power plant located adjacent to our Wyodak mine. We have an additional contract to provide approximately 500,000 tons of coal per year to the Wygen plant, which was placed into service in the first quarter of 2003.

Energy Marketing and Transportation

Our natural gas marketing operations focus primarily on marketing natural gas to wholesale end users and on producer marketing services. Producer marketing services include purchases of wellhead gas and risk transfer and hedging products for gas producers in the Rocky Mountain region. Our gas marketing efforts are concentrated in the Rocky Mountain, western and mid-continent regions of the United States and in western Canada. Our average daily marketing volume for the year ended December 31, 2002 was approximately 1.1 million MMBtu, or million British thermal units, of natural gas.

Our crude oil marketing and transportation operations are concentrated primarily in Texas, Oklahoma and Louisiana. Our crude oil marketing business specializes in assisting independent crude oil producers by marketing and transporting their crude oil production to end use markets. Our average daily marketing volume for the year ended December 31, 2002 was approximately 57,000 barrels of crude oil. We own the Millennium Pipeline, a 200-mile pipeline that transports imported crude oil from Beaumont, Texas to Longview, Texas and has a capacity of approximately 65,000 barrels of oil per day. We also own Millennium Terminal Company, L.P., which leases 1.1 million barrels of crude oil storage connected to the Millennium Pipeline. In July 2002, we purchased the 190-mile long Kilgore Pipeline System. The Kilgore Pipeline System has a capacity of up to approximately 35,000 barrels of oil per day and transports crude oil from the Kilgore, Texas region south to Houston, Texas, which is a transfer point to connecting carriers. In addition, the system has approximately 400,000 barrels of crude oil storage at Kilgore and 375,000 barrels of storage at the Texoma Tank Farm located in Longview, Texas.

Electric Utility

Our electric utility, Black Hills Power, Inc., generates, transmits and distributes electricity to approximately 60,000 customers in South Dakota, Wyoming and Montana. Our utility owns 435 megawatts of generating capacity and has purchased 55 megawatts of generating capacity (declining to 50 megawatts in 2004) from PacifiCorp under a long-term power contract. Our utility reached its peak system load of 392 megawatts in August 2001. Approximately 50% of our utility's power sources consist of coal-fired plants, 39% gas- or oil-fired plants, and the remaining 11% is purchased from other generators.

Our utility's revenue mix for the year ended December 31, 2002 was comprised of 30% commercial, 24% residential, 17% contract wholesale, 15% wholesale off-system, 13% industrial and 1% municipal sales and other revenue. Our utility's South Dakota customers account for over 90% of its retail electric revenues. Our utility's retail electric rates in South Dakota are subject to a five-year freeze expiring on January 1, 2005. The rate freeze maintains rates for our utility's residential, commercial and industrial customers at levels below the national average, while allowing

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our utility to retain the benefits from cost savings and from wholesale off-system sales of power, which are not covered by the rate freeze. Our utility optimizes the utilization of its power sources by selling capacity and energy in excess of the load requirements for its on-system local service territory and

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municipal customers to wholesale off-system customers at market prices, which sometimes exceed its regulated retail rates. We expect the volume of these off-system sales to increase from current levels due to growth in demand in the Rocky Mountain region and the addition of 40 megawatts of gas-fired generating capacity in early 2002.

Communications

Our communications group provides broadband telecommunications services to the markets of Rapid City and the northern Black Hills of South Dakota. We offer residential and business customers a full suite of communications services, including local and long distance telephone service, expanded cable television service, cable modem Internet access and high speed data and video services. We bundle these services into packages with a single consolidated bill for all of these services. In 2002, we completed our initial infrastructure build-out, consisting of a 242-mile inter- and intra-city fiber optic network and 818 miles of two-way interactive hybrid fiber coaxial cable.

We introduced broadband communications services to the Rapid City and northern Black Hills areas in November 1999. As of December 31, 2002, we were serving approximately 21,700 residential customers and 3,100 business customers.

Our Business Strategy

Our long-term growth strategy is to add and augment revenue streams from our diverse energy operations. We have implemented an integrated approach to power generation, fuel production and energy marketing, supported by disciplined risk management practices. Building on the strength of our electric utility, we have enhanced our local operations by providing broadband communications to our customers in South Dakota. Our diverse operations enable us to avoid reliance on any single business to achieve our growth objectives. This diversity provides a measure of stability to our business and financial performance in volatile or cyclical periods.

Our strategy includes the following key elements:

preserve our electric utility's low-cost rate structure for our residential, commercial and industrial customers while retaining the flexibility to allocate excess generating capacity to maximize returns in changing market environments;

grow our power generation segment by developing and acquiring power generating assets in targeted western markets and, in particular, by expanding generating capacity of our existing sites through a strategy known as brownfield development;

exploit our fuel cost advantages and our operating and marketing expertise to produce power at attractive margins;

sell a large percentage of our production from new independent power projects through long-term contracts in order to secure a stable revenue stream and attractive returns;

increase our reserves of natural gas and crude oil and expand our overall fuel production;

manage the risks inherent in energy marketing by maintaining position limits that minimize price risk exposure;

conduct business with a diversified group of counterparties;

increase margins from our coal production through an expansion of mine-mouth generation and increased coal sales;

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build and maintain strong relationships with wholesale energy customers;

create a strong super local service company by capitalizing on our utility's established market presence, relationships and customer loyalty to expand our local communications business and to integrate our electric utility and telecommunications products around the same customer base; and

organize our lines of business into retail and wholesale components. The retail component will consist of electric utility and telecommunications products in our electric utility's retail service area. The wholesale component will consist of power generation facilities, fuel production and energy marketing and transportation.

From time to time we engage in active discussions for the acquisition of operating assets or the divestiture of non-strategic operating assets in order to focus our capital investments in assets and operations that are central to our overall business strategy. These discussions can involve significant amounts of assets and have sometimes reached advanced stages. At the present time, we are continuing to review several situations which, over time, could develop into acquisition or divestiture opportunities. To date, no definitive agreements for the purchase or sale of any such assets have been reached. We expect to continue to evaluate such strategic opportunities as they may arise.

Capital Resources and Cash Requirements

Our primary cash needs are for:

payments of interest and principal on our long-term and short-term debt;

capital expenditures to maintain our facilities;

capital expenditures to increase our development and production of natural gas;

loans and equity infusions to our subsidiaries, particularly in our unregulated power generation unit; and

payments of dividends to our shareholders.

We expect the extent of cash infusions to our subsidiaries to be contingent upon opportunities for future development projects, which are discretionary in nature and for which we have no commitments at this time. The deployment of our capital for new power generation and other projects will in part be determined by our ability to find projects that meet our investment criteria and other requirements.

At March 31, 2003, we had approximately \$51 million of credit available under our revolving credit facilities. We also had approximately \$69 million of cash. Our subsidiaries are restricted from distributing a total of approximately \$39 million of our \$69 million in cash under the terms of various credit facilities which require those subsidiaries to maintain minimum levels of cash, working capital or debt service funds.

By the end of 2004, we will need to refinance or repay approximately \$415 million of our consolidated indebtedness, including the following:

\$50 million of borrowings under our Las Vegas Cogeneration project credit agreement, due May 27, 2003;

\$157.5 million of borrowings as of March 31, 2003 under our \$195 million, 364-day revolving credit facility, which expires on August 26, 2003;

\$129.0 million of borrowings and \$57.3 million in letters of credit outstanding as of March 31, 2003 under our \$200 million, three-year revolving credit facility, which expires on August 27, 2004; and

\$35 million of borrowings under a term loan agreement, due September 30, 2004.

We intend to use a portion of the net proceeds of this offering to repay all of the \$50 million of borrowings under the Las Vegas Cogeneration project credit agreement. We intend to use the remainder of the net proceeds to repay a portion of our borrowings under our 364-day revolving credit facility.

We anticipate paying the remainder of the outstanding indebtedness through our operating cash flows, refinancing our existing debt, issuing additional debt or equity securities, selling non-strategic operating assets or a combination of the above.

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Recent Developments

Estimated Earnings for the First Quarter of 2003 and the Year 2003

Although we have not yet completed our internal review of our results of operations for the first quarter of 2003, the following information reflects our expectations with respect to these results based on currently available information. We expect our earnings for the first quarter of 2003 will be in the range of \$0.50 to \$0.52 per share, including a loss of \$0.10 per share resulting from the cumulative effect of a change in accounting principle pursuant to the adoption of Emerging Issue Task Force Issue No. 02-3 Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities, or EITF 02-3, and by the impact of adopting Statement of Financial Accounting Standards No. 143 Accounting for Asset Retirement Obligations. Due to our adoption of EITF 02-3, certain energy marketing activities previously reported on a fair value basis will now be reflected under the accrual method of accounting. Income from continuing operations for the first quarter of 2002 was \$0.55 per share. The improvement in income from continuing operations from \$0.55 per share in the first quarter of 2002 and the expected range of \$0.60 to \$0.62 per share from continuing operations in the first quarter of 2003 reflects higher oil and gas prices and gas marketing margins, an increase in power sales resulting from higher generation capacity in our power generation segment and improving performance in our communications segment, partially offset by a decrease in earnings at our electric utility due to higher fuel costs and interest expense. We expect to report our first quarter financial results during the week of May 5, 2003.

Our anticipated long-term earnings per share growth rate target remains 8% to 10% per year. Due to the initial dilutive effect of this offering, we expect 2003 earnings per share from continuing operations to approximate 2002 results.

Merger With Mallon Resources Corporation

In March 2003, we completed a merger with Mallon Resources Corporation, an independent energy company engaged in oil and natural gas exploration, development and production primarily in the San Juan Basin of New Mexico. The total cost of the transaction was approximately \$53 million, which includes \$30.5 million for the acquisition of Mallon's debt that we assumed in October 2002 and the settlement of outstanding hedges. We issued 481,509 shares of our common stock to Mallon shareholders in the merger, representing 0.044 of a share of our common stock for each share of Mallon common stock.

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The Offering

Common stock offered by us	4,000,000 shares
Common stock to be outstanding after the offering	30,953,904 shares(1)
Use of proceeds	We anticipate using the aggregate net proceeds from this offering to repay outstanding debt. See Use of Proceeds.
New York Stock Exchange symbol	BKH

(1) Based on the number of shares outstanding as of February 28, 2003. This number excludes:

shares that may be sold upon exercise of the underwriters' over-allotment option;

the 481,509 shares issued to Mallon shareholders in our merger with Mallon Resources Corporation in March 2003;

shares reserved for issuance pursuant to the exercise of employee stock options and pursuant to our omnibus incentive compensation plan, our dividend reinvestment plan, our employee stock purchase plan, our retirement savings plan and our non-qualified deferred compensation plan;

issuances to the former shareholders of Indeck Capital, Inc. pursuant to the earn-out provisions contained in the merger agreement dated as of January 1, 2000 among us, Indeck and the former shareholders of Indeck; and

issuances upon conversion of our convertible preferred stock.

Our Executive Offices

We are incorporated in South Dakota and our headquarters and principal executive offices are located at 625 Ninth Street, Rapid City, South Dakota 57701. Our telephone number is (605) 721-1700.

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The following table presents summary consolidated financial data as of December 31, 2002, 2001 and 2000 and for the years then ended and is derived from our audited consolidated financial statements for those years. You should read this summary consolidated financial data along with Management's Discussion and Analysis of Financial Condition and Results of Operations, and our audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2002, which is incorporated by reference in this prospectus supplement and the accompanying prospectus. You should also read this summary consolidated financial data along with our unaudited pro forma combined condensed financial statements included in our Current Report on Form 8-K dated March 10, 2003, which is incorporated by reference in this prospectus supplement and the accompanying prospectus. The unaudited pro forma combined condensed financial statements give effect to our recently completed merger with Mallon Resources Corporation pursuant to the purchase method of accounting for business combinations and were prepared based on the assumption that the merger had been consummated as of January 1, 2001. The unaudited pro forma combined condensed financial data are not necessarily indicative of the results of operations that would have occurred had the merger been consummated on the date assumed, nor are they necessarily indicative of future results of operations.

	Year Ended December 31,		
	2002	2001	2000
(in thousands, except per share amounts)			
Consolidated Income Statement Data			
Operating revenues	\$ 423,919	\$ 461,938	\$ 292,142
Operating income	132,601	169,770	115,089
Interest charges and financing costs	41,234	39,479	30,136
Income from continuing operations before change in accounting principle	63,193	87,584	52,812
Net income	61,452	88,077	52,848
Earnings per share from continuing operations:			
Basic	\$ 2.35	\$ 3.43	\$ 2.39
Diluted	2.33	3.40	2.37
Dividends per share	\$ 1.16	\$ 1.12	\$ 1.08
Weighted average shares outstanding:			
Basic	26,803	25,374	22,118
Diluted	27,167	25,771	22,281

Consolidated Balance Sheet Data (end of period)

Total assets	\$ 2,035,169	\$ 1,662,401	\$ 1,320,320
Short-term debt, including current maturities	363,948	396,354	224,960
Long-term debt	618,862	415,798	307,092
Preferred stockholders' equity	5,549	5,549	4,000
Common stockholders' equity	529,614	509,615	278,346
Total capitalization	\$ 1,517,973	\$ 1,327,316	\$ 814,398

Consolidated Statement of Cash Flows Data

Cash flow from operating activities	\$ 218,774	\$ 178,406	\$ 67,641
Cash flow from investing activities	(305,153)	(591,713)	(163,357)
Cash flow from financing activities	136,234	418,973	103,140

Increase in cash and cash equivalents	\$ 49,855	\$ 5,666	\$ 7,424
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RISK FACTORS

Before you invest in our common stock, you should be aware that there are various risks including those described below and those described in Risk Factors in the accompanying prospectus. You should carefully consider these risks together with all of the other information included in this document and the documents to which we have referred you. See Where You Can Find More Information.

Our agreements with counterparties that have recently experienced downgrades in their credit ratings expose us to the risk of counterparty default, which could adversely affect our cash flow and profitability.

We are exposed to credit risks in our power generation and energy marketing operations. Credit risk includes the risk that counterparties that owe us money or energy will breach their obligations. In the past year, a substantial number of energy companies have experienced downgrades in their credit ratings, some of which serve as our counterparties from time to time. In particular, the credit ratings of the senior unsecured debt of Public Service Company of Colorado, Nevada Power Company and Allegheny Energy Supply Company, LLC, or AESC, counterparties under tolling agreements with our subsidiaries, have recently been downgraded by one or more rating agencies. The credit ratings of Nevada Power Company and AESC were downgraded to non-investment grade status. In addition, we have project level financing arrangements in place that provide for the potential acceleration of payment obligations in the event of nonperformance by a counterparty under related power purchase agreements. If these or other counterparties fail to perform their obligations under their respective power purchase agreements, our financial condition and results of operations may be adversely affected. We may not be able to enter into replacement power purchase agreements on terms as favorable as our existing agreements, or at all. If we are unable to enter into replacement power purchase agreements, we would sell the plant's power at market prices.

We have substantial indebtedness, much of which is short-term. We will require significant amounts of debt or equity capital in order to refinance or repay maturing indebtedness as it becomes due and to grow our business. Our future access to these funds is not certain, and our inability to access funds in the future could adversely affect our liquidity and our ability to implement our business strategy.

As of March 31, 2003, we had total consolidated indebtedness of approximately \$978 million, of which approximately \$415 million will mature before December 31, 2004. Our substantial indebtedness may:

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

hinder our ability to pay dividends at the current rate;

require us to dedicate a substantial portion of our cash flow from operations to pay our debt, which would reduce funds available for us to finance our current operations and for our future business opportunities;

have a negative impact on our credit ratings;

increase our vulnerability to adverse economic and industry conditions;

place us at a competitive disadvantage compared to competitors having less debt; or

require us to sell assets in order to repay debt.

Some of our debt agreements contain restrictive covenants, including restrictive financial covenants pertaining to our recourse debt-to-capitalization ratio, fixed charge coverage ratio and total level of equity. If we fail to maintain these specified ratios and levels, our ability to borrow funds could be further limited. If our failure to maintain those ratios and levels were to persist, the creditors under those debt agreements could eventually require us to immediately repay the entire balance of those outstanding loans.

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Our credit ratings have recently been lowered and could be further lowered in the future. If this were to occur, our access to capital and our cost of capital and other costs would be negatively affected.

Our issuer credit rating was recently downgraded to Baa3 by Moody's Investor Services Inc. Any further reduction in our ratings by Moody's or by Standard & Poor's Rating Service, particularly a reduction to a level below investment grade, could adversely affect our ability to refinance or repay our existing debt and to complete new financings on acceptable terms or at all.

In addition, a downgrade in our credit rating would increase our costs of borrowing under some of our existing debt obligations, including borrowings made under our \$200 million three-year and \$195 million 364-day revolving credit facilities, our \$35 million term loan, our \$50 million project credit agreement, and our \$27.5 million and \$4.5 million secured financings. A downgrade in our credit rating would also result in an increase in the operating lease costs related to our Wygen plant lease.

A downgrade could also result in our business counterparties requiring us to provide additional amounts of collateral under new transactions, particularly transactions pertaining to our energy marketing activities.

We must rely on cash from our subsidiaries to make debt payments. There may be changes in the regulatory environment that restrict our utility's ability to pay dividends to us.

We are a holding company and thus our investments in our subsidiaries are our primary assets. Consequently, our operating cash flow and our ability to service our indebtedness depend on the operating cash flow of our subsidiaries and the payment of funds by them to us in the form of dividends or advances. Our subsidiaries are separate legal entities that have no obligation to make any funds available for that purpose, whether by dividends or otherwise. In addition, as of March 31, 2003, our subsidiaries are restricted from distributing approximately \$39 million of our \$69 million in cash under the terms of credit facilities which require those subsidiaries to maintain minimum levels of cash, working capital or debt service funds.

Our utility is regulated by utility commissions in the States of South Dakota and Wyoming. These commissions generally possess broad powers to ensure that the needs of the utility customers are being met and that we maintain a reasonable capital structure. As a result of the energy crisis in California and the financial troubles at a number of energy companies, some state utility commissions have imposed restrictions on the ability of the utilities they regulate to pay dividends or make advances to their parent holding companies. If the utility commissions in South Dakota or Wyoming choose to adopt similar restrictions, our utility's ability to pay dividends or advance funds to us would be limited, which could materially and adversely affect our ability to meet our financial obligations.

Results of an investigation into reporting of trading information could adversely affect our business.

In March 2003, we received a request for information from the Commodity Futures Trading Commission, or CFTC, calling for the production, among other things, of all documents relating to natural gas and electricity trading in connection with CFTC's industry wide investigation of trade and trade reporting practices of power and natural gas trading companies. Since that time, we have produced documents and other materials in response to more specific requests relating to the reporting of natural gas trading information to energy industry publications. We

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are also conducting an internal investigation into the accuracy of information that former employees of Enserco Energy Inc., our gas marketing subsidiary, voluntarily reported to trade publications. As a part of our internal investigation and in response to CFTC's document request, we provided documents and materials to the CFTC, including information identifying instances in which it appears that former employees at Enserco provided inaccurate reports of natural gas transactions to one or more industry trade publications. We intend to continue our policy of cooperation with the CFTC. However, both our internal and CFTC's investigations are continuing, and we cannot predict their outcome or whether they will lead to legal proceedings against us, civil or criminal fines or penalties, or other regulatory action which, in turn, could adversely affect our financial condition or results of operations.

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Geopolitical tensions may impair our ability to raise capital and retard our growth.

Continuing conflict in the Middle East or a further increase in tensions with the government of North Korea could disrupt capital markets and make it more costly or temporarily impossible for us to proceed with our plans to raise capital and refinance or repay debt, thus hampering the implementation of our growth strategy. In the past, geopolitical events, including the uncertainty associated with the Gulf War in 1991 and the terrorist attacks of September 11, 2001, have been accompanied by general economic slowdowns. A prolonged conflict or stalemate arising from current geopolitical tensions or other factors could retard economic growth and reduce demand for the power and fuel products that we produce or market, which could adversely affect our earnings.

Our rate freeze agreement with the South Dakota Public Utilities Commission, which prevents us, absent extraordinary circumstances, from passing on to our South Dakota retail customers cost increases we may incur during the rate freeze period, could decrease our operating margins.

Our rate freeze agreement with the South Dakota Public Utilities Commission is effective until January 1, 2005. We may not apply to the Commission for any increase in our rates, or invoke any fuel and purchased power adjustment tariff which would take effect during the freeze period, except in extraordinary circumstances. Because we are generally unable to increase our rates, our utility's historically stable returns could be threatened by plant outages, machinery failure, increases in purchased power costs over which we have no control, acts of nature, acts of terrorism or other unexpected events that could cause our operating costs to increase and our operating margins to decline. Moreover, in the event of unexpected plant outages or machinery failures, we may be required to purchase replacement power in wholesale power markets at prices which exceed the rates we are permitted to charge our retail customers.

Because prices for our products and services and other operating costs for our business are volatile, our revenues and expenses may fluctuate.

A substantial portion of our growth in net income in recent years is attributable to increasing sales of wholesale electricity and natural gas into a robust market. The prices of energy products in the wholesale power markets have stabilized at lower levels after the price volatility experienced in the second half of 2000 and the first half of 2001. Power prices are influenced by many factors outside our control, including:

fuel prices;

transmission constraints;

supply and demand;

weather;

economic conditions; and

the rules, regulations and actions of the system operators in those markets.

Moreover, unlike most other commodities, electricity cannot be stored and therefore must be produced concurrently with its use. As a result, wholesale power markets are subject to significant price fluctuations over relatively short periods of time and can be unpredictable.

The success of our oil and gas operations will depend substantially upon the prevailing market prices of oil and natural gas. Historically, oil and natural gas prices and markets have also been volatile, and they are likely to continue to be volatile in the future. A decrease in oil or natural gas prices will not only reduce revenues and profits, but will also reduce the quantities of reserves that are commercially recoverable and may result in charges to earnings for impairment of the value of these assets. Oil and natural gas prices are subject to wide fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors that are beyond our control. A decline in fuel price volatility could

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also affect our revenues and returns from energy marketing, which in the past have increased during periods of market volatility.

Our broadband communications business is subject to significant competition for its services and to rapid technological change.

Our communications group, which provides a full suite of communication services, faces strong competition for its services from the incumbent local exchange carrier and from long distance providers, Internet service providers, the incumbent cable television provider and others.

Our ability to recover our capital investment is dependent on our ability to sustain our customer base and is subject to the risk that technological advances may render our network obsolete. If we determine that we will be unable to recover our investment, we would be required to take a non-cash charge to earnings in an amount that could be material in order to write down a portion of our investment in our broadband communications business.

Construction, expansion, refurbishment and operation of power generating and transmission and resource recovery facilities involve significant risks which could lead to lost revenues or increased expenses.

The construction, expansion, refurbishment and operation of power generating and transmission and resource recovery facilities involve many risks, including:

the inability to obtain required governmental permits and approvals;

the unavailability of equipment;

supply interruptions;

work stoppages;

labor disputes;

social unrest;

weather interferences;

unforeseen engineering, environmental and geological problems; and

unanticipated cost overruns.

The ongoing operation of our facilities involves all of the risks described above, in addition to risks relating to the breakdown or failure of equipment or processes and performance below expected levels of output or efficiency. New plants may employ recently developed and technologically complex equipment, especially in the case of newer environmental emission control technology. Any of these risks could cause us to operate below expected capacity levels, which in turn could result in lost revenues, increased expenses, higher maintenance costs and penalties. While we maintain insurance, obtain warranties from vendors and obligate contractors to meet certain performance levels, the proceeds of such insurance, and our rights under warranties or performance guarantees may not be adequate to cover lost revenues, increased expenses or liquidated damage payments.

Our power project development, expansion and acquisition activities may not be successful, which would impair our ability to execute our growth strategy.

The growth of our independent power business through development, expansion and acquisition activities is critical to our future growth. We may not be able to continue to develop attractive opportunities or to complete acquisitions or development projects we undertake. Factors that could cause our activities to be unsuccessful include:

competition;

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changes in federal or state laws and regulations;

our inability to negotiate acceptable acquisition, construction, fuel supply or other material agreements;

our inability to obtain financing on acceptable terms or at all;

our inability to obtain required governmental permits and approvals;

capital market conditions; and

our inability to successfully integrate any businesses we acquire.

Estimates of the quantity and value of our proved reserves may change materially due to numerous uncertainties inherent in estimating oil and natural gas reserves.

There are many uncertainties inherent in estimating quantities of proved reserves and their values. The process of estimating oil and natural gas reserves requires interpretations of available technical data and various assumptions, including assumptions relating to economic factors. Any significant inaccuracies in these interpretations or assumptions could materially affect the estimated quantities and present value of our reserves. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretations and judgment, and the assumptions used regarding quantities of recoverable oil and gas reserves and prices for oil and natural gas. Actual prices, production, development expenditures, operating expenses and quantities of recoverable oil and natural gas reserves will vary from those assumed in our estimates, and these variances may be significant. Any significant variance from the assumptions used could result in the actual quantity of our reserves and future net cash flow being materially different from our estimates. In addition, results of drilling, testing and production and changes in oil and natural gas prices after the date of the estimate may result in substantial upward or downward revisions.

Our business is subject to substantial governmental regulation and permitting requirements as well as on-site environmental liabilities we assumed when we acquired some of our facilities. We may be adversely affected by any future inability to comply with existing or future regulations or requirements or the potentially high cost of complying with such requirements.

Our business is subject to extensive energy, environmental and other laws and regulations of federal, state and local authorities. We generally are required to obtain and comply with a wide variety of licenses, permits and other approvals in order to operate our facilities. In the course of complying with these requirements, we may incur significant additional costs. If we fail to comply with these requirements, we could be subject to civil or criminal liability and the imposition of liens or fines. In addition, existing regulations may be revised or reinterpreted, new laws and regulations may be adopted or become applicable to us or our facilities, and future changes in laws and regulation may have a detrimental effect on our business.

In acquiring some of our facilities, we assumed on-site liabilities associated with the environmental condition of those facilities, regardless of when such liabilities arose and whether known or unknown, and in some cases agreed to indemnify the former owners of those facilities for on-site environmental liabilities. We strive at all times to be in compliance with all applicable environmental laws and regulations. However,

steps to bring our facilities into compliance, if necessary, could be expensive, and thus could adversely affect our results of operations and financial condition. Furthermore, with the continuing trends toward stricter standards, greater regulation, more extensive permitting requirements and an increase in the assets we operate, we expect our environmental expenditures to be substantial in the future.

One of our subsidiaries may incur material liabilities due to a prior owner's potential violation of regulations for qualifying facilities under the Public Utilities Regulatory Policies Act of 1978, or PURPA.

In August 2001, we purchased a partnership interest in Las Vegas Cogeneration, L.P., which owns the 53 megawatt Las Vegas Cogeneration I Facility, from an affiliate of Enron. The prior owner certified to us and to

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relevant governmental authorities that the facility complied with all regulations necessary to obtain and maintain qualifying facility status under PURPA. Qualifying facilities are allowed to sell their output to electric utilities at avoided cost rates, which are usually higher than prevailing market-based rates. The prior owner contracted with Nevada Power Company to sell 45 megawatts of the facility's output during the periods of peak electricity consumption at avoided cost rates. In connection with acquiring the facility, we assumed this contract.

Recently the FERC issued an order announcing an investigation to determine whether Enron's ownership of the Las Vegas Cogeneration I Facility violated the qualifying facility regulations under PURPA. In addition, the SEC recently issued an initial decision concluding that Enron is an electric utility and is thus not exempt from regulations under the Public Utility Holding Company Act of 1935 that, among other things, prohibit electric utilities from owning more than 50 percent of a qualifying facility. Enron is appealing this decision.

The FERC investigation does not relate to the 224 megawatt gas-fired facility owned and operated by Las Vegas Cogeneration II, LLC, and located on the same site in North Las Vegas, Nevada. This facility is not now and never was certified as a qualifying facility under PURPA.

If FERC determines that Enron violated the qualifying facility regulations with respect to the Las Vegas Cogeneration I Facility, we, as a partner in the entity that now owns that facility, could be liable for any refunds, fines or other penalties FERC imposes. We could also be subject to additional liabilities resulting from third party claims. Because FERC has only recently begun its investigation, we cannot predict the outcome of FERC's investigation. If FERC determines that Enron violated the qualifying facility regulations, any fines, penalties, and private damage claims could adversely affect our financial condition and results of operations.

We have the right to seek indemnification from the prior owner. While the prior owner is not among the Enron subsidiaries and affiliates currently in bankruptcy, the Enron bankruptcy could impair our ability to enforce a claim for indemnification.

We face potential claims related to forest fires in South Dakota in 2001 and 2002.

In September 2001, a fire, which is known as the Hell Canyon fire, occurred in the southwestern portion of the Black Hills region of South Dakota. The State of South Dakota has alleged that the fire occurred when a high voltage electrical span maintained by our electric utility subsidiary broke and electrical arcing from the severed line ignited dry grass. The fire burned approximately 10,000 acres of land owned by the Black Hills National Forest, the Oglala Sioux Tribe and other private landowners. The State of South Dakota initiated litigation against us in the Seventh Judicial Circuit Court, Fall River County, South Dakota, on January 31, 2003. The complaint seeks recovery of damages for alleged injury to timber and fire suppression and rehabilitation costs. A claim for treble damages is asserted with respect to the claim for injury to timber. We expect that the United States Forest Service will assert substantially similar claims against us. Our investigation into the cause and origin of the fire is still pending. The total amount of damages claimed by the State of South Dakota is not specified in the complaint. We have denied all claims and will vigorously defend this matter.

In June 2002, a forest fire, sometimes referred to as the Grizzly Gulch fire, damaged approximately 11,000 acres of private and governmental land located near Deadwood and Lead, South Dakota. The fire destroyed approximately 20 structures and caused the evacuation of the cities of Lead and Deadwood for approximately 48 hours.

The cause of the Grizzly Gulch fire was investigated by the State of South Dakota. Contact between power lines owned by our electric utility subsidiary and undergrowth was alleged to be the cause. We have initiated our own investigation into the cause of the fire, including the hiring

of expert fire investigators, and that investigation is continuing.

The State of South Dakota initiated a civil action in the Seventh Judicial Circuit Court, Pennington County, South Dakota, seeking recovery of damages for fire suppression, reclamation and remediation costs, and treble

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damages for injury to trees. The United States government initiated a civil action in U.S. District Court, District of South Dakota, asserting similar claims. Neither the State of South Dakota nor the United States specified the amount of their alleged damages. In addition, we have been notified of potential private civil claims for property damage and business loss. We have denied all claims and will vigorously defend this matter.

If it is determined that power line contact was the cause of either fire and that we were negligent in the maintenance of those power lines, we could be liable for some or all of the damages related to these claims. Although we cannot predict the outcome or the viability of potential claims with respect to either fire, based on information currently available, management believes that any such claims, if determined adversely to us, will not have a material adverse effect on our financial condition or results of operations.

Ongoing changes in the United States utility industry, such as state and federal regulatory changes, a potential increase in the number of our competitors or the imposition of price limitations to address market volatility, could adversely affect our profitability.

The United States electric utility industry is currently experiencing increasing competitive pressures as a result of:

consumer demands;

technological advances;

deregulation;

greater availability of natural gas-fired power generation; and

other factors.

FERC has implemented and continues to propose regulatory changes to increase access to the nationwide transmission grid by utility and non-utility purchasers and sellers of electricity. In addition, a number of states have implemented or are considering or currently implementing methods to introduce and promote retail competition. Industry deregulation in some states has led to the disaggregation of some vertically integrated utilities into separate generation, transmission and distribution businesses, and deregulation initiatives in a number of states may encourage further disaggregation. As a result, significant additional and better capitalized competitors could become active in the generation, transmission and distribution segments of our industry, which could negatively affect our ability to expand our asset base.

In addition, the independent system operators who oversee most of the wholesale power markets have in the past imposed, and may in the future continue to impose, price limitations and other mechanisms to address some of the volatility in these markets. These types of price limitations and other mechanisms may adversely affect the profitability of those generating facilities that sell energy into the wholesale power markets. Given the extreme volatility and lack of meaningful long-term price history in some of these markets and the imposition of price limitations by independent system operators, we may not be able to operate profitably in all wholesale power markets.

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Several bills, including the Energy Policy Act of 2003, have been introduced in Congress that would amend or repeal portions of PURPA, including the mandatory purchase requirements under which utilities are currently required to enter into contracts to purchase power from qualifying facilities. The proposed legislation would not affect our existing contracts. If the Energy Policy Act of 2003 or similar legislation is enacted, however, utilities would no longer be required to enter into new contracts with qualifying facilities if the FERC determines that the qualifying facility has access to a competitive wholesale market for the sale of electric energy. Any such legislation, if enacted, could adversely affect the value or profitability of our qualifying facilities.

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USE OF PROCEEDS

We expect that the net proceeds from this offering of common stock will be approximately \$102.3 million, after deducting discounts and commissions to the underwriters and estimated expenses of this offering that we will pay. During the last year, we utilized short-term borrowings to finance approximately \$51 million of construction costs related to the Las Vegas Cogeneration II facility and approximately \$39 million of costs related to our acquisition of Mallon Resources Corporation. Approximately \$50 million of the net proceeds from this offering will be used to repay all of our short-term borrowings under our Las Vegas Cogeneration project credit agreement with ABN AMRO Bank N.V. and GE Capital Corp., which expires on May 27, 2003. Borrowings under this agreement bear interest at a floating rate, which at March 31, 2003, was 5.81%. The remaining net proceeds will be used to repay a portion of current indebtedness under our \$195 million, 364-day revolving credit facility with ABN AMRO, as agent, which expires on August 26, 2003. Borrowings under this facility bear interest at a floating rate, which at March 31, 2003, was 2.11%.

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The table below shows our cash position and capitalization as of December 31, 2002 on an actual basis and on an as adjusted basis to give effect to estimated net proceeds from this offering and the application of the net proceeds, including the repayment of a portion of our indebtedness as described under Use of Proceeds.

You should read this table in conjunction with our consolidated financial statements and related notes that are incorporated by reference in this prospectus supplement.

	December 31, 2002	
	Actual	As Adjusted
	(in thousands)	
Cash and cash equivalents	\$ 79,811	\$ 79,811
Current portion of long-term debt	23,448	23,448
Short-term debt	340,500	238,170
Total short-term debt	363,948	261,618
Long-term debt	618,862	618,862
Shareholders' equity:		
Preferred stock	5,549	5,549
Common stock	529,614	631,944
Total shareholders' equity	535,163	637,493
Total capitalization	\$ 1,517,973	\$ 1,517,973

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Our common stock is traded on the New York Stock Exchange under the symbol BKH. The following table sets forth the high and low sale prices per share of our common stock, as reported in the New York Stock Exchange composite transactions, and the cash dividends paid per share of common stock, for the periods indicated:

	<u>High</u>	<u>Low</u>	<u>Dividends Paid</u>
2001			
First Quarter	\$ 45.74	\$ 31.00	\$ 0.28
Second Quarter	58.50	39.50	0.28
Third Quarter	45.55	27.76	0.28
Fourth Quarter	34.20	26.00	0.28
2002			
First Quarter	33.98	26.01	0.29
Second Quarter	36.90	31.62	0.29
Third Quarter	35.08	23.03	0.29
Fourth Quarter	27.75	18.36	0.29
2003			
First Quarter	28.39	21.85	0.30
Second Quarter (through April 24, 2003)	29.70	27.06	

As of March 31, 2003, our common stock was held by 5,321 holders of record and approximately 17,000 beneficial owners.

We have paid a regular quarterly cash dividend each year since the incorporation of our predecessor company in 1941 and expect to continue paying a regular quarterly dividend for the foreseeable future. At its January 2003 meeting, our board of directors raised the quarterly dividend to \$0.30 per share, equivalent to an annual dividend of \$1.20 per share. The determination of the amount of future cash dividends, if any, to be declared and paid will depend upon, among other things, our financial condition, funds from operations, the level of our capital expenditures, restrictions under our credit facilities and our future business prospects. Our credit facilities contain restrictions on the payment of cash dividends, the most restrictive of which prohibit the payment of cash dividends if our interest coverage ratio, as calculated in our credit agreements, is less than 1.5:1.0, our recourse leverage ratio exceeds 0.65:1.00 or our consolidated net worth does not exceed the sum of \$425 million and 50% of our aggregate consolidated net income since April 1, 2002.

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BUSINESS

General

We are a diversified energy holding company operating principally in the United States. Our regulated and unregulated businesses have expanded their asset bases significantly in recent years. Our integrated energy group produces and markets power and fuel and transports crude oil. We produce and sell electricity in a number of markets, with a strong emphasis on the western United States. We also produce coal, natural gas and crude oil primarily in the Rocky Mountain region and market fuel products primarily in the Rocky Mountain, western and mid-continent regions of the United States and in western Canada. Our electric utility serves approximately 60,000 customers in South Dakota, Wyoming and Montana. Our communications group offers state-of-the-art broadband communication services to residential and business customers in Rapid City and the northern Black Hills region of South Dakota. Our predecessor company was incorporated and began providing electric utility service in 1941 and began selling and marketing various forms of energy on an unregulated basis in 1956.

Integrated Energy

Our integrated energy group engages in the production of electric power through ownership of a diversified portfolio of generating plants and the sale of electric power primarily under long-term contracts, the production of natural gas, crude oil and coal primarily in the Rocky Mountain region, and the marketing and transportation of energy products. The integrated energy group consists of four segments: power generation, natural gas and crude oil exploration and production, coal mining and energy marketing and transportation.

Power Generation

Our power generation segment acquires, develops and expands unregulated power plants. We currently hold varying interests in independent power plants in California, New York, Massachusetts, Wyoming, Nevada and Colorado with a total net ownership of 1,040 megawatts, including minority interests in several power-related funds with a net ownership interest of 24 megawatts.

How We Manage Our Portfolio. We strive to maintain diversification and balance in our portfolio of regulated and unregulated power plants. Our unregulated portfolio is diversified in terms of fuel mix and geographic location, with 87% of net unregulated capacity being gas-fired, 9% coal-fired, and the remainder hydroelectric. Our independent power plants are located in California, Wyoming, Colorado, Nevada, New York and Massachusetts. By comparison, our electric utility capacity is approximately 50% coal-fired, 39% oil or gas-fired, and 11% under purchased power contracts, with plants located in South Dakota and Wyoming.

We sell our output under contracts of varying length with established prices, thereby allowing us to mitigate the impact of a potential downturn in prices in the future. We sell energy and capacity under a combination of short- and long-term contracts as well as direct sales into the energy markets. Currently, we sell approximately 90% of our unregulated generating capacity in operation under contracts greater than one year in duration. We sell the remainder of this capacity under short-term contracts or directly into the power markets. Substantially all of the energy and capacity to be generated by our Wygen plant is also under long-term contracts.

Project Development Program. We have an active acquisition and development program through which we are pursuing a number of additional generation projects in the early stages of development, including a coal-fired mine-mouth power plant with generating capacity of up to 500 megawatts, to be located at our WYODAK site near Gillette, Wyoming. We cannot assure you that we will be successful in completing any or all of the projects currently under consideration.

How We Develop and Acquire Power Plants. We actively pursue power plant acquisitions and development opportunities in areas we view as attractive throughout North America. Our current focus has been,

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and is likely to remain, in the North American Electric Reliability Council region known as the Western Electricity Coordinating Council, or WECC. Among the factors we consider critical in evaluating the relative attractiveness of new generation opportunities are the following:

potential electric demand growth in the targeted region;

regional generation capacity characteristics;

permitting and siting requirements;

proximity of the proposed site to high transmission capacity corridors;

fuel supply reliability and pricing;

the local regulatory environment; and

the potential to exploit market expertise and operating efficiencies relating to geographic concentration of new generation with our existing power plant portfolio.

Our goal is to sell approximately 80-90% of the independent power generation portfolio under long-term contracts to counterparties with investment grade credit ratings, while reserving the remainder for market, or spot sales. We aim to secure long-term power sales contracts in conjunction with project financing. This practice limits our liability and establishes a debt repayment schedule that closely matches the term of the power sales contracts so that at the end of the term of the contract, the project debt will be largely repaid.

Power Plant Classifications. Power facilities are often classified by cost of production. Facilities that have the lowest costs of production relative to other power plants in the region are usually the first used to provide energy. These plants are known as baseload facilities and typically operate more than 60% of the time they are available. As demand for electricity rises during the year or even during the course of a day, power plants that have higher costs of production are dispatched to supply additional energy. Facilities that regularly provide additional energy during a day and that are typically used between 10% and 60% of the time are known as intermediate facilities. Power plants with the highest costs of production are called upon only in times of exceptionally high demand and are known as peaking units. Peaking units are typically dispatched less than 10% of the time they are available. Of the power plants owned by our power generation segment, our Wygen plant, our Ontario Cogeneration plant and our New York State hydroelectric plants are baseload facilities. The remainder of our power generation segment's plants are peaking facilities.

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Rocky Mountain and West Coast Facilities. We own approximately 935 megawatts of generating capacity in the WECC states of California, Colorado, Nevada and Wyoming. With the exception of the Wygen plant, which is coal-fired, all of these facilities are gas-fired. All of these facilities operate under long-term power purchase or tolling agreements whereby the purchaser assumes the fuel price risk, except for Harbor, which sells its summer peaking capacity under a long-term contract and the remainder of its capacity and energy at market prices.

Power Plant	Fuel Type	State	Total		Net	
			Capacity (MWs)	Interest	Capacity (MWs)	Start Date
Arapahoe Unit 5 and 6	Gas	CO	80.0	100%	80.0	2000
Arapahoe CC5 Expansion	Gas	CO	50.0	100%	50.0	2002
Valmont Unit 7	Gas	CO	40.0	100%	40.0	2000
Valmont Unit 8	Gas	CO	40.0	100%	40.0	2001
Fountain Valley	Gas	CO	240.0	100%	240.0	2001
Gillette CT	Gas	WY	40.0	100%	40.0	2001
Wygen	Coal	WY	90.0	100%	90.0	2003
Las Vegas I	Gas	NV	53.0	50%	26.5	1994
Las Vegas II	Gas	NV	224.0	100%	224.0	2002
Ontario	Gas	CA	12.0	50%	6.0	1984
Harbor	Gas	CA	80.0	100%	80.0	1989
Harbor Expansion	Gas	CA	18.0	100%	18.0	2001
Total			967.0		934.5	

Arapahoe, Valmont and Fountain Valley. Our Arapahoe, Valmont and Fountain Valley plants are wholly-owned gas-fired peaking facilities in the Front Range of Colorado, with a total capacity of 450 megawatts. We sell all of the output from these plants to Public Service Company of Colorado under tolling contracts expiring in 2012.

Gillette CT. The Gillette CT plant, a gas-fired combustion turbine located at the same site as our Wygen plant, has a total capacity of 40 megawatts and became operational in May 2001. We sell the energy and capacity from the Gillette CT plant to Cheyenne Light, Fuel and Power Company under a tolling agreement that expires in 2011, however, in September 2002, Cheyenne assigned its rights and obligations to purchase energy from this facility to its affiliate Public Service Company of Colorado for a period ending December 31, 2003.

Wygen. The Wygen plant is a leased mine-mouth, coal-fired baseload plant with a total capacity of 90 megawatts, which was placed into service in the first quarter of 2003. The Wygen plant is substantially identical in design to our electric utility's Neil Simpson II facility, completed in 1995. The plant runs on pulverized low-sulfur coal fed by conveyor from our adjacent Wyodak mine. The plant burns approximately 500,000 tons of coal per year, and uses the latest available environmental control technology. We sell the majority of the power from the facility under long-term unit contingent capacity and energy sales contracts. In a unit contingent contract, delivery is not required during plant outages. We have entered into contracts to sell 60 megawatts of unit contingent capacity from this plant to Cheyenne Light, Fuel and Power Company and an additional 20 megawatts of unit contingent capacity and energy to the Municipal Energy Agency of Nebraska. Each of these contracts expires in 2013. As with the Gillette CT contract, Cheyenne assigned its rights and obligations to purchase energy from this facility to Public Service Company of Colorado for a period ending December 31, 2003.

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The Wygen plant is currently accounted for as an operating lease. However, the Financial Accounting Standards Board recently issued a new accounting pronouncement which affects the accounting treatment of the lease arrangement. Unless the transaction is restructured, we will be required to consolidate the Wygen plant into our financial statements by July 1, 2003. If we consolidate the Wygen plant, we would record both the Wygen assets and the related debt on our balance sheet. We would also recognize the depreciation expense associated

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with the project and would reclassify income statement items primarily between operating expense and interest expense. We estimate the annual impact on earnings per share resulting from this change in accounting treatment would be a reduction of approximately \$0.09 per share.

Las Vegas Cogeneration. Las Vegas I is a 53 megawatt, gas-fired plant northeast of Las Vegas, Nevada. We sell most of the power from this plant to Nevada Power Company under a long-term contract that expires in 2024. While we own 50% of this plant, under generally accepted accounting principles, we consolidate 100% of the plant in our financial statements.

In December 2002, we completed construction on Las Vegas II, a 224 megawatt gas-fired expansion of the Las Vegas Cogeneration facility. We sell the power generated by the expansion under a long-term contract with AESC that expires in 2018. We own 100% of Las Vegas II.

Ontario Cogeneration. Ontario Cogeneration is a 12 megawatt, gas-fired power plant in Ontario, California, which we currently operate as a baseload plant. Electrical output from the plant is subject to a 25-year power purchase agreement with Southern California Edison, which expires in January 2010. The project also sells all of its steam production to Sunkist Growers, Inc. under a five-year agreement, which expires in November 2007. We own 50% of this plant.

Harbor Cogeneration. Harbor Cogeneration is a gas-fired plant located in Wilmington, California, which is currently being operated as a peaking plant selling ancillary services and energy into the California Independent System Operator, or CAISO, market. Under a settlement agreement relating to a previous contract with Southern California Edison, Harbor Cogeneration receives payments pursuant to a termination payment schedule for a period ending on October 1, 2008. During 2001, we completed an expansion of the Harbor Cogeneration plant, adding 18 megawatts, and in 2002, we acquired the balance of the ownership interest in this plant that we did not already own. In December 2002, we entered into a tolling agreement pursuant to which we will sell the peaking capacity for the summer periods from 2003 through 2007. We plan to sell the remaining capacity and energy from this plant in California at market prices.

Northeast Facilities. We currently own approximately 82 net megawatts of generating capacity in eight plants in New York and Massachusetts.

<u>Power Plant</u>	<u>Fuel Type</u>	<u>State</u>	<u>Total</u>		<u>Net</u>	
			<u>Capacity (MWs)</u>	<u>Interest</u>	<u>Capacity (MWs)</u>	<u>Start Date</u>
Fourth Branch	Hydro	NY	3.4	100.0%	3.4	1988
Warrensburg	Hydro	NY	2.9	100.0%	2.9	1988
Middle Falls	Hydro	NY	2.3	50.0%	1.2	1989
New York State Dam	Hydro	NY	11.4	100.0%	11.4	1990
Sissonville	Hydro	NY	3.0	100.0%	3.0	1990
South Glens Falls	Hydro	NY	13.9	30.2%	4.2	1994
Hudson Falls	Hydro	NY	41.9	37.0%	15.5	1995
Pepperell	Gas	MA	40.0	100.0%	40.0	1990
Total Northeast			118.8		81.6	

Hydro Plants. The seven New York projects were initially subject to long-term power purchase contracts with Niagara Mohawk Power Corporation for all or most of their output. Niagara Mohawk subsequently bought out the power purchase contracts for the New York State Dam, Sissonville, Fourth Branch and Warrensburg facilities, and the power from those projects is currently being sold into the New York Independent System Operator market. The remaining three New York plants, Hudson Falls, South Glens Falls and Middle Falls, continue to operate under long-term power purchase agreements with Niagara Mohawk.

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Pepperell. The Pepperell facility is a 40 megawatt gas-fired combined-cycle plant located in Pepperell, Massachusetts. The plant sells wholesale energy into the New England Independent System Operator market.

Power Funds. In addition to our ownership of the power plants described above, we hold various indirect interests in power plants through our investment in energy and energy-related funds, both domestic and international, with a total net capacity of approximately 24 megawatts.

Natural Gas and Crude Oil Exploration and Production

As of December 31, 2002, our natural gas and crude oil exploration and production segment operated approximately 384 oil and gas wells, all of which are located in Wyoming, Colorado and Nebraska. The majority of these wells are in the Finn-Shurley Field area, located in Weston and Niobrara Counties in Wyoming. We also own a working interest in, but do not operate, an additional 440 wells located in California, Montana, Louisiana, Colorado, North Dakota, Texas, Wyoming, Oklahoma and offshore in the Gulf of Mexico. In addition, we have accumulated significant acreage in the Rocky Mountain region, which we plan to utilize for oil and gas exploration.

As of December 31, 2002, we had proved reserves of 4.9 million barrels of oil and 28.5 billion cubic feet of natural gas, with approximately 63% of current production consisting of natural gas.

In March 2003, we completed a merger with Mallon Resources Corporation pursuant to which Mallon became our wholly-owned subsidiary. Mallon is an independent energy company engaged in oil and natural gas exploration, development and production primarily in the San Juan Basin of New Mexico. We expect the merger to double our current proved oil and natural gas reserves on a BCFE basis, and to increase our production by approximately 50% over previous levels.

Coal Mining

Our coal mining segment mines and processes low-sulfur sub-bituminous coal near Gillette, Wyoming. The Wyodak mine, which we acquired in 1956 from Homestake Gold Mining Company, is located in the Powder River Basin, one of the largest coal reserves in the United States. We produced approximately 4.1 million tons of coal in 2002. Our mining rights to the coal are based on four federal leases and one state lease. We pay royalties of 12.5% and 9.0%, respectively, of the selling price on all federal and state coal. As of December 31, 2002, we had coal reserves of 272.8 million tons, enough to satisfy present contracts for approximately 60 years. We currently sell substantially all of our coal production under long-term contracts to Black Hills Power, Inc., our electric utility, and to PacifiCorp. The price for unprocessed coal sold to PacifiCorp for use at the Wyodak plant, in which PacificCorp owns an 80% interest, is determined by a coal supply agreement that expires in 2022. We have an additional contract to provide approximately 500,000 tons of coal per year to the Wygen plant, which was placed into service in the first quarter of 2003. We also expect to increase our coal production to supply:

additional mine-mouth generating capacity of up to 500 megawatts at the same site as the Wygen plant, which is in the early stages of development; and

future sales of coal to rail-served customers.

Our coal segment's agreement with Black Hills Power limits earnings from all coal sales to Black Hills Power to a specified return on our original cost-depreciated investment base. Black Hills Power made a commitment to the South Dakota Public Utilities Commission, the Wyoming Public Service Commission and the City of Gillette that coal would be furnished and priced as provided by that agreement for the life of our Neil Simpson II plant.

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Energy Marketing and Transportation

We market natural gas and crude oil in specific regions of the United States. We offer physical and financial wholesale energy marketing and price risk management products and services to a variety of customers. These customers include natural gas distribution companies, municipalities, industrial users, oil and gas producers, electric utilities, energy marketers and retail gas users. Our average daily marketing volumes for the year ended December 31, 2002 were approximately 1.1 million MMBtu of gas and 57,000 barrels of oil.

Gas Marketing. Our natural gas marketing operations are headquartered in Golden, Colorado, with a satellite office in Calgary, Alberta, Canada. We focus primarily on marketing natural gas to wholesale end users and on producer marketing services. Producer marketing services include purchases of wellhead gas and risk transfer and hedging products for gas producers in the Rocky Mountain region. Our gas marketing efforts are concentrated in the Rocky Mountain, western and mid-continent regions of the United States and in western Canada. We contractually hold natural gas storage capacity and both long- and short-term transportation capacity on several major pipelines in the western United States and Canada. We utilize this capacity to move relatively low cost natural gas from the producer regions to more expensive end-use market areas.

Oil Marketing and Transportation. Our crude oil marketing and transportation operations are headquartered in Houston, Texas and are concentrated primarily in Texas, Oklahoma and Louisiana. Our crude oil marketing business specializes in assisting independent crude oil producers by marketing and transporting their crude oil production to end use markets. We own and operate the Millennium Pipeline, a 200-mile pipeline which has a capacity of approximately 65,000 barrels of oil per day and transports imported crude oil from Beaumont, Texas to Longview, Texas, a transfer point to connecting carriers. We also own Millennium Terminal Company, L.P., which leases 1.1 million barrels of crude oil storage connected to the Millennium Pipeline at the oil tanking terminal in Beaumont.

In July 2002, we purchased the 190-mile long Kilgore Pipeline System. The Kilgore Pipeline System has a capacity of up to 35,000 barrels of oil per day and transports crude oil from the Kilgore, Texas region south to Houston, Texas, which is a transport point to connecting carriers. In addition, the system has approximately 400,000 barrels of crude oil storage at Kilgore and approximately 375,000 barrels of storage at the Texoma Tank Farm located in Longview, Texas.

Electric Utility

Our electric utility, Black Hills Power, is engaged in the generation, transmission and distribution of electricity. It provides a solid foundation of revenues, earnings and cash flow that support our capital expenditures, dividends and overall performance and growth.

Distribution and Transmission

Our electric utility distribution and transmission businesses serve approximately 60,000 electric customers, with an electric transmission system of 447 miles of high voltage lines and 514 miles of lower voltage lines. In addition, we jointly own 43 miles of high voltage lines with Basin Electric Cooperative. Our utility's service territory covers a 9,300 square mile area of western South Dakota, eastern Wyoming and southeastern Montana with a strong and stable economic base. Over 90% of our utility's retail electric revenues are generated in South Dakota.

The following are characteristics of our distribution and transmission businesses:

We have a diverse customer and revenue base. Our revenue mix for the year ended December 31, 2002 was comprised of 30% commercial, 24% residential, 17% contract wholesale, 15% wholesale off-system, 13% industrial and 1% municipal sales and other revenue. Approximately 70% of our large commercial and industrial customers are provided service under long-term contracts. We have historically optimized

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the utilization of our power supply resources by selling wholesale power to other utilities and to power marketers in the spot market and through short-term sales contracts.

In 1999, the South Dakota Public Utilities Commission extended our previous retail rate freeze until January 1, 2005. The rate freeze preserves our low-cost rate structure for our retail customers at levels below the national average while allowing us to retain the benefits from cost savings and from wholesale off-system sales, which are not covered by the rate freeze. This provides us with flexibility in allocating our generating capacity to maximize returns in changing market environments.

15% of our electric revenues for the year ended December 31, 2002 consisted of off-system and short-term contract wholesale sales. Although the demand for power in the western markets has fallen from the record levels seen in the first half of 2001, we expect increases in the volume of off-system sales from current levels in the future due to demand growth in the Rocky Mountain region and the availability of 40 megawatts of gas-fired generating capacity which we added in 2002.

Our system is capable of connecting to either the eastern or western transmission systems, which provides us with access between the WECC region and the Mid-Continent Area Power Pool, or MAPP region. This allows us the opportunity to improve system reliability by adding voltage support and to take advantage of power price differentials between the two electric grids. We are able to interconnect up to 80 megawatts of our generation into the MAPP. Alternatively, we can serve up to 80 megawatts of our load from the MAPP region. The available transmission capacity of the MAPP transmission system determines how much of this 80 megawatts can be served from the eastern interconnection. We are proceeding with the construction of an AC-DC-AC transmission tie which is expected to be completed late in the third quarter, or early in the fourth quarter of 2003. The transmission tie will provide us with additional load support for our utility customers and increase our ability to buy or sell electric power.

We have firm transmission access to deliver up to 55 megawatts of power on PacifiCorp's system to wholesale customers in the western region during 2003, scheduled to decline to 50 megawatts in 2004.

Power Sales Agreements

We sell approximately 46% of our utility's current load under long-term contracts. Our key contracts include a contract with Montana-Dakota Utilities Company, expiring in 2007, for the sale of up to 55 megawatts of energy and capacity to service the Sheridan, Wyoming electric service territory, and a contract with the City of Gillette, Wyoming, expiring in 2012, to provide the city's first 23 megawatts of capacity and energy. Both contracts are integrated into our control area and are treated as part of our on-system local service territory load. In May 2001, we began selling 30 megawatts of firm capacity and energy to Public Service Company of Colorado for a period through 2004. Our utility and our power generation segment will each provide 20 megawatts of unit contingent energy and capacity to the Municipal Energy Agency of Nebraska under contracts expiring in 2013.

Regulated Power Plants and Purchased Power

Our utility's electric load is served by coal-, oil- and natural gas-fired generating units providing 435 megawatts of generating capacity, all of which is located in South Dakota and Wyoming, and from the following purchased power and capacity contracts with PacifiCorp:

a power sales agreement expiring in 2023, involving the purchase by us of 55 megawatts of baseload power in 2003, which is scheduled to decline to 50 megawatts in 2004 and thereafter; and

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a reserve capacity integration agreement expiring in 2012, which makes available to us 100 megawatts of reserve capacity in connection with the utilization of the Ben French CT units.

Since 1995, our utility has been a net producer of energy. Our utility reached its peak system load of 392 megawatts in August 2001. For the year ended December 31, 2002, our average system load was

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224 megawatts. None of our generation is restricted by hours of operation, thereby providing us with the ability to generate power to meet demand whenever necessary and feasible.

The following table describes our utility's portfolio of power plants:

<u>Power Plant</u>	<u>Fuel</u>		<u>Total Capacity</u>		<u>Net Capacity</u>		<u>Start</u>
	<u>Type</u>	<u>State</u>	<u>(MWs)</u>	<u>Interest</u>	<u>(MWs)</u>	<u>Date</u>	
Ben French	Coal	SD	25.0	100%	25.0	1960	
Ben French Diesels 1-5	Diesel	SD	10.0	100%	10.0	1965	
Ben French CTs 1-4	Gas/Oil	SD	100.0	100%	100.0	1977-1979	
Lange CT	Gas	SD	40.0	100%	40.0	2002	
Neil Simpson I	Coal	WY	21.8	100%	21.8	1969	
Neil Simpson II	Coal	WY	91.0	100%	91.0	1995	
Neil Simpson CT	Gas	WY	40.0	100%	40.0	2000	
Osage	Coal	WY	34.5	100%	34.5	1948	
Wyodak	Coal	WY	362.0	20%	72.4	1978	
Total			724.3		434.7		

Ben French. Ben French is a wholly owned coal-fired plant situated in Rapid City, South Dakota, with a capacity of 25 megawatts. This plant was put into service in 1960 and has since been operating as a baseload plant. The plant purchases coal from our Wyodak mine, which is delivered by truck.

Ben French Diesel Units 1-5. The Ben French Diesel Units 1-5 are wholly owned diesel-fired plants located in Rapid City, South Dakota, with a capacity of 10 megawatts. These plants were placed into service in 1965, and operate as peaking plants.

Ben French CT's 1-4. The Ben French Combustion Turbines 1-4 are wholly owned gas- and oil-fired units with a capacity of 100 megawatts located in Rapid City, South Dakota. These facilities were placed into service from 1977 to 1979, and operate as peaking units.

Lange CT. The Lange Combustion Turbine is a wholly owned 40 megawatt gas-fired plant located near Rapid City, South Dakota. The plant was placed into service in 2002 and provides peaking capacity and voltage support for the area.

Neil Simpson I and II. Neil Simpson I and II are air-cooled, coal-fired wholly owned facilities located near Gillette, Wyoming. Neil Simpson I has a capacity of 21.8 megawatts and was placed into service in 1969. Neil Simpson II has a capacity of 91 megawatts and was placed into service in 1995. These plants operate as baseload facilities, and are mine-mouth coal-fired plants, receiving their coal directly from our Wyodak mine.

Neil Simpson CT. The Neil Simpson Combustion Turbine is a wholly owned gas-fired plant located near Gillette, Wyoming with a capacity of 40 megawatts. This plant was placed into service in 2000, and provides peaking capabilities.

Osage. The Osage plant is a wholly owned coal-fired plant in Osage, Wyoming with a total capacity of 34.5 megawatts and was placed into service from 1948 to 1952. This plant has three turbine generating units, and operates as a baseload plant. The plant purchases coal from our Wyodak mine, which is delivered by truck.

Wyodak. Wyodak is a 362 megawatt mine mouth coal-fired plant owned jointly by PacifiCorp and us and in which we hold a 20% (72.4 net megawatt) ownership interest. Our Wyodak mine furnishes all the coal fuel supply for the Wyodak plant. The plant was placed into service in 1978, and operates as a baseload plant.

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Communications

Our communications group, which primarily operates through our subsidiary, Black Hills FiberCom, was formed to provide state-of-the-art broadband telecommunications services to the markets of Rapid City and the northern Black Hills of South Dakota. We offer residential and business customers a full suite of telecommunications services, including local and long distance telephone service, expanded cable television service, cable modem Internet access and high speed data and video services. We bundle these services into packages with a single consolidated bill for all of these services. We have completed a 242-mile inter- and intra-city fiber optic network and currently operate 818 miles of two-way interactive hybrid fiber coaxial or HFC cable.

We introduced our broadband communications services to the Rapid City and northern Black Hills areas in November 1999. As of December 31, 2002, we were serving approximately 21,700 residential customers and 3,100 business customers.

The construction of our initial infrastructure build-out, which covers Rapid City and the northern Black Hills region, was completed in 2002.

Risk Management

Our operations require effective management of price, counterparty performance and operational risks. Price risk arises from the volatility of energy prices. Counterparty performance risk is the risk that a counterparty will fail to satisfy its contractual obligations to us, and includes credit risk. Operational risk is the risk that we will be unable to perform our contractual obligations to our counterparties for a variety of reasons, including plant outages or other failures, ineffective risk management policies and procedures or non-compliance with those policies and procedures. We have implemented controls to mitigate each of these risks.

Our energy marketing operations are conducted in accordance with guidelines established through separate risk management policies and procedures for each marketing company and through our credit policies and procedures. These policies and procedures specify maximum price risk exposure levels within which each respective marketing company must operate. They establish relatively low exposure levels and generally prohibit speculative trading strategies. These policies are established and approved by our board of directors, reviewed on a regular basis and monitored as described below.

We maintain a working risk management committee that oversees each of our marketing companies, and a credit committee at the parent company level. The risk management committee focuses on implementation of risk management procedures and on monitoring compliance with established policies. The credit committee monitors credit exposure levels and reviews compliance with established credit policies. Our Senior Vice President-Risk Management is responsible for overseeing these functions.

We limit the exposure of our parent holding company, Black Hills Corporation, to energy marketing risks by maintaining separate credit facilities within each of our energy marketing companies. These credit facilities have security interests solely against the assets of the respective marketing company. In addition, we limit the number and amount of parent company guarantees supporting the marketing companies.

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A potential risk related to power sales is the price risk arising from the sale of wholesale power that exceeds our generating capacity. Short positions can arise from unplanned plant outages or from unanticipated load demands. To control such risks, we restrict wholesale off-system sales to amounts by which our anticipated generating capabilities exceed our anticipated load requirements plus a required reserve margin.

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MATERIAL UNITED STATES FEDERAL TAX CONSIDERATIONS

FOR NON-U.S. HOLDERS

The following discussion is a general discussion of the material U.S. federal income and estate tax consequences of the ownership and disposition of our common stock by a beneficial owner that is a non-U.S. holder.

For purposes of this discussion, a non-U.S. holder is any person or entity other than:

a citizen or resident of the United States;

a partnership, corporation or other entity created or organized in or under the laws of the United States or of any political subdivision thereof;

a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons has the authority to control all substantial decisions of the trust or the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person; or

an estate, the income of which is includible in gross income for U.S. income tax purposes regardless of its source.

This discussion is based on the Internal Revenue Code of 1986, as amended, United States Treasury Regulations and administrative interpretations as of the date of this prospectus supplement, all of which are subject to change, including changes with retroactive effect. This discussion does not address all aspects of U.S. federal income and estate taxation that may be relevant to non-U.S. holders in light of their particular circumstances and does not address any tax consequences arising under the laws of any state, local or foreign jurisdiction. You should consult your tax advisor with respect to the particular tax consequences to you of owning and disposing of our common stock.

Dividends

Dividends paid to a non-U.S. holder of common stock generally will be subject to withholding of United States federal income tax at a 30% rate or a reduced rate specified by an applicable income tax treaty. To obtain a reduced rate of withholding for dividends paid, a non-U.S. holder will be required to provide us with an Internal Revenue Service Form W-8BEN certifying its entitlement to benefits under a treaty. In addition, in certain cases where dividends are paid to a non-U.S. holder that is a partnership or other pass-through entity, persons holding an interest in the entity will need to provide us with the required certification. For example, an individual non-U.S. holder who holds through a non-U.S. partnership will be required to provide us with an Internal Revenue Service Form W-8BEN.

The withholding of U.S. federal income tax does not apply to dividends paid to a non-U.S. holder who provides an Internal Revenue Service Form W-8ECI, certifying that the dividends are effectively connected with the non-U.S. holder's conduct of a trade or business within the United

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States. Instead, the effectively connected dividends will be subject to regular U.S. income tax as if the non-U.S. holder were a U.S. resident. A non-U.S. corporation receiving effectively connected dividends may also be subject to an additional branch profits tax imposed at a rate of 30% (or a lower treaty rate) on an earnings amount that is net of the regular tax.

Gain on Disposition of Common Stock

A non-U.S. holder generally will not be subject to U.S. federal income tax on gain realized on a sale or other disposition of common stock unless:

the gain is effectively connected with a trade or business of the non-U.S. holder in the United States, or where a treaty applies, is attributable to a United States permanent establishment of the non-U.S. holder;

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in the case of certain non-U.S. holders who are non-resident alien individuals and hold the common stock as a capital asset, the individuals are present in the United States for 183 or more days in the taxable year of the disposition and meet other requirements; or

the non-U.S. holder is subject to tax under the provisions of the Internal Revenue Code regarding the taxation of U.S. expatriates.

In addition, a non-U.S. holder may be subject to U.S. federal income taxation and withholding under certain Internal Revenue Code rules related to foreign investment in U.S. real property. We currently believe that we are a United States real property holding corporation for purposes of the foreign investment in U.S. real property rules. Under those rules, a non-U.S. holder who is otherwise not subject to U.S. federal income tax on gain realized on a sale or other disposition of common stock (as discussed above) would not be subject to such taxation so long as (i) our common stock continues to be regularly traded on an established securities market for U.S. federal income tax purposes (as it currently is) and (ii) such non-U.S. holder does not own, directly or indirectly, at any time during the five-year period ending on the date of disposition or such shorter period the shares were held, more than five percent of our outstanding common stock. Accordingly, a non-U.S. holder who owns, directly or indirectly, more than five percent of our common stock (as described above) would be subject to U.S. federal income tax and withholding on a sale or other disposition of common stock.

Information Reporting Requirements and Backup Withholding

We must report annually to the Internal Revenue Service the amount of dividends paid to each non-U.S. holder, the name and address of the recipient, and the amount of any tax withheld. A similar report is sent to the non-U.S. holder. Under tax treaties or other agreements, the Internal Revenue Service may make its reports available to tax authorities in the recipient's country of residence. A non-U.S. holder must certify its non-U.S. status to avoid backup withholding at the current rate of 30% on dividends. Generally a non-U.S. holder will provide this certification on Internal Revenue Service Form W-8BEN.

U.S. information reporting and backup withholding generally will not apply to a payment of proceeds of a disposition of common stock where the transaction is effected outside the United States through a non-U.S. office of a non-U.S. broker. However, a non-U.S. holder must certify its non-U.S. status to avoid information reporting and backup withholding at the current rate of 30% on disposition proceeds where the transaction is effected by or through a U.S. office of a broker. In addition, U.S. information reporting requirements generally will apply to the proceeds of a disposition effected by or through a non-U.S. office of a U.S. broker, or by a non-U.S. broker with specified connections to the United States.

Backup withholding is not an additional tax. Rather, the tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. When withholding results in an overpayment of taxes, a refund may be obtained if the required information is furnished to the Internal Revenue Service.

Federal Estate Tax

An individual non-U.S. holder who is treated as the owner of, or has made certain lifetime transfers of, an interest in the common stock will be required to include the value of the stock in the individual's gross estate for U.S. federal estate tax purposes, and may be subject to U.S. federal estate tax unless an applicable estate tax treaty provides otherwise.

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Under the terms and subject to the conditions contained in an underwriting agreement dated April 24, 2003, we have agreed to sell to the underwriters named below, for whom Credit Suisse First Boston LLC, Lehman Brothers Inc., Credit Lyonnais Securities (USA) Inc., BMO Nesbitt Burns Corp., Gerard Klauer Mattison & Co., Inc., ABN AMRO Rothschild LLC, D.A. Davidson & Co., NatCity Investments, Inc. and Scotia Capital (USA) Inc. are acting as representatives, the following respective numbers of shares of common stock:

<u>Underwriter</u>	<u>Number of Shares</u>
Credit Suisse First Boston LLC	1,420,000
Lehman Brothers Inc.	1,420,000
Credit Lyonnais Securities (USA) Inc.	360,000
BMO Nesbitt Burns Corp.	200,000
Gerard Klauer Mattison & Co., Inc.	200,000
ABN AMRO Rothschild LLC	100,000
D.A. Davidson & Co.	100,000
NatCity Investments, Inc.	100,000
Scotia Capital (USA) Inc.	100,000
Total	