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A C MOORE ARTS & CRAFTS INC

Form 10-K

March 21, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2000

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 000-23157

A.C. MOORE ARTS & CRAFTS, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania

23-3527763

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

500 University Court, Blackwood, NJ

08012

(Address of principal executive offices)

(Zip code)

Registrant's telephone number, including area code: (856) 228-6700

Securities registered pursuant to section 12(b) of the Act: None

Securities registered pursuant to section 12(g) of the Act:

Common Stock, no par value

(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

As of March 16, 2001, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$30,109,500 based on the closing price of the registrant's common stock on such date, \$9.00, as reported on the Nasdaq Stock Market.(1)

The number of shares of Common Stock outstanding as of March 16, 2001 was 7,425,500

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the 2000 Annual Meeting of Shareholders are incorporated into Part III of this Form 10-K.

(1) The aggregate dollar amount of the voting stock set forth equals the number of shares of Common Stock outstanding, reduced by the number of shares of Common Stock held by executive officers, and directors and shareholders owning in excess of 10% of the registrant's Common Stock. The information provided shall in no way be construed as an admission that any person whose holdings are excluded from this figure is an affiliate of the registrant or that any person whose holdings are included in this figure is not an affiliate of the registrant and any such admission is hereby disclaimed. The information provided herein is included solely for record keeping purposes of the Securities and Exchange Commission.

PART I

ITEM 1. BUSINESS.

General

A.C. Moore Arts & Crafts, Inc. (the "Company") is a leading operator of arts and crafts stores that offer a vast assortment of traditional and contemporary arts, crafts and floral merchandise for a wide range of customers. The Company's business strategy is to provide the broadest and deepest selection of high quality merchandise at the lowest prices in an inviting, attractive store environment with superior customer service. The Company's objective is to become the leading arts and crafts retailer in each of its markets. The Company opened its first store in 1985 and since then has focused on developing and refining its retail concept. The Company became a holding company in July 1997 by incorporating in Pennsylvania and exchanging 4,300,000 shares of Common Stock for all the capital stock of its operating subsidiary which was organized in Delaware in 1984. As of December 31, 2000, the Company was operating 50 stores in the Eastern United States.

The Company's prototype store ranges in size from 20,000 to 25,000 square feet, with approximately 80% devoted to selling space. A typical store offers approximately 65,000 SKUs across 26 merchandise categories during the course of a year, with more than 45,000 SKUs offered at any one time. Merchandise is presented in a distinctive manner designed to maximize shopping convenience and to reinforce themes and colors often associated with holidays, seasonal events or specific merchandise categories. Completed arts and crafts projects are prominently displayed in each department throughout the store to stimulate new project ideas for customers and to enhance the shopping environment.

Business Strategy

The key elements of the Company's business strategy are as follows:

Vast Merchandise Selection. The Company's merchandising strategy is to offer the broadest and deepest selection of arts and crafts merchandise so that customers can obtain everything necessary to create and finish any arts and crafts project. The Company's key merchandise categories include silk and dried flowers, floral arrangements and accessories, ribbon, wedding crafts, potpourri, stitchery, yarn, jewelry crafts, kids crafts, art supplies, picture frames, stamps, doll-making, seasonal items and a variety of unfinished wood crafts. The

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Company believes its merchandise appeals to a wide range of recreational and professional crafters of all ages across diverse economic backgrounds. The Company actively seeks new merchandise by monitoring industry trends, working with domestic and international vendors, attending trade shows and craft fairs and regularly interacting with customers. The Company has designed its merchandise distribution systems to ensure rapid replenishment and the highest levels of in-stock positions. Each store receives merchandise daily from vendors or the Company's distribution center, which during peak periods will deliver a minimum of three and up to five times per week to the stores.

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Customer Friendly Stores. The Company believes that its high level of customer service and its attractive, easy-to-shop stores are important competitive advantages. To ensure prompt and personalized service, the Company staffs its stores with a high ratio of store personnel to customers, including a store manager, three associate managers and a staff of up to 60 full-time and part-time sales associates. Store personnel, many of whom are arts and crafts enthusiasts, assist customers with merchandise selection and project ideas. All stores are furnished with a customer service area, a counter for the free arrangement of floral merchandise, eight to ten registers to ensure quick customer checkout and a room in which classes are held up to seven days a week for adults and children on a wide variety of craft skills. The Company's stores are typically located in power strip centers with convenient parking and are easily accessible from main arteries.

Price Leadership. The Company seeks to maintain the lowest prices on all merchandise. Buyers and store managers actively monitor competitors' prices to ensure that the Company maintains the lowest prices. The Company's policy to beat any competitor's advertised price by 10% is clearly displayed in all stores. In addition, on a weekly basis, the Company advertises select items at 20% to 40% off their everyday low prices. The Company believes that its strategy of price leadership enhances customer loyalty and provides superior value.

Entrepreneurial Culture. Since inception, the Company has strived to foster an ownership culture and merchandising creativity at all levels of the organization. This culture allows the Company to have numerous merchandising initiatives, which, if proven successful, can be implemented very quickly throughout the Company. For example, each store manager is empowered to purchase merchandise to meet the unique needs of the local customer base. Store managers and associate managers earn incentive bonuses based upon annual increases in store profitability, and in 2000, average compensation for store managers was \$98,000. The Company believes its focus on empowering and rewarding its employees helps in recruiting, hiring and retaining talented personnel.

Growth Strategy

The Company has developed an expansion plan to become the leading arts and crafts retailer in each of its markets and plans to open at least 22 stores in 2001 and 2002. The Company has no current plans to expand through acquisitions, but may consider possible acquisitions in the future. The Company is targeting its expansion in both existing and new markets within an approximate 500-mile radius of the Company's southern New Jersey distribution center. This area contains more than 30% of the United States' population.

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Merchandising

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The Company's typical store offers approximately 65,000 SKUs across 26 merchandise categories during the course of a year, with more than 45,000 SKUs offered at any one time. The merchandise offered by the Company, by major product category, is as follows:

Floral and Accessories

Silk Flowers - includes a wide, seasonally changing assortment of high quality silk flowers, hand wrapped flowers, polystems, potted plants and green and flowering bushes.

Dried Flowers - includes baby's breath, eucalyptus and many styles and colors of a seasonally changing assortment of bouquets of dried flowers.

Floral Accessories - includes clay, brass, glass and ceramic containers, assorted mosses, styrofoam shapes, wreaths and other components to create floral displays.

Floral Arrangements - the Company's floral designers work with customers to make any arrangement, free of charge, from silk or dried flowers purchased from the Company. The stores also carry a large assortment of pre-made arrangements.

Ribbon - includes ribbon by the spool, lace, a large selection of specialty ribbon sold by the yard and pre-made bows.

Wedding - includes wedding supplies, bridal headpieces, bridal flowers, bouquet holders, ribbon roses and items used for christenings and baby showers.

Potpourri - includes dried potpourri, potpourri oils, packaged scents and a wide assortment of candles, ranging from tealights to five pound three wick candles.

Candle Making - includes blocks of paraffin wax, wicks and other materials necessary to make candles, as well as candle kits and brass and glass candle holders.

Wicker - includes a wide assortment of wicker baskets in various shapes and sizes.

In 2000, 1999 and 1998, floral and accessories accounted for approximately 26%, 28% and 27% of sales, respectively.

Traditional Crafts

Stitchery - includes a broad range of stitchery kits which appeal to beginner and experienced stitchers, cross stitch supplies, stitchery accessories, floss and sewing notions.

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Yarn - includes acrylic, crochet cotton, cotton blends, rayon and other blends, as well as a full assortment of hooks, needles and other accessories.

Wood - includes a variety of unfinished wood products, such as shelves, bird houses, clocks and other decorative pieces which can be finished

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in various ways such as painting, staining or stenciling.

Cake and Candy Making - includes cake boards, bakeware, candy molds, chocolate melts, cookie cutters, icing coloring and flavors and spices.

Miniatures - includes dollhouses and dollhouse furnishings, such as room settings, wallpaper, flooring and lighting, as well as miniature porcelains and ceramics.

Doll Making - includes bodies, heads and hair used to make dolls and clothing for dolls, as well as teddy bears and other stuffed animals.

Kids Crafts - includes sand art, sidewalk chalk, bead art supplies, children's stitchery kits, coloring and other books and children's crafts similar to crafts done by adults.

Felt, Glitter - includes felt, glitter, pom-poms, chenille stems and loupou, all of which are used in the creation of craft projects.

Books - includes a wide range of books to assist crafters in all categories, such as how-to books for the beginner and books for the experienced crafter.

In 2000, 1999 and 1998, traditional crafts accounted for approximately 29%, 29% and 30% of sales, respectively.

Art Supplies and Frames

Art Supplies - includes bottled and tube paints (oil, acrylic and water based), pastels, brushes, tablets, canvas pieces, drawing pencils, markers and art palettes.

Stamps and Stationery - includes decorative stamps, stamp pads, fashion stickers, embossing tools, photo and memory albums, memory album accessories, scissors, hole punchers and note and fashion papers.

Stencils - includes decorative stencils, crayons and paints for use on walls, wood, metal, clothing and other products.

Frames - includes frames of all types and sizes, including empty frames and frames with glass, matting, posters and framing hardware.

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In 2000, 1999 and 1998, art supplies and frames accounted for approximately 31%, 30% and 28% of sales, respectively.

Fashion Crafts

Clothing - includes adult's and children's T-shirts and sweatshirts to be decorated with fabric art, as well as related accessories.

Transfers - includes pictures which are ironed or sewn onto clothing, most of which can be further embellished with glitter and fabric paints.

Jewelry Making - includes jewelry making components such as beads, sequins, rhinestones and findings, as well as the tools required to complete the project.

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In 2000, 1999 and 1998, fashion crafts accounted for approximately 8%, 7% and 7% of sales, respectively.

Seasonal Items

Seasonal items include a wide range of merchandise used as decorations for all major holidays and seasons, including the two most popular holiday seasons, Christmas and Easter. Other holidays, such as Valentine's Day, St. Patrick's Day and Halloween also result in significant sales of seasonal merchandise.

In 2000, 1999 and 1998, seasonal items accounted for approximately 6%, 7% and 8% of sales, respectively.

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Purchasing

The Company's purchasing programs are designed to support its business strategy of providing customers with the broadest and deepest selection of high quality arts and crafts merchandise at the lowest prices and maintaining high in-stock positions. In order to manage its inventory of approximately 65,000 SKUs, the Company has organized its product offerings into 26 merchandise categories. The Company's 24 person corporate buying staff develops corporate buying programs to establish the merchandise direction for the Company and creates "planograms" to provide store managers with detailed descriptions and illustrations of store layout and merchandise presentation. The Company's product offering at a store is often enhanced by merchandise purchased by that store's manager to meet the unique needs of the store's customer base. The Company monitors these purchases through vendor master file controls. In-store department managers are responsible for daily reordering of merchandise and are monitored by store managers. Ordering occurs frequently, and the Company seeks vendors who can deliver on a timely basis. Approximately 96% of merchandise orders are placed through the Company's Electronic Data Interchange ("EDI") system, which allows for the automated reordering of merchandise from most domestic vendors. Approximately 58% of orders are shipped directly from the vendor to the Company's stores. The remaining 42%, over 35% of which are floral and seasonal items, are shipped from the Company's distribution center. An early morning stocking crew unpacks deliveries and stocks merchandise before the store opens.

The Company purchases its inventory from more than 500 vendors world-wide. The largest 25 suppliers accounted for approximately 43% of the dollar volume of the Company's purchases in 2000, and the largest supplier, SBAR'S, Inc. ("SBAR'S") accounted for approximately 19% of the dollar volume of the Company's purchases in 2000. Approximately 10% of the Company's merchandise, primarily floral and seasonal items, is imported directly from foreign manufacturers or their agents, principally in the Far East. All of the Company's overseas purchases are denominated in dollars.

SBAR'S is a large distributor of arts and crafts merchandise, primarily to independent arts and crafts retailers. SBAR'S maintains an inventory of many of the items the Company purchases directly from other vendors, thereby allowing the Company to obtain merchandise from SBAR'S which cannot be delivered by vendors on a timely basis. SBAR'S maintains a product development and design department which assists the Company in identifying craft trends, and the Company often obtains from SBAR'S product samples and displays which are

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utilized in the Company's stores to generate customer interest. The Company has developed a disciplined purchasing and ordering relationship with SBAR'S, which includes daily reordering and two to five deliveries by SBAR'S per store each week, depending on the size of the store and time of the year. Merchandise purchased from SBAR'S typically has a high SKU count but small dollar volume, requires greater volume purchases from a manufacturer to obtain competitive pricing or involves a small number of SKUs from individual vendors with whom it would be impractical for the Company to establish a direct buying relationship. The Company does not have a purchase agreement or an exclusive arrangement with SBAR'S, and ordering of merchandise typically occurs through the issuance of individual purchase orders.

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The Company's buying operation is divided into two divisions. One division, headed by an Executive Vice President assisted by three buyers, handles merchandising for all floral and seasonal items. The other division, headed by a Senior Vice President assisted by a divisional merchandise manager and 10 buyers, is responsible for merchandising all other items, which comprised approximately 84% of net sales in 2000. Buyers and store management regularly attend trade shows and craft fairs to monitor industry trends and to obtain new craft ideas.

Store Format and Operations

The Company's stores are typically located in power strip centers with convenient parking and are easily accessible from main traffic arteries. The Company's prototype store ranges in size from 20,000 to 25,000 square feet, with approximately 80% devoted to selling space and the remainder consisting of delivery, storage, classroom and office areas. Stores are typically open from 9:30 am to 9:00 pm, Monday through Saturday and from 10:00 am to 6:00 pm on Sunday.

Stores are designed with a layout intended to lead customers through the entire store in order to expose them to all 26 merchandise categories. Merchandise is grouped to aid the customer in finding project related items. Extensive use is made of the display shelving at both ends of each aisle to present the best selling items. Generally, the center of the store contains the floral area, which includes a counter for floral arrangement and a ribbon center. Stores also contain a customer service area, eight to ten registers for quick customer checkout and a room for classes.

Classes are regularly held on a wide variety of craft skills. Classes are taught by sales associates as well as outside professionals. Typical classes provide instruction on oil painting, cake decorating, advanced stamping, and on making bows, children's beaded necklaces and memory albums. Classes are free of charge unless there is an extensive use of materials.

A major component of the Company's promotional strategy is its use of in-store displays and samples. Because many customers browse for new craft ideas, eye-catching displays of completed craft projects are effective at motivating impulse purchases. These displays enhance the image of store departments. Knowledgeable store personnel are available to describe displays in detail to customers and to offer assistance on related arts and crafts projects. The Company has four field design coordinators who are responsible for ensuring high quality floral displays in all stores.

The Company's Chief Operating Officer is responsible for store operations and is assisted by the Senior Vice President, Store Operations and six Vice Presidents. Each Vice President is responsible for eight to ten stores.

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Each store employs up to approximately 60 full and part-time sales associates and is managed by a store manager, assisted by three associate store managers,

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each of whom is responsible for approximately one-third of a store's selling space. New stores are opened by the Company's new store development team which consists of the Vice President, New Store Development, a set-up-crew, and staff from the human resources and planogram departments. The Company seeks to develop the management capabilities of its managers through both Company training programs and on-the-job training. In addition, store managers and associate store managers attend several Company-sponsored conferences each year to refine and develop their skills in merchandising, merchandise trends, store operations, finance, interviewing, performance appraisals and general management. Training sessions are also held for floral designers and classroom coordinators at various times during the year.

Distribution

The Company's objective of maintaining high in-stock positions in all merchandise categories in all store locations is supported by its distribution system. Approximately 42% of the selling value of all merchandise is delivered to stores from the Company's distribution center, 19% is delivered by SBAR'S and the balance is drop-shipped by other vendors. Deliveries are made from the Company's distribution center two or three times per week, depending on store size, during eight months of the year and three to five times during the peak selling season of September through December. The Company maintains its own leased fleet of tractors and trailers. The Company has contracted with an outside carrier to deliver to stores for which deliveries will require an overnight stay.

The distribution center's mission is to support the Company's stores. The distribution center is used strategically to distribute merchandise which is imported, cannot be delivered by a vendor on a timely basis or in the small quantities demanded by the store ordering process or is bulky and, therefore, difficult to maintain in the stores. Also, the Company will order merchandise in large quantities for delivery to the distribution center when the vendor offers substantial volume discounts or other economic incentives.

The Company's 250,000 square foot distribution center and adjoining 10,000 square foot office complex in Blackwood, New Jersey is leased for a term which expires in October 2004 with an option to renew for six years. Approximately one-sixth of the distribution center is used for order picking, with the balance used for receiving and bulk stock storage. The distribution center was expanded to its current size in 1998. The Company also leases an additional 150,000 square feet of warehouse space to house imported product and seasonal merchandise.

Management of the distribution process is accomplished through the use of a distribution center management system. The system includes the use of handheld computers to record all merchandise movement throughout the distribution center and to instantly update inventory records through the use of radio frequency communication. The Company believes that this system, which operates in a paperless environment, enables the Company to enhance the tracking of inventory in the distribution center, increases the efficiency of distribution center personnel and helps ensure the distribution center's ability to maintain high in-stock positions in each of the Company's stores as the Company expands its store base.

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Advertising and Promotion

The Company creates its own advertising using photo art scanned into a Macintosh system supported by Pagemaker(R) software. The Company advertises 52 weeks per year, typically in midweek editions of local and/or regional newspapers. Approximately twelve times per year the Company runs multi-page newspaper inserts in local and regional newspapers. In addition, prior to store openings, the Company uses radio advertisements to develop customer awareness and runs special pre-opening ads, normal advertising copy and/or grand opening inserts in newspapers. In 2000, the Company's net advertising expenditures were approximately 3% of net sales.

The Company uses in-store displays and samples of completed arts and crafts projects as a major component of its promotional strategy. Because many customers browse for new craft ideas, eye-catching displays of completed craft projects are effective at motivating impulse purchases. The Company also promotes customer interest in crafting by offering classes on a wide variety of craft skills.

The Company believes that teachers, who often purchase arts and crafts merchandise for in-school projects, are an important customer segment. To generate goodwill, the Company offers teachers who join its Teachers Program a 10% discount on all regularly and sale priced merchandise. Over 450,000 discount cards have been issued to teachers.

The Company's "Crafty Kids Birthday Club" and "Teen Club" are intended to develop future crafters as customers. Members of these clubs receive a birthday card containing a \$5.00 gift certificate each year through their fifteenth birthday. These clubs have over 400,000 members.

Management Information Systems

The Company operates a high speed multi-platform local area network (LAN) and a wide area network (WAN) which support the 10 servers and 250 workstations within its distribution center and corporate offices, and the 55 remote servers and 500 remote workstations located in the stores. In 1999 the Company successfully installed a voice over frame telecommunications system over its Virtual Private Network (VPN) that links its stores to its main office and distribution center. A VPN uses virtual connectivity to give all users the look and feel of a private network with the flexibility and economics of a public network. All voice and data transmissions are passed over this VPN.

The LAN and WAN support the Company's corporate systems which include its accounting, merchandising, store ordering and Radio Frequency (RF) warehouse management system. The Company's management information and control system has been designed to support the Company's key business objective of maintaining

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high in-stock merchandise positions in all of the Company's stores. This internally developed system is based upon EDI with most of the Company's vendors as well as with its distribution center. Stores electronically transmit their orders over the VPN to the corporate office where data is electronically sorted, processed and transmitted to the appropriate vendor. Orders are also fed automatically into the accounts payable system. This system captures daily purchases by SKU. The information is then used to develop planograms and is integrated into reports for the buyers and store managers.

In August 2000 the Company completed the installation of its new Point

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of Sale system (POS) in all of its stores. This new POS system which includes merchandise UPC scanning at the registers along with the expansion of the Company's Radio Frequency System, allows its stores to save or re-deploy manpower that had previously been used to mark each piece of merchandise. This system also improves the speed of the check-out process at the registers, cuts down the number of pricing errors, and provides greater control over register operations. With the POS data capturing capabilities, faster and more detailed sales and margin information is now available. In 2001 the Company anticipates completing a series of reports which will allow the organization to better utilize the information captured.

Competition

The arts and crafts retailing business is highly competitive. The Company currently competes against a diverse group of retailers, including several national and regional chains of arts and crafts retailers (such as publicly-held Michaels Stores and Rag Shops and privately-held Frank's Nursery and Crafts), local merchants that specialize in one or more aspects of arts and crafts and various mass merchandisers that typically dedicate a portion of their selling space to a limited selection of arts and crafts items. These mass merchandisers and some of the national chains have substantially greater financial resources and operate more stores than the Company.

The Company believes that the principal competitive factors in its business are pricing, breadth of merchandise selection, in-stock merchandise position and customer service. The Company believes that it is well positioned to compete on each of these factors.

Employees

As of December 31, 2000, the Company had 1,276 full-time and 2,063 part-time employees. Of the total 3,339, 3,094 worked at stores, 114 at the distribution center and 131 at the corporate offices. None of the Company's employees is covered by a collective bargaining agreement, and the Company considers its relationship with its employees to be good.

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Trademarks

The Company uses the "A.C. Moore" name as a tradename and as a service mark in connection with the sale of its merchandise. The Company's "A.C. Moore" logo has been federally registered as a service mark.

Cautionary Statement Relating to Forward Looking Statements

Certain oral statements made by management of the Company from time to time and certain statements contained herein or in other periodic reports filed by the Company with the Securities and Exchange Commission or incorporated by reference herein or therein are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"), with respect to results of operations and the business of the Company. All such statements, other than statements of historical facts, including those regarding market trends, the Company's financial position and results of operations, business strategy, projected costs, and plans and objectives of management for future operations, are forward-looking statements. In general, such statements are identified by the use of forward-looking words or phrases including, but not limited to, "intended," "will," "should," "may," "believes," "expects," "expected," "anticipates," and "anticipated" or the negative thereof or variations thereon

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or similar terminology. These forward-looking statements are based on the Company's current expectations. Although the Company believes that the expectations reflected in such forward looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. These forward-looking statements represent the Company's current judgment. The Company disclaims any intent or obligation to update its forward-looking statements. Because forward-looking statements involve risks and uncertainties, the Company's actual results could differ materially. Important factors that could cause actual results to differ materially from the Company's expectations ("Cautionary Statements") include those that are discussed below. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on behalf of the Company are expressly qualified in their entirety by the Cautionary Statements.

Risks Associated With Expansion. The Company's strategy to increase its net sales and earnings will depend in large part on its ability to open new stores and to operate them on a profitable basis. The Company opened ten stores in 2000 and anticipates opening 10-14 stores in 2001 and at least 12 stores in 2002, in both existing and new geographic markets. The opening of additional stores in an existing market could result in lower net sales from the Company's existing stores in that market. Opening stores in new geographic markets may present competitive and merchandising challenges that are different from those currently faced by the Company in its existing geographic markets. The Company may incur higher costs related to advertising and distribution in connection with entering new markets. If the Company opens stores that do not perform to the Company's expectations or if store openings are delayed, the Company's results of operations and financial condition could be materially adversely affected. The success of the Company's planned expansion will be dependent upon

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many factors, including the identification of suitable markets, the availability and leasing of suitable sites on acceptable terms, the availability of acceptable financing, the hiring, training and retention of qualified management and other store personnel and general economic conditions. The Company's expansion will place significant demands on the Company's management, resources, operations and existing information systems, and the Company must ensure the continuing adequacy of its financial controls, operating procedures and information systems. Also, the Company's continued growth will depend on its ability to increase sales in its existing stores. There can be no assurance that the Company will be successful in any of these areas, and, as a result, there can be no assurance that the Company will achieve its planned expansion or that new stores will be effectively integrated into the Company's existing operations or will be profitable.

Dependence on Key Personnel. The success of the Company and its growth strategy is dependent upon the active involvement of senior management personnel, particularly John E. ("Jack") Parker, its President and Chief Executive Officer. The loss of the services of Mr. Parker or other members of senior management could have a materially adverse effect on the Company. The Company has not entered into employment agreements with any members of its senior management team nor does it maintain any key man life insurance on them. The Company's success in the future will also be dependent upon its ability to attract and retain other qualified personnel, including store managers.

Small Store Base. As of December 31, 2000 the Company operated a chain of only 50 stores. The results achieved to date by the Company's relatively small store base may not be indicative of the results of the larger number of stores which the Company intends to operate in existing or new markets. Because the Company's current and planned stores are located in the mid-Atlantic,

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Northeast and Southeast regions, the effect on the Company of adverse events in these regions (such as weather or unfavorable regional economic conditions) may be greater than if the Company's stores were more geographically dispersed. Furthermore, due to the Company's relatively small store base, one or more unsuccessful new stores, or a decline in sales at an existing store, will have a more significant effect on the Company's results of operations than would be the case if the Company had a larger store base.

Quarterly Fluctuations. The Company's business is affected by the seasonality pattern common to most retailers. Due to the importance of the fall selling season, which includes Halloween, Thanksgiving and Christmas, the fourth calendar quarter has historically contributed, and is expected to continue to contribute, a substantial majority of the Company's operating income for the entire year. As a result, any factors negatively affecting the Company during the fourth quarter of any year, including adverse weather and unfavorable economic conditions, would have a materially adverse effect on the Company's results of operations for the entire year. The Company's quarterly results of operations also may fluctuate based upon such factors as the timing of certain holiday seasons, the number and timing of new store openings, the amount and timing of store pre-opening expenses, the amount of net sales contributed by new and existing stores, the mix of products sold, the timing and level of markdowns, competitive factors, weather and general economic conditions.

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Competition. The arts and crafts retailing business is highly competitive. The Company currently competes against a diverse group of retailers, including several national and regional chains of arts and crafts retailers, a substantial number of local merchants that specialize in one or more aspects of arts and crafts and various mass merchandisers that typically dedicate a portion of their selling space to a limited selection of arts and crafts items. These mass merchandisers and some of the national chains have substantially greater financial resources and operate more stores than the Company.

Risks Associated With Merchandising. The Company's success depends, in large part, on its ability to anticipate and respond, in a timely manner, to changing merchandise trends and consumer demands. Accordingly, any delay or failure by the Company in identifying and responding to changing merchandise trends could adversely affect consumer acceptance of the merchandise in the Company's stores. In addition, the Company makes decisions regarding merchandise well in advance of each of the seasons in which such merchandise will be sold. Significant deviations from projected demand for products would have a materially adverse effect on the Company's results of operations and financial condition, either from lost sales due to insufficient inventory or lower margins due to the need to mark down excess inventory.

Dependence on SBAR'S. SBAR'S is the Company's largest supplier of merchandise to the Company who accounted for approximately 19% of the dollar volume of the Company's purchases in 2000. The Company's future success is dependent upon its ability to maintain a continuing good relationship with SBAR'S and its other principal suppliers. The Company does not have any purchase agreements or exclusive arrangements with SBAR'S or any other vendors, and ordering of merchandise typically occurs through the issuance of individual purchase orders. The failure to maintain such relationships could have a materially adverse effect on the Company's results of operations, financial condition and planned store expansion.

Risks Associated with Sourcing and Obtaining Merchandise from Foreign Sources. The Company in recent years has placed increased emphasis on obtaining

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floral and seasonal items from overseas vendors, with approximately 10% of all merchandise being purchased from overseas vendors in 2000. A change in the competitiveness of a particular country's exports, whether due to a change in trade regulations, currency fluctuations or other reasons is likely to increase the cost of items purchased by the Company overseas or make such items unavailable with a possible resulting materially adverse effect on the Company's results of operations and financial condition.

Inventory Risk. The Company depends upon in-store department managers to reorder merchandise. The failure of the Company's staff to accurately respond to inventory requirements could adversely affect consumer acceptance of the merchandise in the Company's stores and thereby negatively impact sales which could have a materially adverse effect on the Company's results of operations and financial condition. In addition, as do most other retailers, the Company conducts a physical inventory in the stores once a year, and quarterly results are based on an estimated gross margin and accrual for estimated inventory shrinkage.

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Future Capital Needs. The Company currently intends to finance the opening of new stores with cash flow from operations and borrowings. The Company plans to open 10-14 stores in 2001 and at least 12 stores in 2002. The Company expects that the average cash investment, including pre-opening expenses, required to open a store will be approximately \$1,250,000. There can be no assurance that the actual cost of opening a store will not be significantly greater than that expected by the Company. The Company may be required to seek additional debt and/or equity financing in order to fund its continued expansion. There can be no assurance that such additional financing will be available on terms acceptable to the Company, if at all. In addition, the Company's ability to incur additional indebtedness or issue equity or debt securities could be limited by covenants in present and future loan agreements and debt instruments.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Company are currently as follows:

| Name ---- | Age --- | Position ----- |
|----------------------------|------------|---|
| John E. (Jack) Parker..... | 59 | President, Chief Executive Officer and Director |
| Rex A. Rambo..... | 59 | Executive Vice President, Chief Operating Officer |
| Patricia A. Parker..... | 58 | Executive Vice President, Merchandising and Director |
| Leslie H. Gordon..... | 57 | Executive Vice President, Treasurer and Chief Financial Officer |

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Officer

Janet Parker-Vandenberg..... 38 Senior Vice President, Merchandising

Mr. Parker is a co-founder of the Company and has been President, Chief Executive Officer and a director of the Company since its inception. From 1959 to 1984, Mr. Parker worked for the F.W. Woolworth Company ("Woolworth") in various management positions, most recently as President and Chief Executive Officer of the U.S. General Merchandise Group where he had responsibility for more than 1,000 stores, including the entire domestic chain of Woolworth retail stores. Mr. Parker is the husband of Patricia A. Parker and the father of Janet Parker-Vandenberg.

Mr. Rambo has been Executive Vice President and Chief Operating Officer of the Company since December 1997. From December 1996 to December 1997, Mr. Rambo served as Executive Vice President, Strategic Development, Merchandising and Marketing of the Company. In 1995 and 1996, Mr. Rambo was Executive Vice President, Merchandising and Marketing of Michaels Stores, Inc., an arts and crafts retailer. From 1992 to 1995, Mr. Rambo served in various management capacities with Montgomery Ward & Co. and its affiliates, first, from 1992 to 1994 as a Vice President of Montgomery Ward and most recently as President and Chief Operating Officer of Montgomery Ward's subsidiary Lechmere, Inc., a retailer of electronics and other home products. In July 1997, Lechmere, Inc. filed a petition in bankruptcy under Chapter 11. From 1963 to 1992, Mr. Rambo worked for Sears, Roebuck and Co. in various management capacities, including National Marketing Manager.

Ms. Parker has been Executive Vice President, Merchandising of the Company since September 1990. From 1985 to 1990, she served as a Vice President of the Company. Ms. Parker is responsible for purchasing all floral and seasonal merchandise and the Company's import purchasing program. Ms. Parker is the wife of Jack Parker.

Mr. Gordon has been Executive Vice President, Treasurer and Chief Financial Officer of the Company since February 1999. From March 1996 to January 1999, Mr. Gordon served as Senior Vice President, Treasurer and Chief Financial Officer of the Company. From 1992 to 1995, Mr. Gordon was Senior Vice President, Finance of C & J Clark America, Inc., a shoe manufacturer, wholesaler and retailer. From 1986 to 1992, Mr. Gordon served as Senior Vice President, Finance of SILO, Inc., an electronics retailer.

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Ms. Parker-Vandenberg has been Senior Vice President, Merchandising of the Company since 1994. From 1990 to 1994, Ms. Parker-Vandenberg served as Vice President of Administration of the Company, and from 1985 to 1990, she was the Company's Accounting Manager. Ms. Parker-Vandenberg is the daughter of Jack and Patricia A. Parker.

ITEM 2. PROPERTIES.

As of March 15, 2001, the Company operated twelve stores in Pennsylvania, nine stores in New York, eight stores each in New Jersey and Massachusetts, five stores in North Carolina, four stores in Maryland, three stores in Connecticut, two stores in Delaware, and one store in each of New Hampshire and Rhode Island, all of which are leased. In addition, the Company has five stores (two each in North Carolina and New Jersey and one in West

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Virginia) under lease, all of which the Company plans to open in 2001. Most store leases have an average initial term of ten years, with three five-year renewal options, and provide for predetermined escalations in future minimum annual rent or additional rent contingent upon store sales levels. The pro rata portion of scheduled rent escalations has been included in other long-term liabilities in the Company's balance sheet.

The Company selects store sites on the basis of various factors, including physical location, demographics, anchor and other tenants, location within the center, parking and available lease terms. The Company looks for co-tenants that generate a high rate of shopping traffic, such as specialty value-oriented women's retailers, leading chain supermarkets, discount chains, home improvement centers, book stores and domestics stores. The Company believes its stores are attractive to developers because they attract high rates of customer traffic and generate above average net sales per square foot. The Company's store site selection process is headed by the Chief Operating Officer.

The Company's 250,000 square foot distribution center and adjoining 10,000 square foot office complex in Blackwood, New Jersey is leased for a term which expires in October, 2004 with an option to renew for six years. Approximately one-sixth of the distribution center is used for order picking, with the balance used for receiving and bulk stock storage. The Company also leases an additional 150,000 square feet of warehouse space to house imported product and seasonal merchandise. That lease expires in February, 2003.

ITEM 3. LEGAL PROCEEDINGS.

From time to time, the Company is involved in litigation arising in the ordinary course of its business. None of the pending litigation, in the opinion of management, is likely to have a materially adverse effect on the Company's results of operations or financial condition. The Company maintains general liability insurance in amounts deemed adequate by management.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2000, through the solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's Common Stock is traded on the NASDAQ National Market under the symbol ACMR. The following table shows the quarterly range of high and low sales prices of the Common Stock for each quarterly period within the two most recent years:

| Quarter Ended 2000 | High | Low |
|-----------------------|--------|--------|
| March 31 | \$7.94 | \$4.63 |
| June 30 | 7.88 | 4.50 |
| September 30 | 9.50 | 6.31 |
| December 31 | 8.63 | 5.75 |

1999

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| ----- | | |
|--------------|--------|--------|
| March 31 | \$6.50 | \$4.13 |
| June 30 | 6.88 | 4.50 |
| September 30 | 6.38 | 4.13 |
| December 31 | 6.13 | 4.00 |

As of March 16, 2001, there were approximately 96 stockholders of record.

The Company does not intend to pay any cash dividends as it intends to retain its earnings to finance the expansion of its business. Future dividends, if any, will depend upon the Company's results of operations, financial condition, cash requirements and other factors deemed relevant by the Board of Directors. Furthermore, the Company's credit agreement prohibits the payment of cash dividends by the Company without the bank's consent.

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ITEM 6. SELECTED FINANCIAL DATA.

The selected Financial data for the five years ended December 31, 2000 should be read in conjunction with the Company's consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere herein.

| | Year Ended December | | |
|--|--|-----------|---------|
| | (dollars in thousands, except per share) | | |
| | 2000 | 1999 | 1998 |
| | ----- | ----- | ----- |
| STATEMENT OF INCOME DATA: | | | |
| Net sales..... | \$262,057 | \$222,998 | \$187,0 |
| Income from operations..... | 10,763 | 8,975 | 5,8 |
| Net income..... | 6,557 | 5,664 | 3,9 |
| Net income per share, diluted..... | 0.88 | 0.76 | 0. |
| Pro forma net income(1)..... | - | -- | |
| Pro forma diluted net income per share(1)..... | - | -- | |
| Weighted average shares outstanding | 7,444,113 | 7,405,000 | 7,517,0 |
| BALANCE SHEET DATA: | | | |
| Working capital..... | 47,168 | \$46,625 | \$42,7 |
| Total assets..... | 107,392 | 90,617 | 82,3 |
| Long-term debt, excluding current portion..... | 812 | 1,199 | 1,5 |
| Shareholders' equity..... | 63,681 | 56,972 | 51,1 |

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OTHER DATA:

| | | | |
|---|--------|----------|----------|
| Cash flows from operating activities..... | 6,709 | \$9,808 | \$ (4,44 |
| EBITDA(2)..... | 14,592 | \$11,874 | \$8,0 |
| Stores open, end of year..... | 50 | 40 | |
| Comparable store sales increase..... | 3% | 6% | |
| Average sales per store..... | 5,919 | \$5,915 | \$6,3 |
| Sales per total square foot..... | \$ 271 | \$ 271 | \$ 3 |

Footnotes on following page.

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- (1) Prior to the Company's initial public offering completed on October 9, 1997, the Company elected to be taxed under the S Corporation provisions of the Internal Revenue Code. Under these provisions, the shareholders of the Company included their pro rata share of income or loss in their individual returns. The pro forma information has been computed as if the Company was subject to federal and all applicable state corporate income taxes for each year presented, assuming the tax rate that would have applied had the Company been taxed as a C Corporation
- (2) EBITDA is calculated as income before income taxes plus interest, depreciation and amortization. EBITDA should not be considered as an alternative to net income, as an indicator of operating performance or as an alternative to cash flow as a measure of liquidity to service debt obligations and is not in accordance with or superior to generally accepted accounting principles, but provides additional information on the company's ability to incur and service debt.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion of the Company's historical results of operations and its liquidity and capital resources should be read in conjunction with the selected financial data and the consolidated financial statements of the Company and related notes thereto appearing elsewhere in this report.

Overview

The Company is a rapidly growing operator of arts and crafts stores that offers a vast assortment of traditional and contemporary arts and crafts merchandise for a wide range of customers.

In 1995, the Company implemented a plan to build its infrastructure to position the Company for rapid future growth. By the end of 1996, the Company had recruited experienced senior retail executives in the areas of operations, merchandising and finance, made key additions in other areas such as buying, information systems, human resources and real estate, leased a new 130,000 square foot distribution center and office complex (expanded to 250,000 square feet in 1998), developed its automated ordering system to electronically link the Company with most vendors, and developed a real estate program to accommodate the Company's expansion plan. In 1996, the Company opened one new

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store. In 1997 and 1998, the Company continued the implementation of its expansion strategy by opening a total of 20 new stores and achieved a sales growth in the existing store base of 3% in 1998 and 4% in 1997. Newer stores, on average, do not generate the volume levels of older stores. As a result, average sales per store in 1998 of \$6.3 million was lower than the average sales per store of \$6.7 million in 1997, and sales per square foot of \$302 in 1998 was lower than sales per square foot of \$326 in 1997.

In 1998, the Company did not meet its sales and profit objectives and as a result made the decision to slow down its store expansion so that it could concentrate on improving the operations and profits of its existing stores. In 1999, the Company opened three new stores, improved its departmental

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plan-o-grams and also improved its internal communications between various components of its organization. In 1999, the sales growth in existing stores was 6%. Average sales per store and sales per square foot continued to decline in 1999 to \$5.9 million and \$271, respectively, from the previous year due to the factors cited above.

With the changes made by the Company in 1999, the Company re-established its aggressive opening schedule and opened 10 stores in 2000. The Company plans to open at least 22 new stores in 2001 and 2002, all within 500 miles of its southern New Jersey distribution center. This area contains more than 30% of the United States' population.

Results of Operations

The following table sets forth, for the periods indicated, selected statement of operations data expressed as a percentage of net sales:

| | Year Ended December | |
|---|---------------------|--------|
| | 2000 | 1999 |
| Net sales..... | 100.0% | 100.0% |
| Cost of sales..... | 63.3 | 64.2 |
| | ---- | ---- |
| Gross margin..... | 36.7 | 35.8 |
| Selling, general and administrative expenses..... | 31.9 | 31.5 |
| Store pre-opening expenses..... | .7 | .3 |
| | ---- | ---- |
| Income from operations..... | 4.1 | 4.0 |
| Interest (income) expense, net..... | 0.1 | (0.0) |
| | ---- | ---- |
| Income before income taxes..... | 4.0 | 4.0 |
| Provision for income taxes..... | 1.5 | 1.5 |
| | ---- | ---- |
| Net income..... | 2.5% | 2.5% |
| | === | === |

2000 Compared to 1999

Net Sales. Net sales increased \$39.1 million, or 17.5%, to \$262.1 million from \$223.0 million in 1999. This increase resulted from (i) net sales of \$25.2 million from 10 new stores opened during the period, (ii) net sales of

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\$7.5 million from stores opened in 1999 not included in the comparable store base, and (iii) a comparable store sales increase of \$6.4 million, or 3%. Stores are added to the comparable store base at the beginning of the fourteenth full month of operation.

Gross Margin. Cost of sales includes the cost of merchandise, plus certain distribution and purchasing costs. Cost of sales increased \$22.8 million, or 15.9%, to \$165.9 million in 2000 from \$143.1 million in 1999. The gross margin increased \$16.3 million, or 20.4%, to \$96.2 million in 2000 from \$79.9 million in 1999. The gross margin increased to 36.7% of net sales in 2000 from 35.8% in 1999 mainly due to reductions in clearance sales in the fourth quarter and also reductions in costs obtained from both domestic and import suppliers.

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Selling, General and Administrative Expenses. Selling, general and administrative expenses include (a) direct store level expenses, including rent and related operating costs, payroll, advertising, depreciation and other direct costs, and (b) corporate level costs not directly associated with or allocable to cost of sales including executive salaries, accounting and finance, corporate information systems, office facilities and other corporate expenses. Selling, general and administrative expenses increased \$13.2 million, or 18.7%, in 2000 to \$83.5 million from \$70.3 million in 1999. Of the increase, \$10.2 million was attributable to the ten stores open during 2000 which were not open during 1999 and the stores opened in 1999 not in the comparable store base. The remainder of the increase is attributable to \$1.6 million in operating expenses in the comparable stores (2.7%) and \$1.4 million in corporate costs. The increase in corporate costs is the result of continued expansion of the infrastructure to support the growth of the Company. As a percentage of sales, selling, general and administrative costs increased to 31.9% of net sales in 2000 from 31.5% of net sales in 1999. This increase is primarily due to the new stores which, on average, have higher operating costs as a percent of sales than older stores.

Store pre-Opening Expenses. The Company expenses store pre-opening costs as incurred. Pre-opening expenses for the ten new stores opened in 2000 amounted to \$1.9 million. In 1999, the Company opened 3 stores and had pre-opening expenses of \$609,000.

Interest Expense. Interest expense was \$345,000 for 2000, an increase of \$173,000 from 1999. This increase was the result of greater short-term bank borrowings as compared with 1999.

Interest Income. Interest income was \$158,000 in 2000, a decrease of \$53,000 from 1999. The decrease was due to lower cash investments as monies received from the sale of common shares in 1997 have been used to fund the Company's growth.

Income Taxes. For 2000, the effective tax rate was 38.0%, .8% greater than the effective rate in 1999 due to the level of income which moved the Company into a higher federal income tax bracket.

1999 Compared to 1998

Net Sales. Net sales increased \$36.0 million, or 19.2%, to \$223.0 million from \$187.0 million in 1998. This increase resulted from (i) net sales of \$4.1 million from three new stores opened during the period, (ii) net sales of \$21.1 million from stores opened in 1998 not included in the comparable store base, and (iii) a comparable store sales increase of \$10.8 million, or 6%. Stores are added to the comparable store base at the beginning of the fourteenth

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full month of operation.

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Gross Margin. Cost of sales increased \$24.4 million, or 20.5%, to \$143.1 million in 1999 from \$118.7 million in 1998. The gross margin increased \$11.6 million, or 17.1%, to \$79.9 million in 1999 from \$68.3 million in 1998. The gross margin decreased to 35.8% of net sales in 1999 from 36.5% in 1998 mainly due to competitive discounting in the marketplace.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$10.1 million, or 16.8%, in 1999 to \$70.3 million from \$60.2 million in 1998. Of the increase, \$9.8 million was attributable to the three stores open during 1999 which were not open during 1998 and the stores opened in 1998 not in the comparable store base. The remainder of the increase is attributable to \$200,000 in operating expenses in the comparable stores and \$100,000 in corporate costs. As a percentage of sales, selling, general and administrative costs decreased to 31.5% of net sales in 1999 from 32.2% of net sales in 1998. This decrease is primarily due to leveraging of corporate general and administrative expenses.

Store pre-Opening Expenses. Pre-opening expenses for the three new stores opened in 1999 amounted to \$609,000. In 1998, the Company opened 12 stores and had pre-opening expenses of \$2.2 million.

Interest Expense. Interest expense was \$172,000 for 1999, an increase of \$106,000 from 1998. This increase was the result of greater short-term bank borrowings as compared with 1998.

Interest Income. Interest income was \$211,000 in 1999, a decrease of \$260,000 from 1998. The decrease was due to lower cash investments as monies received from the sale of common shares in 1997 have been used to fund the Company's growth.

Income Taxes. For 1999, the effective tax rate was 37.2%, .3% greater than the effective rate in 1998.

Seasonality and Quarterly Results

Due to the importance of the fall selling season, which includes Halloween, Thanksgiving and Christmas, the fourth calendar quarter has historically contributed, and is expected to continue to contribute, a substantial majority of the Company's profitability for the entire year. As a result, any factors negatively affecting the Company during the fourth quarter of any year, including adverse weather and unfavorable economic conditions, would have a materially adverse effect on the Company's results of operations for the entire year.

The Company's quarterly results of operations also may fluctuate based upon such factors as the timing of certain holiday seasons, the number and timing of new store openings, the amount of store pre-opening expenses, the amount of net sales contributed by new and existing stores, the mix of products sold, the timing and level of markdowns, competitive factors, weather and general economic conditions.

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Set forth below is certain summary information with respect to the

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Company's operations for the most recent eight fiscal quarters:

| | First Quarter | Second Quarter | Third Quarter |
|---|---------------------------------|-------------------|------------------|
| | ----- | ----- | ----- |
| | (in thousands except per share) | | |
| Year ended December 31, 2000 | | | |
| Net sales..... | \$52,783 | \$55,186 | \$60,900 |
| Income (loss) from operations..... | 167 | 36 | |
| Income (loss) before income taxes..... | 233 | 24 | (14) |
| Net income (loss)..... | 144 | 15 | (9) |
| Net income (loss) per share, diluted..... | .02 | .00 | (.00) |
| Weighted average shares outstanding..... | 7,411 | 7,435 | 7,470 |
| Year ended December 31, 1999 | | | |
| Net sales..... | \$48,136 | \$45,460 | \$50,240 |
| Income (loss) from operations..... | 700 | (268) | (8) |
| Income (loss) before income taxes..... | 771 | (258) | (13) |
| Net income (loss)..... | 470 | (157) | (7) |
| Net income (loss) per share, diluted..... | 0.06 | (0.02) | (0.00) |
| Weighted average shares outstanding..... | 7,405 | 7,405 | 7,400 |

Liquidity and Capital Resources

The Company's cash needs are primarily for working capital to support its inventory requirements and capital expenditures, pre-opening expenses and beginning inventory for new stores.

At December 31, 2000 and 1999, the Company's working capital was \$47.2 million and \$46.6 million, respectively. During 2000 and 1999 cash of \$6.7 million and \$9.8 million was generated by operations, respectively. In 2000 and 1999, \$13.5 million and \$4.9 million of cash, respectively, was used to increase inventory levels to support both new and existing stores. In these periods, part of the inventory increase was financed through increases in accounts payable of \$8.1 million and \$2.6 million, respectively.

Net cash used in investing activities during 2000 and 1999 was \$10.6 million and \$1.7 million, respectively. This use of cash was attributed to capital expenditures of \$10.6 million in 2000 and \$5.5 million in 1999. In 1999 capital expenditures included \$2.5 million for new store openings and for major renovations in existing stores and \$2.0 million relating to point of sale and other systems development. In 2000 capital expenditures related principally to new store openings and the implementation of the point of sale system. In 1999, the Company received the proceeds of \$3.9 million of marketable securities. In 2001, the Company expects to spend approximately \$11.0 million on capital expenditures, which includes approximately \$9.0 million for new store openings and the remainder for remodeling and systems in existing stores, warehouse equipment and systems development.

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borrowings under the financing agreement will be sufficient to finance its working capital and capital expenditure requirements for at least the next 12 months.

Inflation

Management does not believe that inflation has had a material effect on its financial condition or results of operations during the past three years.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

Not applicable.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

A.C. MOORE ARTS & CRAFTS, INC.

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| Consolidated Balance Sheets at December 31, 2000 and 1999..... | 28 |
| Consolidated Statements of Income for each of the three years in the period ended December 31, 2000..... | 29 |
| Statements of Changes in Shareholders' Equity for each of the three years in the period ended December 31, 2000..... | 30 |
| Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2000..... | 31 |
| Notes to Consolidated Financial Statements..... | 32 |

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Report of Independent Accountants

To the Board of Directors and Shareholders of
A.C. Moore Arts & Crafts, Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of A.C. Moore Arts & Crafts, Inc. and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three

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years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
February 21, 2001

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A.C. MOORE ARTS & CRAFTS, INC.
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

| | Decembe |
|--|------------------------|
| | ----- 2000 ----- |
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents..... | \$ 10,310 |
| Accounts receivable..... | 830 |
| Inventories..... | 72,786 |
| Prepaid expenses and other current assets..... | 1,222 |
| | ----- |
| | 85,148 |
| Property and equipment, net..... | 21,517 |
| Other assets..... | 727 |
| | ----- |
| | \$ 107,392 |
| | ===== |

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

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| | | |
|---|----|---------|
| Current portion of capitalized leases..... | \$ | 389 |
| Trade accounts payable..... | | 26,237 |
| Accrued payroll and payroll taxes..... | | 3,822 |
| Accrued expenses..... | | 4,274 |
| Income taxes payable..... | | 3,258 |
| | | ----- |
| | | 37,980 |
| | | ----- |
| Long-term liabilities: | | |
| Capitalized equipment leases..... | | 812 |
| Deferred tax liability..... | | 2,320 |
| Other long-term liabilities..... | | 2,599 |
| | | ----- |
| | | 5,731 |
| | | ----- |
| | | 43,711 |
| | | ----- |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Preferred stock, no par value, 5,000,000 shares authorized, none issued..... | | -- |
| Common stock, no par value, 20,000,000 shares authorized, 7,415,333 outstanding at December 31, 2000 and 7,405,000 shares at December 31, 1999..... | | 43,268 |
| Retained earnings..... | | 20,413 |
| | | ----- |
| | | 63,681 |
| | | ----- |
| | \$ | 107,392 |
| | | ===== |

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

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A.C. MOORE ARTS & CRAFTS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands except per share data)

| | December 31, | |
|---|--------------|------------|
| | 2000 | 1999 |
| | ----- | ----- |
| Net sales..... | \$ 262,057 | \$ 222,998 |
| Cost of sales (including buying and distribution costs)..... | 165,850 | 143,078 |

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| | | |
|--|-----------|-----------|
| Gross margin..... | 96,207 | 79,920 |
| Selling, general and administrative expenses..... | 83,516 | 70,336 |
| Store pre-opening expenses..... | 1,928 | 609 |
| Income from operations..... | 10,763 | 8,975 |
| Interest expense..... | 345 | 172 |
| Interest income..... | (158) | (211) |
| Income before income taxes..... | 10,576 | 9,014 |
| Provision for income taxes | 4,019 | 3,350 |
| Net income..... | \$ 6,557 | \$ 5,664 |
| Basic net income per share..... | \$ 0.89 | \$ 0.76 |
| Weighted average shares outstanding..... | 7,405,897 | 7,405,000 |
| Diluted net income per share..... | \$ 0.88 | \$ 0.76 |
| Weighted average shares outstanding plus impact of stock options..... | 7,444,113 | 7,405,000 |

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

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A.C. MOORE ARTS & CRAFTS INC.
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands)

| | Shares | Common Stock | Retained Earnings |
|---|-----------|-----------------|----------------------|
| | ----- | ----- | ----- |
| Balance, December 31, 1997..... | 7,405,000 | 42,829 | 4,2 |
| Net income..... | -- | -- | 3,9 |
| Compensation expense related to stock options..... | -- | 150 | |
| Balance, December 31, 1998..... | 7,405,000 | 42,979 | 8,1 |
| Net income | -- | -- | 5,6 |
| Compensation expense related to stock options..... | -- | 137 | |
| Balance, December 31, 1999..... | 7,405,000 | 43,116 | 13,8 |
| Net income | -- | -- | 6,5 |
| Compensation expense related to stock options..... | -- | 102 | |
| Exercise of stock options | 10,333 | 50 | |

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| | | | |
|---------------------------------|-----------------------------|--------------------------|------------------------|
| Balance, December 31, 2000..... | ----- 7,415,333 ===== | ----- 43,268 ===== | ----- 20,4 ===== |
|---------------------------------|-----------------------------|--------------------------|------------------------|

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

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A.C. MOORE ARTS & CRAFTS, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)

| | Year Ended | |
|---|------------|-------|
| | 2000 | 2001 |
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Net income | \$ 6,557 | \$ |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization..... | 3,829 | |
| Compensation expense related to stock options..... | 102 | |
| Provision for deferred income taxes..... | 600 | |
| Changes in assets and liabilities: | | |
| Accounts receivable..... | (339) | |
| Inventories..... | (13,459) | |
| Prepaid expenses and other current assets..... | (319) | |
| Accounts payable, accrued payroll and payroll taxes and accrued expenses..... | 8,085 | |
| Income taxes payable..... | 1,226 | |
| Other long-term liabilities..... | 522 | |
| Other..... | (95) | |
| Net cash provided by (used in) operating activities..... | 6,709 | |
| Cash flows from investing activities: | | |
| Capital expenditures..... | (10,635) | |
| Proceeds from maturity of marketable securities..... | - | |
| Investment in marketable securities..... | - | |
| Net cash (used in) investing activities..... | (10,635) | |
| Cash flows from financing activities: | | |
| Proceeds from exercise of stock options..... | 50 | |
| Proceeds from bank overdraft..... | - | |
| Repayment of bank overdraft..... | - | |
| Proceeds from short-term debt..... | 9,750 | |
| Repayment of short-term debt..... | (9,750) | |
| Repayment of capital leases..... | (367) | |
| Net cash provided by (used in) financing activities..... | (317) | |
| Net increase (decrease) in cash and cash equivalents..... | (4,243) | |
| Cash and cash equivalents at beginning of year..... | 14,553 | |
| Cash and cash equivalents at end of year..... | \$ 10,310 | \$ |

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Supplemental cash flow information:

Cash paid during the year for:

| | | | |
|--------------------|----|-------|----|
| Interest | \$ | 339 | \$ |
| | | | |
| Income taxes | \$ | 2,249 | \$ |
| | | | |

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

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A.C. MOORE ARTS & CRAFTS, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Organization and basis of presentation. A.C. Moore Arts & Crafts, Inc. became a holding company in July 1997 by incorporating in Pennsylvania and exchanging its common stock for all of the capital stock of A.C. Moore Inc. held by its shareholders. The consolidated financial statements include the accounts of A.C. Moore Arts & Crafts, Inc. and its wholly owned subsidiaries (collectively the "Company"). All intercompany accounts and transactions have been eliminated. As of December 31, 2000, the Company operated a 50-store chain of retail arts and crafts stores in the eastern region of the United States.

Cash and cash equivalents. Cash and cash equivalents are stated at cost, which approximates market value. Cash equivalents include only securities having an original maturity of three months or less.

Concentration of credit risk. Financial instruments, which potentially subject the Company to concentrations of credit risk, are cash and cash equivalents. The Company limits its credit risk by placing its investments in highly rated, highly liquid funds.

Inventories. Inventories, which consist of general consumer merchandise held for sale, are stated at the lower of cost or market. The cost of store inventories is determined by the retail inventory method. Warehouse inventories are determined on a first-in, first-out basis. The Company includes as inventoriable costs certain indirect costs, principally purchasing, warehousing and distribution.

Property and equipment. Property and equipment are stated at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Furniture, fixtures and equipment are depreciated over periods of five to ten years and leasehold improvements are depreciated over the shorter of their estimated useful lives or the term of the related lease. Maintenance and repairs are charged to operations as incurred and major improvements are capitalized. Amortization of assets recorded under capital leases is included in depreciation expense.

Revenue recognition. Revenue is recognized at point of retail sale.

Store pre-opening expenses. Direct incremental costs incurred to prepare a store for opening are charged to expense as incurred.

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Advertising costs. The costs incurred for advertising are expensed the first time the advertising takes place and are offset by reimbursements received under cooperative advertising programs with certain vendors. Net advertising expense during 2000, 1999 and 1998 was \$6,518,000, \$6,305,000 and \$5,748,000, respectively.

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Fair value of investments. The carrying amounts of cash, cash equivalents and marketable securities, accounts receivable, other current assets, accounts payable, accrued expenses and other liabilities approximate fair value because of the short maturity of these instruments. The carrying amount of capital lease obligations approximate fair value, as the interest rates on the obligations approximate rates currently available to the Company for obligations with similar terms and remaining maturities.

Use of estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the amount of revenues and expenses during the reporting period. Differences from those estimates, if any, are recorded in the period they become known.

Stock option plan. The Company accounts for its employee stock options using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). Compensation cost for stock options is measured as the excess of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock.

2. Earnings Per Share

The following is a reconciliation of the denominators of the basic and diluted earnings per share computations:

| | Year Ended December 31, | | |
|---------------------------------|-------------------------|----------------|-------|
| | 2000 | 1999 | 1998 |
| | | (in thousands) | |
| Basic..... | 7,406 | 7,405 | 7,405 |
| Effect of dilutive options..... | 38 | - | 112 |
| Diluted..... | 7,444 | 7,405 | 7,517 |
| | ===== | ===== | ===== |

Options in excess of the fair market value have not been considered as dilutive options.

3. Property and Equipment

Property and equipment consists of:

| | December 31, | |
|--|----------------|----------|
| | 2000 | 1999 |
| | (in thousands) | |
| Furniture, fixtures and equipment..... | \$29,725 | \$20,865 |
| Leasehold improvements..... | 599 | 599 |
| Equipment for future stores..... | 2,489 | 897 |

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| | | |
|--|----------|----------|
| Capital leases..... | 1,924 | 1,924 |
| | ----- | ----- |
| | 34,737 | 24,285 |
| Less: Accumulated depreciation and amortization..... | 13,220 | 9,574 |
| | ----- | ----- |
| | \$21,517 | \$14,711 |
| | ===== | ===== |

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4. Financing Agreement

The Company has a financing agreement through April 1, 2002 with a bank which provides a \$25,000,000 revolving credit facility. The agreement is collateralized by all of the Company's assets and bears elective interest rates which vary based upon the bank's prime rate or LIBOR. Available amounts under this facility are reduced by amounts outstanding under capital lease obligations with the bank. There were no amounts outstanding at December 31, 2000 or 1999 under the revolving line of credit.

5. Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred tax liabilities and assets are recognized for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. As of December 31, 2000 and 1999, the deferred tax liability of \$2,320,000 and \$1,720,000, respectively comprised principally temporary differences related to depreciation.

A reconciliation of income tax expense at the federal income tax rate to the income tax provision is as follows:

| | Year Ended December 31, | | |
|---|-------------------------|---------|---------|
| | 2000 | 1999 | 1998 |
| | ----- | ----- | ----- |
| | (in thousands) | | |
| U.S. federal taxes at statutory rate..... | \$3,701 | \$3,065 | \$2,120 |
| State and local taxes, net..... | 206 | 193 | 32 |
| Non-deductible stock option expense..... | 31 | 47 | 51 |
| Other..... | 81 | 45 | 97 |
| | ----- | ----- | ----- |
| Income tax provision..... | \$4,019 | \$3,350 | \$2,300 |
| | ===== | ===== | ===== |

The income tax provision consists of the following:

| | Year Ended December 31, | | |
|----------------------|-------------------------|---------|---------|
| | 2000 | 1999 | 1998 |
| | ----- | ----- | ----- |
| Current tax expense: | | | |
| Federal | \$3,254 | \$2,566 | \$2,139 |

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| | | | |
|---------------------------------|---------|---------|---------|
| State | 165 | 45 | 10 |
| | ----- | ----- | ----- |
| Total current..... | 3,419 | 2,611 | 2,149 |
| | ----- | ----- | ----- |
| Deferred tax expense: | | | |
| Federal - current year..... | 448 | 526 | 112 |
| State | 152 | 213 | 39 |
| | ----- | ----- | ----- |
| Total deferred..... | 600 | 739 | 151 |
| | ----- | ----- | ----- |
| Total income tax provision..... | \$4,019 | \$3,350 | \$2,300 |
| | ===== | ===== | ===== |

6. Shareholders' Equity

The Company has authorized 5,000,000 shares of undesignated preferred stock. The Company may issue preferred stock in one or more series by vote of its Board of Directors having the dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices and liquidation preferences approved by the Board of Directors.

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At December 31, 2000, under the Company's Employee, Director and Consultant Stock Option Plan (the "1997 Plan"), the Company may grant up to 1,000,000 shares of common stock. Stock options expire ten years from the date of grant and vest ratably over a three year period. Shares available for future grants amounted to 198,384 at December 31, 2000 and 334,700 at December 31, 1999.

For 2000, 1999 and 1998, the Company's stock option activity is summarized below:

| | 2000 | | 1999 | | |
|-------------------------------------|---------|--|---------|--|---------|
| | Options | Weighted Average Exercise Price | Options | Weighted Average Exercise Price | Options |
| | ----- | ----- | ----- | ----- | ----- |
| Outstanding at beginning of year | 665,300 | \$ 9.31 | 507,000 | \$ 10.80 | 386,500 |
| Granted | 184,200 | 7.88 | 203,900 | 5.62 | 152,100 |
| Forfeited | 47,884 | 10.88 | 45,600 | 9.59 | 31,600 |
| Exercised | 10,333 | 4.78 | - | - | - |
| | ----- | ----- | ----- | ----- | ----- |
| Outstanding at end of year | 791,283 | \$ 7.21 | 665,300 | \$ 9.31 | 507,000 |
| | ===== | ===== | ===== | ===== | ===== |
| Exercisable at end of year | 405,268 | \$10.17 | 279,385 | \$ 10.00 | 119,800 |
| | ===== | ===== | ===== | ===== | ===== |

Exercise prices for options outstanding as of December 31, 2000 and the weighted average remaining contractual life of the option is as follows.

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| Exercise Price | Number of Options | Remaining Life |
|------------------|-------------------|----------------|
| ----- | ----- | ----- |
| \$ 4.75 - 5.75 | 174,183 | 8.5 years |
| \$ 7.88 - 9.00 | 502,300 | 7.7 years |
| \$ 13.38 - 15.38 | 114,800 | 7.5 years |

Had compensation cost for the Company's stock-based compensation plan been determined based on the fair value at the grant date for awards under those plans, consistent with the requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," net income and earnings per share would have been reduced to the following pro-forma amounts:

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| | | 2000 | 1999 |
|----------------------------|----------------|--------------|--------------|
| | | ----- | ----- |
| Net income | -- As reported | \$ 6,557,000 | \$ 5,664,000 |
| | -- Pro forma | \$ 5,713,000 | 4,962,000 |
| Basic earnings per share | -- As reported | \$.89 | \$.76 |
| | -- Pro forma | \$.77 | .67 |
| Diluted earnings per share | -- As reported | \$.88 | \$.76 |
| | -- Pro forma | \$.77 | .67 |

The pro forma results may not be representative of the effects on reported operations for future years. The fair value of the options was calculated using a Black-Scholes options pricing model with the following weighted-average assumptions: risk-free interest rate of 6.3% for 2000, 5.7% for 1999 and 5.1% for 1998; no dividend yield; and a weighted average expected life of the options of seven years. In accordance with the provisions of SFAS No. 123 the expected stock price volatility was 46.6% for 2000 and 54.6% for both 1999 and 1998.

Effective September 15, 1997, options to purchase 444,500 shares of common stock were granted under the 1997 Plan at an exercise price per share of \$9.00 with an exercise term of ten years. The estimated fair value of the shares on the measurement date was \$10.20. The related compensation expense is being amortized ratably over the three year vesting period. At December 31, 1999, unearned compensation included in stockholders' equity was \$102,000. At December 31, 2000, all such compensation has been recognized.

On February 28, 1995, in recognition of financial consulting services, the Company granted a Board member an option to purchase 64,500 shares of common

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stock, representing a 1.5% ownership interest in the Company. The option, which expires February 28, 2005, has an exercise price of \$4.66. The Company utilized the Black-Scholes option-pricing model to estimate the fair value of the option. The fair value of the option did not materially impact the results of operations over the periods benefited.

7. Retirement Plan

In January 1999 the Company established a 401(k) savings plan (the "401(k) Plan") for eligible team members. Participation in the 401(k) Plan is voluntary and available to any team member who is 21 years of age and has completed a three month eligibility period. Participants may elect to contribute up to 20% of their compensation. In accordance with the provisions of the 401(k) Plan, the Company makes a matching contribution to the account of each participant in an amount equal to 25% of the first 6% of eligible compensation contributed by each participant with a maximum match of \$1,500. The Company's matching contribution expense for 2000 was \$170,000 and for 1999 was \$168,000.

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8. Commitments and Contingencies

Commitments

The Company leases its retail stores, administrative offices and warehouse facilities under noncancelable operating leases. The lease for the administrative offices and distribution center has an initial lease term of six years with a six-year renewal option. Most store leases have an average initial term of ten years, with three five year renewal options, and provide for predetermined escalations in future minimum annual rent or additional rent contingent upon store sales levels. The pro rata portion of scheduled rent escalations has been included in other long-term liabilities in the accompanying balance sheet. For the years 2000 and 1999 the amount of accrued rent expense recognized over the amount paid were \$522,000 and \$416,000, respectively and has been included in other long-term liabilities in the accompanying consolidated balance sheet.

Rent expense under operating leases consists of:

| | Year Ended December 31, | | |
|---------------------------|-------------------------|----------------|---------|
| | 2000 | 1999 | 1998 |
| | ----- | ----- | ----- |
| | | (in thousands) | |
| Minimum rentals | \$12,883 | \$10,846 | \$8,218 |
| Contingent payments | 118 | 146 | 188 |
| | ----- | ----- | ----- |
| | \$13,001 | \$10,992 | \$8,406 |
| | ===== | ===== | ===== |

In 2000, the Company entered into six leases for stores to open in 2001.

Future minimum lease payments (including those for unopened stores) as of December 31, 2000 for non-cancelable operating leases with terms in excess of one year are as follows (in thousands):

| | |
|-----------|-----------|
| 2001..... | \$ 15,518 |
|-----------|-----------|

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| | |
|-----------------------------------|-----------|
| 2002..... | 15,949 |
| 2003..... | 15,538 |
| 2004..... | 14,053 |
| 2005..... | 13,324 |
| Thereafter..... | 68,871 |
| | ----- |
| Total minimum future rentals..... | \$143,253 |
| | ===== |

Financing activities not affecting cash during 1998 included capital lease obligations incurred in connection with equipment purchases of \$1,924,000. These leases require payments of principal and interest of \$443,000 per year through 2003. Interest rates under these leases approximate 6.4%.

Contingencies

The Company is not a party to any material legal proceedings other than routine litigation incidental to its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position, operating results or cash flows of the Company.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

The Company had no changes in or disagreements with accountants on accounting and financial disclosure of the type referred to in Item 304 of Regulation S-K.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information concerning the directors of the Company is set forth in the Proxy Statement to be delivered to shareholders in connection with the Company's 2001 Annual Meeting of Shareholders (the "Proxy Statement") under the heading "Election of Directors," which information is incorporated herein by reference. The name, age and position of each executive officer of the Company is set forth under the heading "Executive Officers of the Registrant" in Item 1 of this report, which information is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information concerning executive compensation is set forth in the Proxy Statement under the heading "Executive Compensation," which information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information concerning security ownership of certain beneficial owners and management is set forth in the Proxy Statement under the heading "Principal Stockholders and Management Ownership," which information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information concerning certain relationships and related

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transactions is set forth in the Proxy Statement under the heading "Certain Transactions," which information is incorporated herein by reference.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) The following documents are filed as part of this Annual Report on Form 10-K:

(1) Financial Statements:

Report of Independent Accountants

Consolidated Balance Sheets at December 31, 2000 and 1999

Consolidated Statements of Income for each of the three years
in the period ended December 31, 2000

Statements of Changes in Shareholders' Equity for
each of the three years in the period ended
December 31, 2000

Consolidated Statements of Cash Flows for each of the
three years in the period ended December 31,
2000

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules:

No financial statement schedules are required to be filed as part of this report.

(3) Exhibits:

The exhibits filed as part of this report are listed under exhibits at subsection (c) of this Item 14.

(b) Current Reports on Form 8-K:

No report on Form 8-K was filed on behalf of the Registrant during the last quarter of the period covered by this report.

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(c) Exhibits:

| Exhibit Number | Description |
|----------------|---------------------------|
| ----- | ----- |
| *3.1 | Articles of Incorporation |

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- *3.2 Bylaws
- *+10.1 1997 Employee, Director and Consultant Stock Option Plan
- *+10.2 Form of Stock Option Award Agreement
- **10.3 Loan Agreement, dated March 11, 1998, between the Company and KeyBank National Association
- *+10.4 Correspondence reflecting option granted to Richard Lesser
- *10.5 Tax Indemnification Agreement, dated July 22, 1997, among the Company, John E. Parker and William Kaplan
- *10.6 Lease, dated August 14, 1995, between Freeport 130 LLC and A.C. Moore, Inc.
- ***10.7 Second Amendment to Lease, dated as of March 25, 1998, between Freeport IBO LLC and A.C. Moore, Inc.
- ***21.1 Subsidiaries of the Company
- 23.1 Consent of PricewaterhouseCoopers LLP
- 27.1 Financial Data Schedule

-
- + Management contract or compensatory plan or arrangement.
 - * Incorporated by reference to the Company's Registration Statement on Form S-1 (#333-32859).
 - ** Incorporated by reference to the Company's Form 10-K for the year ended December 31, 1997.
 - *** Incorporated by reference to the Company's Form 10-K for the year ended December 31, 1998.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

A.C. MOORE ARTS & CRAFTS, INC.

Date: March 19, 2001

By: /s/ John E. Parker

John E. Parker, President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

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| SIGNATURE | CAPACITY | DATE |
|---|---|----------|
| /s/ John E. Parker ----- John E. Parker | President, Chief Executive Officer, and Director (Principal Executive Officer) | March 19 |
| /s/ Leslie H. Gordon ----- Leslie H. Gordon | Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) | March 19 |
| /s/ William Kaplan ----- William Kaplan | Chairman of the Board | March 19 |
| /s/ Patricia A. Parker ----- Patricia A. Parker | Director | March 19 |
| /s/ Richard Lesser ----- Richard Lesser | Director | March 19 |
| /s/ Richard J. Bauer ----- Richard J. Bauer | Director | March 19 |
| /s/ Richard J. Drake ----- Richard J. Drake | Director | March 19 |

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EXHIBIT INDEX

| Exhibit No. ----- | Description ----- |
|----------------------|---|
| *3.1 | Articles of Incorporation |
| *3.2 | Bylaws |
| *+10.1 | 1997 Employee, Director and Consultant Stock Option Plan |
| *+10.2 | Form of Stock Option Award Agreement |
| **10.3 | Loan Agreement, dated March 11, 1998, between the Company and KeyBank National Association |
| *+10.4 | Correspondence reflecting option granted to Richard Lesser |
| *10.5 | Tax Indemnification Agreement, dated July 22, 1997, among |

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the Company, John E. Parker and William Kaplan

| | |
|---------|--|
| *10.6 | Lease, dated August 14, 1995, between Freeport 130 LLC and A.C. Moore, Inc. |
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 * Incorporated by reference to the Company's Registration Statement on Form S-1 (#333-32859).
 ** Incorporated by reference to the Company's Form 10-K for the year ended December 31, 1997.
 *** Incorporated by reference to the Company's Form 10-K for the year ended December 31, 1998.

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Total long-term debt(2)

\$2,221.3 \$3,179.9

Total debt(2)

\$3,227.1 \$3,260.6

Total stockholders equity(5)

\$1,562.4 \$1,560.3

Total capitalization(6)

\$4,789.5 \$4,821.0

Total net debt/total capitalization(6)(7)

66.6% 66.8%

Short-term debt/total capitalization(6)(8)

21.5% 1.7%

(1) Cash and cash equivalents excludes restricted cash and cash equivalents, which were approximately \$2 million as of June 30, 2016.

(2)

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We adopted ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, in the first quarter of 2016. As a result, estimates of debt issuance costs related to a recognized debt liability are presented as a direct deduction from the debt liability. For more information, see "Recently Issued and Adopted Accounting Standards" in Part I of our Form 10-Q for the quarter ended June 30, 2016.

In accordance with ASU 2015-03, Notes offered hereby reflects the principal amount of \$700 million of Notes, net of an estimate of related issuance costs. The actual amount of issuance costs (and the resulting amount of the notes offered hereby reflected on our balance sheet) will vary (and any such variance may be material), which would result in a corresponding change to this figure.

(3)

Net new borrowings under New Term Loan includes our recent \$500 million borrowing under the New Term Loan, net of proceeds from this offering that we currently expect to use to repay the

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New Term Loan. Because we intend to use only excess proceeds from this offering to repay the New Term Loan, any change in our estimated settlement costs associated with termination of our Interest Rate Swaps or in our estimated fees and expenses (including, among other things, underwriters' discounts and commissions relating to the Notes and make-whole premiums relating to the prepayment of the SourceGas Notes) will result in a corresponding change to this figure.

- (5) Total stockholders equity excludes noncontrolling interests, which were approximately \$117 million as of June 30, 2016. As adjusted total stockholders equity reflects estimates of certain adjustments we expect to record in connection with our recent bank loan transactions, the issuance and sale of the Notes offered hereby, and our currently completed use of proceeds from the foregoing.
- (6) Total capitalization represents the sum of total debt (including short-term debt) and total stockholders equity.
- (7) Total net debt/total capitalization represents the ratio of total debt, net of cash and cash equivalents, to total capitalization.
- (8) Short-term debt/total capitalization represents the ratio of total short-term debt to total capitalization.

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DESCRIPTION OF THE NOTES

We will issue the Notes under the indenture dated as of May 21, 2003, between us and Wells Fargo Bank, National Association (as successor to LaSalle Bank National Association), as trustee, as supplemented by that certain first supplemental indenture dated as of May 21, 2003, as further supplemented by that certain second supplemental indenture dated as of May 14, 2009, as further supplemented by that certain third supplemental indenture dated as of July 16, 2010, as further supplemented by that certain fourth supplemental indenture dated as of November 19, 2013, as further supplemented by that certain fifth supplemental indenture dated as of January 13, 2016 and as further supplemented by that certain sixth supplemental indenture to be dated as of the closing date of this offering. When we refer to the "indenture" in this prospectus supplement, we are referring to the indenture as supplemented by such supplemental indentures. The following summarizes some of the material provisions of the Notes. The following description supplements, and, to the extent it is inconsistent with, supersedes, the statements under "Description of Senior Debt Securities" in the accompanying prospectus. We refer you to the accompanying prospectus for a description of the senior debt securities and to the indenture. The following summary does not purport to be complete and is subject to, and qualified by reference to, all of the provisions of the indenture.

In this prospectus supplement, we refer to the % Notes due 2027 as the "2027 Notes" and the % Notes due 2046 as the "2046 Notes." We also refer to the 2027 Notes and the 2046 Notes as, collectively, the "Notes." Each of the 2027 Notes and the 2046 Notes is a series of senior debt securities described in the accompanying prospectus. As used herein, the words "we," "us," "our," "Company" and "Black Hills Corporation" do not include any current or future subsidiary of Black Hills Corporation.

General

The 2027 Notes will be initially limited to \$ aggregate principal amount and the 2046 Notes will be initially limited to \$ aggregate principal amount. The 2027 Notes will mature at 100% of their principal amount on January 15, 2027 and the 2046 Notes will mature at 100% of their principal amount on September 15, 2046. We will have the ability, without the consent of holders of the applicable series of Notes to reopen each series of Notes and issue additional Notes of the same series, in which case the newly issued Notes will be consolidated with, and form a single series with, the previously outstanding Notes of such series, including with respect to waivers, amendments, redemptions and offers to purchase; *provided* that if such additional Notes of a series are not fungible with the original Notes of such series for U.S. federal income tax purposes, such additional Notes will have a separate CUSIP number. The Notes do not provide for any sinking fund. The Notes will not be listed on any securities exchange.

The Notes will be issued only in fully-registered form in denominations of \$2,000 and integral multiples of \$1,000. The Notes of each series will be represented by one or more global securities registered in the name of a nominee of The Depository Trust Company ("DTC"). Except as described under " Book-Entry Form," the Notes will not be issuable in certificated form. References to a "holder" of the Notes in this prospectus supplement refer to the person in whose name such Notes are registered in the security register and not the beneficial owner.

Interest

The 2027 Notes will bear interest at the rate of % per annum and the 2046 Notes will bear interest at a rate of % per annum, in each case from August , 2016 or from the most recent interest payment date on which we have paid or provided for interest on the applicable Notes, to the applicable redemption date, Change of Control Payment Date (as defined below) or stated maturity date, as the case may be. We will pay interest on the 2027 Notes semi-annually in arrears on

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January 15 and July 15 of each year, beginning on July 15, 2017, and will pay interest on the 2046 Notes semi-annually in arrears on March 15 and September 15 of each year, beginning on March 15, 2017 (each, an "Interest Payment Date"), to the persons in whose names the Notes (or any predecessor Notes) are registered in the security register at the close of business on the last day of the month preceding each interest payment date, whether or not that day is a Business Day. Interest on the Notes will be computed on the basis of a 360-day year of twelve 30-day months.

If an Interest Payment Date, redemption date, Change of Control Payment Date or stated maturity date falls on a day that is not a Business Day, the payment will be made on the next Business Day as if it were made on the date the payment was due, and no interest will accrue on the amount so payable for the period from and after that Interest Payment Date, redemption date, Change of Control Payment Date or stated maturity date, as the case may be, to the date the payment is made. A "Business Day" is each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in New York, New York are authorized or obligated by law or executive order to close.

Redemption

2027 Notes

At any time before the applicable Par Call Date, we may redeem all or part of the 2027 Notes, at any time and from time to time at our option, at a redemption price equal to the greater of (1) 100% of the principal amount of the 2027 Notes being redeemed plus accrued and unpaid interest (if any) to but excluding the redemption date and (2) the sum, as determined by the Quotation Agent, of the present values of the principal amount of the 2027 Notes to be redeemed, together with remaining scheduled payments of interest (exclusive of accrued and unpaid interest (if any) to but excluding the redemption date) from the redemption date to the applicable Par Call Date of the 2027 Notes, in each case discounted to the redemption date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus basis points, plus accrued and unpaid interest (if any) on the principal amount of the 2027 Notes being redeemed to but excluding the redemption date.

At any time on or after the applicable Par Call Date, we will have the right to redeem the 2027 Notes, in whole or in part and from time to time, at a redemption price equal to 100% of the principal amount of the 2027 Notes being redeemed plus accrued and unpaid interest on the 2027 Notes being redeemed to but excluding the redemption date.

2046 Notes

At any time before the applicable Par Call Date, we may redeem all or part of the 2046 Notes, from time to time at our option, at a redemption price equal to the greater of (1) 100% of the principal amount of the 2046 Notes being redeemed plus accrued and unpaid interest (if any) to but excluding the redemption date and (2) the sum, as determined by the Quotation Agent, of the present values of the principal amount of the 2046 Notes to be redeemed, together with remaining scheduled payments of interest (exclusive of accrued and unpaid interest (if any) to but excluding the redemption date) from the redemption date to the applicable Par Call Date of the 2046 Notes, in each case discounted to the redemption date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus basis points, plus accrued and unpaid interest (if any) on the principal amount of the 2046 Notes being redeemed to but excluding the redemption date.

At any time on or after the applicable Par Call Date, we will have the right to redeem the 2046 Notes, in whole or in part and from time to time, at a redemption price equal to 100% of the principal amount of the 2046 Notes being redeemed plus accrued and unpaid interest on the 2046 Notes being redeemed to but excluding the redemption date.

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Definitions and Procedures

For purposes of this discussion of the redemption of the Notes at the option of the Company, the following terms have the following meanings:

"Comparable Treasury Issue" means the United States Treasury security selected by the Quotation Agent as having an actual or interpolated maturity comparable to the remaining term from the redemption date to the stated maturity date of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes to be redeemed (assuming, for this purpose, such Notes mature on the applicable Par Call Date).

"Comparable Treasury Price" means with respect to any redemption date for the Notes (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, (2) if fewer than four such Reference Treasury Dealer Quotations are obtained, the average of all such Reference Treasury Dealer Quotations, or (3) if only one Reference Treasury Dealer Quotation is obtained, such Reference Treasury Dealer Quotation, in each case determined by the Quotation Agent.

"Par Call Date" means July 15, 2026, in the case of the 2027 Notes, and March 15, 2046, in the case of the 2046 Notes.

"Quotation Agent" means one of the Reference Treasury Dealers selected by us.

"Reference Treasury Dealer" means each of (i) J.P. Morgan Securities LLC and Scotia Capital (USA) Inc. or their respective affiliates or successors which are primary U.S. Government securities dealers in the United States (a "Primary Treasury Dealer"), (ii) a Primary Treasury Dealer selected by MUFG Securities Americas Inc. or its affiliates or successors, and (iii) any other Primary Treasury Dealer appointed by us at the time of any redemption; provided, however, that if any of the foregoing or their affiliates or successors shall cease to be a Primary Treasury Dealer, we shall substitute therefor another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Quotation Agent, of the bid and asked prices for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to the Quotation Agent by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third business day preceding such redemption date.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated yield to maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

If we elect to redeem all or any part of the Notes, we will mail by first-class mail or deliver in accordance with DTC procedures a notice of redemption to each holder of the Notes to be redeemed (with a copy to the trustee) at least 30 days before the redemption date. To the extent that the trustee shall deliver such notice, we will deliver such notice to the trustee at least 45 days prior to the redemption date or such shorter period as may be reasonably acceptable to the trustee. However, we will not know the exact redemption price until shortly before the redemption date. Therefore, the notice of redemption will only describe how the redemption price will be calculated. We will notify the trustee of the redemption price with respect to any redemption promptly after the calculation, and the trustee will not be responsible for such calculation. On the redemption date, if we have paid the full redemption price to the trustee, Notes called for redemption will cease to bear interest and the holders of such Notes will only have a right to receive payment of the redemption price.

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We are entitled at any time and from time to time to purchase Notes in the open market or otherwise.

Change of Control Triggering Event

If a Change of Control Triggering Event occurs with respect to either series of Notes, holders of the series of Notes with respect to which such Change of Control Triggering Event has occurred will have the right to require us to repurchase all or any part (equal to \$2,000 or an integral multiple of \$1,000 in excess thereof) of their Notes of such series pursuant to the offer described below (a "Change of Control Offer") on the terms set forth in the indenture. In a Change of Control Offer, we will be required to offer payment in cash equal to 101% of the aggregate principal amount of Notes repurchased, plus accrued and unpaid interest (if any) on the Notes repurchased, to but excluding the date of repurchase (the "Change of Control Payment"), subject to the right of holders of record on the relevant record date to receive interest on the corresponding Interest Payment Date.

Within 30 days following any Change of Control Triggering Event (unless we have previously mailed or delivered a redemption notice with respect to all outstanding Notes of such series as described above) or, at our option, prior to any Change of Control Triggering Event but after public announcement of the transaction or transactions that constitute or may constitute the Change of Control, we will mail by first-class mail or deliver in accordance with DTC procedures a notice to each holder of the applicable series of Notes (with a copy to the trustee), which notice will:

- (1) describe the circumstances and relevant facts regarding the Change of Control Triggering Event;
- (2) offer to repurchase the Notes of such series on the date specified in the notice, which date will be no earlier than 30 days and no later than 60 days following the date such notice is mailed or delivered (the "Change of Control Payment Date"), pursuant to the procedures required by the indenture and described in such notice, which offer will constitute the Change of Control Offer; and
- (3) if mailed or delivered prior to the date on which the Change of Control Triggering Event occurs, state that the Change of Control Offer is conditioned on the Change of Control Triggering Event occurring on or prior to the applicable Change of Control Payment Date.

On the Change of Control Payment Date, we will be required, to the extent lawful, to:

- (1) accept for payment all Notes or portions of Notes properly tendered pursuant to the applicable Change of Control Offer;
- (2) deposit with the paying agent an amount equal to the applicable Change of Control Payment in respect of all Notes or portions of Notes properly tendered; and
- (3) deliver or cause to be delivered to the trustee the Notes properly accepted together with an officers' certificate stating the aggregate principal amount of Notes or portions of Notes being repurchased.

We will not be required to make a Change of Control Offer upon the occurrence of a Change of Control Triggering Event if a third party makes such an offer in the manner, at the times and otherwise in compliance with the requirements for an offer made by us and the third party purchases all Notes properly tendered and not withdrawn under its offer.

We will be required to comply with the requirements of Rule 14e-1 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and any other securities laws and regulations to the extent those laws and regulations are applicable in connection with the repurchase of the Notes as a result of a Change of Control Triggering Event. To the extent that the provisions of any securities laws

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or regulations conflict with the Change of Control provisions of the indenture, we will be required to comply with the applicable securities laws and regulations. We will not be deemed to have breached our obligations under the Change of Control provisions of the indenture by virtue of such compliance.

For purposes of this discussion of a repurchase of the Notes following a Change of Control Triggering Event:

"Change of Control" means the occurrence of any of the following:

- (1) the consummation of any transaction (including any merger or consolidation) the result of which is that any person becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act) of shares representing more than 50% of the voting power of the then outstanding Voting Stock of the Company or other Voting Stock into which the Voting Stock of the Company is reclassified, consolidated, exchanged or changed;
- (2) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the assets of the Company and the Subsidiaries taken as a whole to any person other than the Company or one of the Subsidiaries;
- (3) the merger or consolidation of the Company with or into any person or the merger or consolidation of any person with or into the Company, in any such event pursuant to a transaction in which any of the outstanding shares of the Voting Stock of the Company or the Voting Stock of such other person is converted into or exchanged for cash, securities or other property, other than any such transaction in which the shares of Voting Stock of the Company outstanding immediately prior to such transaction constitute, or are converted into or exchanged for, shares representing more than 50% of the voting power of the Voting Stock of the resulting or surviving person or any direct or indirect parent company of the resulting or surviving person immediately after giving effect to such transaction; or
- (4) the adoption of a plan providing for the liquidation or dissolution of the Company.

Notwithstanding the foregoing, a transaction will not be deemed to involve a Change of Control under clause (1) above if (i) the Company becomes a direct or indirect wholly owned subsidiary of a holding company and (ii)(A) the direct or indirect holders of the Voting Stock of such holding company immediately following that transaction are substantially the same as the holders of the Company's Voting Stock immediately prior to that transaction or (B) immediately following that transaction no person (other than a holding company satisfying the requirements of this sentence) is the beneficial owner, directly or indirectly, of shares representing more than 50% of the voting power of the Voting Stock of such holding company. The term "person," as used in this definition, has the meaning given thereto in Section 13(d)(3) of the Exchange Act.

"Change of Control Triggering Event" means the occurrence of both a Change of Control and a Rating Event.

"Fitch" means Fitch Ratings, Inc., and its successors.

"Investment Grade Rating" means a rating equal to or higher than BBB (or the equivalent) by Fitch, Baa3 (or the equivalent) by Moody's and BBB (or the equivalent) by S&P, and the equivalent investment grade credit rating from any replacement rating agency or agencies selected by the Company.

"Moody's" means Moody's Investors Service, Inc., and its successors.

"Rating Agencies" means (1) each of Fitch, Moody's and S&P and (2) if any of Fitch, Moody's or S&P ceases to rate the Notes or fails to make a rating of the Notes publicly available for reasons outside of the Company's control, a "nationally recognized statistical rating organization" within the

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meaning of Section 3(a)(62) of the Exchange Act, selected by the Company (as certified by a resolution of the Board of Directors) as a replacement agency for Fitch, Moody's or S&P, as the case may be.

"Rating Event" means, with respect to either series of Notes, the rating of such Notes is lowered by at least two of the three Rating Agencies and such Notes are rated below an Investment Grade Rating by at least two of the three Rating Agencies, on any day during the period (which period will be extended so long as the rating of such Notes is under publicly announced consideration for a possible downgrade by any of the Rating Agencies) commencing 60 days prior to the first public notice of the occurrence of a Change of Control or the intention of the Company to effect a Change of Control and ending 60 days following the consummation of such Change of Control.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors.

"Subsidiary" means a corporation, limited partnership, limited liability company or trust in which more than 50% of the outstanding Voting Stock is owned, directly or indirectly, by the Company and/or by one or more other Subsidiaries.

"Voting Stock" means, with respect to any specified "person" (as that term is used in Section 13(d)(3) of the Exchange Act) as of any date, stock, partnership interests or any other participations, rights, warrants, options or other interests in the nature of an equity interest that ordinarily (without regard to the occurrence of any contingency) has voting power for the election of directors, managers or trustees of such person, whether at all times or only so long as no senior class of stock has that voting power by reason of any contingency.

The Change of Control Triggering Event repurchase feature of the Notes may in certain circumstances make more difficult or discourage a sale or takeover of the Company and, thus, the removal of incumbent management. The Change of Control Triggering Event repurchase feature is a result of negotiations between the Company and the underwriters. We have no present intention to engage in a transaction involving a Change of Control, although it is possible that we could decide to do so in the future. Subject only to the restrictions contained in the covenant described under the heading " Restrictive Covenants" (which restrictions may be waived or modified with the written consent of the holders of a majority in principal amount of each series of the Notes then outstanding), we could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control under the indenture, but that could increase the amount of indebtedness outstanding at such time or otherwise affect our capital structure or credit ratings.

Our revolving credit facility and term loan agreements each provide that the occurrence of certain events that would constitute a Change of Control constitute a default thereunder. In addition, the occurrence of certain events that would constitute a Change of Control would require us to offer to repurchase the \$250 million of outstanding 2.500% Notes due 2019, the \$200 million of outstanding 5.875% Notes due 2020, the \$525 million of outstanding 4.250% Notes due 2023, and the \$300 million of outstanding 3.950% Notes due 2026. Moreover, future indebtedness that we may incur may contain prohibitions on the occurrence of certain events that would constitute a Change of Control or require the repurchase of such indebtedness upon a Change of Control. The exercise by the holders of their right to require us to repurchase their Notes could cause a default under such indebtedness, even if the Change of Control itself does not, due to the financial effect of such repurchase on us. Finally, our ability to pay cash to the holders of Notes following the occurrence of a Change of Control Triggering Event may be limited by our then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make any required repurchases.

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The definition of "Change of Control" includes a disposition of "all or substantially all" of the assets of the Company to any person. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of the assets of the Company. As a result, it may be unclear as to whether a Change of Control has occurred and whether a holder of Notes may require the Company to make an offer to repurchase the Notes as described above.

The provisions of the indenture relating to our obligation to make an offer to repurchase the Notes as a result of a Change of Control Triggering Event may be waived or modified with the written consent of the holders of a majority in principal amount of each series of the Notes then outstanding.

Restrictive Covenants

We have agreed to one principal restriction on our activities for the benefit of holders of the Notes: the limitation on the creation of liens described below. Other than this limitation on liens, the indenture does not contain any covenants or other provisions designed to protect holders of the Notes in the event we participate in a highly leveraged transaction.

The indenture provides that neither the Company nor any Subsidiary, as defined below, will mortgage, pledge, grant a security interest in or hypothecate, or permit any mortgage, pledge, security interest, lien or other encumbrance upon, any capital stock of any Subsidiary now or hereafter owned directly or indirectly by the Company or any Subsidiary, to secure any Indebtedness, as defined below, without also securing the Notes (so long as such other Indebtedness is so secured), equally and ratably with any and all such other Indebtedness and any other indebtedness similarly entitled to be equally and ratably secured.

This restriction does not apply to, or prevent the creation of:

- (1) any mortgage, pledge, security interest, lien or encumbrance existing at the date of issuance of the Notes;
- (2) any mortgage, pledge, security interest, lien or encumbrance upon any capital stock created at the time of the acquisition of such capital stock by the Company or any Subsidiary or within one year after that time to secure all or a portion of the purchase price for such capital stock;
- (3) any mortgage, pledge, security interest, lien or encumbrance upon any capital stock existing thereon at the time of the acquisition of such capital stock by the Company or any Subsidiary, whether or not the obligations secured thereby are assumed by the Company or such Subsidiary, other than any mortgage, pledge, security interest, lien or encumbrance created in connection with or in anticipation of such acquisition not for the purpose of securing the purchase price for such capital stock;
- (4) any mortgage, pledge, security interest, lien or encumbrance upon any capital stock to secure or provide for the acquisition, construction, improvement, expansion or development of property by the Company or any Subsidiary; provided that such mortgage, pledge, security interest, lien or encumbrance may not extend to or cover any other property of the Company or any Subsidiary that is not the subject of the related financing;
- (5) any mortgage, pledge, security interest, lien or encumbrance upon any limited liability company interest of Black Hills Wyoming, LLC (or any of its direct or indirect Subsidiaries), or any other Subsidiary or group of Subsidiaries formed to refinance the project now known as the "Wygen I" project; provided that such mortgage, pledge, security interest, lien or encumbrance

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may not extend to or cover any other property of the Company or any Subsidiary that is not the subject of such refinancing;

(6) so long as no additional property of the Company or any Subsidiary is encumbered or made subject to a mortgage, pledge, security interest, lien or other encumbrance, any mortgage, pledge, security interest, lien or encumbrance granted in connection with (a) extending, renewing, replacing or refinancing in whole or in part the Indebtedness secured by any mortgage, pledge, security interest, lien or encumbrance described in the foregoing clauses (1) through (5) or (b) any transaction or series of related transactions involving separate projects pursuant to which any of the mortgages, pledges, security interests, liens or encumbrances described in the foregoing clauses (1) through (5) are combined or aggregated; provided, that, for purposes of this subclause (b), all of the Indebtedness secured by such mortgages, pledges, security interests, liens or encumbrances immediately prior to such transaction or series of related transactions is repaid in connection therewith; provided further, that, for purposes of this subclause (b), the aggregate amount of Indebtedness secured by such combined or aggregated mortgages, pledges, security interests, liens or other encumbrances does not exceed the sum of (x) the aggregate amount of extended, renewed, replaced or refinanced Indebtedness secured by such mortgages, pledges, security interests, liens or encumbrances outstanding immediately prior to such transaction or series of related transactions and (y) 5% of Consolidated Capitalization, less the total amount of all Indebtedness then outstanding that has been incurred and secured pursuant to this subclause (y) in any prior, separate transactions or series of related transactions;

(7) any mortgage, pledge, security interest, lien or encumbrance upon any capital stock now or hereafter owned by the Company or any Subsidiary to secure any Indebtedness, which would otherwise be subject to the foregoing restriction and not otherwise permitted under any of the foregoing clauses (1) through (6), in an aggregate principal amount which, together with the amount of all other such Indebtedness then outstanding that has been incurred and secured under this clause (7), does not at the time of the creation of such mortgage, pledge, security interest, lien or encumbrance exceed 5% of Consolidated Capitalization; or

(8) any judgment, levy, execution, attachment or other similar lien arising in connection with court proceedings, provided that:

(a) the execution or enforcement of each such lien is effectively stayed within 60 days after entry of the corresponding judgment (or the corresponding judgment has been discharged within such 60-day period) and the claims secured thereby are being contested in good faith by appropriate proceedings timely commenced and diligently prosecuted;

(b) the payment of each such lien is covered in full by insurance provided by a third party and the insurance company has not denied or contested coverage thereof; or

(c) each such lien is adequately bonded within 60 days of the creation of such lien.

For purposes of the restriction described above:

"Indebtedness" means:

(1) all indebtedness, whether or not represented by bonds, debentures, notes or other securities, incurred, created or assumed by the Company or any Subsidiary for the repayment of money borrowed;

(2) all indebtedness for money borrowed secured by a lien upon property owned by the Company or any Subsidiary, regardless of whether the Company or such Subsidiary has assumed or otherwise become liable for the payment of the indebtedness for money borrowed; and

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(3) all indebtedness of others for money borrowed that is guaranteed as to payment of principal or interest by the Company or any Subsidiary or in effect guaranteed by the Company or any Subsidiary through a contingent agreement to purchase such indebtedness or through any "keep-well" or similar agreement to be directly or indirectly liable for the repayment of such indebtedness.

"Subsidiary" has the meaning given to such term under the heading " Change of Control Triggering Event."

"Consolidated Capitalization" means the sum of:

- (1) Consolidated Shareholders' Equity;
- (2) Consolidated Indebtedness, which is total indebtedness as shown on the consolidated balance sheet of the Company and the Consolidated Subsidiaries, exclusive of any that is due and payable within one year of the date the sum is determined; and, without duplication
- (3) any preference or preferred stock of the Company or any Consolidated Subsidiary that is subject to mandatory redemption or sinking fund provisions.

"Consolidated Shareholders' Equity" means the total Assets of the Company and the Consolidated Subsidiaries less all liabilities of the Company and the Consolidated Subsidiaries that would, in accordance with generally accepted accounting principles in the United States (as in effect on the date of closing of this offering), be classified on a balance sheet as liabilities, including:

- (1) indebtedness secured by property of the Company or any of the Consolidated Subsidiaries whether or not the Company or the Consolidated Subsidiary is liable for the payment of the indebtedness unless, in the case that the Company or the Consolidated Subsidiary is not so liable, the property has not been included among the Assets of the Company or the Consolidated Subsidiary on the balance sheet;
- (2) deferred liabilities; and
- (3) indebtedness of the Company or any of the Consolidated Subsidiaries that is expressly subordinated in right and priority of payment to other liabilities of the Company or such Consolidated Subsidiary.

As used in this definition, "liabilities" includes preference or preferred stock of the Company or any Consolidated Subsidiary only to the extent of any preference or preferred stock that is subject to mandatory redemption or sinking fund provisions.

"Consolidated Subsidiary" means, at any date, any Subsidiary the financial statements of which under generally accepted accounting principles in the United States (as in effect on the date of closing of this offering) would be consolidated with those of the Company in its consolidated financial statements as of that date.

The "Assets" of any person means the whole or any part of its business, property, assets, cash and receivables.

As of June 30, 2016, the Consolidated Capitalization of the Company was approximately \$3.8 billion.

Events of Default

The following will be events of default for each series of the Notes:

- (a) default in the payment of principal of any Note of such series when due;

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- (b) default in the payment of interest on any Note of such series when due and continuance of such default for 30 days;
- (c) default in the performance, or breach, of any of our other covenants or warranties in the indenture applicable to such series of Notes and continuance of such default or breach for 60 days after written notice (without giving effect to any applicable grace period with respect to such covenant or warranty); and
- (d) certain events of bankruptcy, insolvency or reorganization relating to us.

If an event of default occurs and is continuing with respect to a series of Notes, either the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding Notes of such series may declare the principal amount of the Notes of such series, plus all accrued and unpaid interest, to be immediately due and payable. However, in the event of a default described under clause (d) above, the principal of the Notes, plus all accrued and unpaid interest, shall automatically become and be immediately due and payable.

Ranking of Notes

The Notes will be our unsecured and unsubordinated obligations. The Notes will rank equal in right of payment with all of our existing and future unsecured and unsubordinated indebtedness. See "Risk Factors The indenture under which the Notes will be issued does not limit our indebtedness, prevent dividends or generally prevent highly leveraged transactions; there are no financial covenants in the indenture," " The Notes are structurally subordinated to any existing and future preferred stock, indebtedness, guarantees and other liabilities of or subsidiaries" and " Holders of the Notes will be effectively subordinated to all of our secured indebtedness and obligations outstanding from time to time."

The Notes will be obligations exclusively of Black Hills, and our subsidiaries have no obligation to pay any amounts due on the Notes or to provide us with funds to meet our payment obligations on the Notes. Covenants within the financing agreements of Cheyenne Light, Fuel and Power Company, Black Hills Gas Holdings (formerly, SourceGas Holdings) and Black Hills Gas (formerly, SourceGas) require them to maintain certain debt-to-capitalization ratios which may limit their ability to pay dividends. Our utilities in Arkansas, Colorado, Iowa, Kansas, Nebraska and Wyoming have regulatory agreements in which they cannot pay dividends if they have issued debt to third parties and the payment of a dividend would reduce their equity ratio to below 40% of their total capitalization; and neither Black Hills Utility Holdings nor its subsidiaries can extend credit to the Company except in the ordinary course of business and upon reasonable terms consistent with market terms. In addition, our utilities in Wyoming have regulatory agreements in which they cannot pay dividends to parent entities if the proportion of common equity (excluding the unit mandatory convertible instruments prior to the time of their conversion to stock shares) is or would be less than 40% following the dividend payment. Further, our utility subsidiaries may generally be limited to the amount of dividends allowed by state regulatory authorities to be paid to us as a utility holding company and also may have further restrictions under the Federal Power Act. As of June 30, 2016, the restricted net assets at our Electric and Gas Utilities were approximately \$257 million.

Information Concerning the Trustee

Wells Fargo Bank, National Association ("Wells Fargo Bank"), is the trustee under the indenture. Wells Fargo Bank also will be the initial paying agent and registrar for the Notes and its place of payment will be Wells Fargo Bank, Corporate Trust Operations, 608 Second Avenue South, N9303-121, Minneapolis, Minnesota 55479. The trustee and its affiliates have engaged, currently are engaged and may in the future engage in financial or other transactions with us and our affiliates in the ordinary

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course of their and our respective businesses, subject to the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act").

The provisions of the Trust Indenture Act incorporated by reference in the indenture provide that, except during the continuance of an event of default under the indenture, the trustee will perform only such duties as are specifically set forth in the indenture. Under the indenture, the holders of a majority in outstanding principal amount of each series of the Notes will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee, subject to certain exceptions and the terms of the indenture, with respect to such series. If an event of default has occurred and is continuing, the trustee will exercise such of the rights and powers vested in it under the indenture, and use the same degree of care and skill in the exercise thereof, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

The indenture and provisions of the Trust Indenture Act incorporated by reference in the indenture contain limitations on the rights of the trustee, should it become a creditor of the Company under certain circumstances, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The trustee is permitted to engage in other transactions. However, if the trustee acquires any prohibited conflicting interest, it must eliminate the conflict or resign.

The trustee may resign or be removed and a successor trustee may be appointed.

No Additional Amounts

We will not pay any additional amounts on the Notes to compensate any beneficial owner for any United States tax withheld from payments on such Notes.

Book-Entry Form

The Notes of each series will be issued in the form of a single, fully registered global Note without coupons that will be deposited with, or on behalf of, DTC, as depository, and registered in the name of its nominee, Cede & Co. This means that we will not issue certificates to any purchaser of Notes. Instead, ownership of beneficial interests in the Notes will be shown on, and transfers of interest in the Notes will only be made through, records maintained by DTC and its participants, including Clearstream Banking, *société anonyme* and Euroclear Bank S.A./N.V. Unless it is exchanged for certificated Notes as described below, a global Note may not be transferred, except that DTC, its nominees and their successors may transfer a global Note as a whole to one another.

A global Note representing a series of Notes will be exchangeable for Notes in certificated form only if:

DTC is unwilling or unable to continue as depository or it ceases to be a "clearing agency" registered under applicable law;
or

an event of default with respect to such series of Notes has occurred and is continuing.

So long as DTC or its nominee is the registered owner of a global Note, we will consider DTC or its nominee, as the case may be, the sole owner of the Notes represented by the global Note for all purposes under the indenture. Except as described below, as an owner of a beneficial interest in Notes you will not be entitled to have any individual Notes registered in your name, you will not receive or be entitled to receive physical delivery of any Notes in certificated form and you will not be considered the owner of Notes for any purpose under the indenture.

DTC has advised us that it is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member

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of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities deposited by its participants and facilitates the clearance and settlement of transactions in those securities between participants through electronic book-entry changes in the accounts of the participants. This eliminates the need for physical exchange of securities certificates. Participants in DTC include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC's book-entry system also is available to other entities, such as securities brokers and dealers, banks and trust companies that clear transactions through, or maintain a custodial relationship with, a DTC participant. These are known as "indirect participants." DTC is owned by a number of its participants and by NYSE Euronext and the Financial Industry Regulatory Authority, Inc. The rules of DTC are on file with the SEC.

Purchases of Notes must be made by or through DTC participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of a Note, who is known as the beneficial owner, will in turn be recorded on the records of direct and indirect DTC participants. Beneficial owners will not receive written confirmation from DTC of their purchases, but we expect that beneficial owners will receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the participant or indirect participant through which they purchased the Notes. Transfers of ownership interests in the Notes will be accomplished by entries made on the books of participants acting directly or indirectly on behalf of beneficial owners.

Neither we nor the trustee will have any responsibility or liability for any aspect of the records, action or inaction of DTC or for maintaining, supervising or reviewing any records relating to beneficial ownership of interests in a global Note.

We will pay principal and interest on the Notes to DTC or its nominee, as the case may be, as the registered owner of the related global Note. We will make these payments to DTC or its nominee in immediately available funds. Neither we nor the trustee will have any responsibility or liability for the payment of principal and interest on the Notes to beneficial owners. However, we understand that it is currently the policy of DTC to credit these payments to participants' accounts on the relevant payment date in accordance with the participants' holdings as shown on DTC's records. Payments by participants and indirect participants to beneficial owners will be governed by standing instructions and customary practices and will be the responsibility of the participants and indirect participants and not of DTC. DTC will have no knowledge of the actual beneficial owners of the Notes. DTC's records will reflect only the identity of the participants to whose accounts the Notes are credited, which may or may not be the beneficial owners. The participants and indirect participants are responsible for keeping account of their holdings on behalf of their customers.

Similarly, we and the trustee will accept notices and directions solely from DTC. Therefore, in order to exercise any rights of a holder of Notes under the indenture, each person owning a beneficial interest in the Notes must rely on the procedures of DTC. If the beneficial owner is not a participant in DTC, then it must rely on the procedures of the participant through which that person owns its interest. DTC will take actions under the indenture only at the direction of its participants, which in turn will act only at the direction of the beneficial owners. Some of these actions, however, may conflict with actions DTC takes at the direction of other participants and beneficial owners.

The giving of notices and other communications by DTC to its participants, by the participants to indirect participants, and by indirect participants to beneficial owners is governed by arrangements made among them, which may be subject to statutory or regulatory requirements.

The foregoing description of the operations and procedures of DTC is provided solely as a matter of convenience. These operations and procedures are solely within the control of DTC and are subject to changes by DTC. Neither we nor the trustee take any responsibility or liability for these operations and procedures. We urge investors to contact DTC or its participants directly to discuss these matters.

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MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of the material U.S. federal income tax considerations relating to the purchase, ownership and disposition of the Notes by initial investors. It is not a complete analysis of all the potential tax considerations relating to the Notes. This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations promulgated under the Code, administrative rulings and pronouncements and judicial decisions, all as in effect on the date hereof. These authorities may be changed, perhaps with retroactive effect, and are subject to differing interpretations which could result in U.S. federal income tax consequences different from those set forth below. We have not sought any ruling from the Internal Revenue Service (the "IRS") and we cannot assure you that the IRS will agree with such statements.

Except as otherwise provided, this summary is limited to initial investors who purchase Notes for cash at the applicable initial "issue price" (i.e., the initial price at which a substantial amount of such Notes is sold to the public, excluding bond houses and brokers or similar organizations acting in the capacity of underwriters, placement agents or wholesalers) pursuant to this offering and who will hold the Notes as capital assets (i.e., generally for investment purposes). This summary does not address the tax considerations arising under the laws of any foreign, state or local jurisdiction or the tax considerations arising under any U.S. federal tax laws other than U.S. federal income tax laws (such as estate or gift laws). In addition, this discussion does not address all U.S. federal income tax considerations that may be applicable to holders' particular circumstances or to holders that may be subject to special tax rules, such as, for example:

holders subject to the alternative minimum tax;

banks, insurance companies, and other financial institutions;

regulated investment companies;

real estate investment trusts;

tax-exempt organizations;

retirement plans;

brokers and dealers in securities or commodities;

certain former citizens or residents of the United States;

traders in securities that elect to use a mark-to-market method of tax accounting for their securities holdings;

U.S. persons who invest in foreign corporations that are classified as "passive foreign investment companies" or "controlled foreign corporations" for U.S. federal income tax purposes that purchase the Notes;

U.S. Holders (as defined below) whose functional currency is not the U.S. dollar;

holders that will hold the Notes as a position in a hedging transaction, straddle, conversion transaction or other risk reduction transaction, or sell the Notes under the constructive sale provisions of the Code; or

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entities or arrangements treated as partnerships for U.S. federal income tax purposes or other pass-through entities, or investors in such entities.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds Notes, the tax treatment of a partner in such partnership will generally depend upon the status of the partner and the activities of the partnership. If you are a partnership or a partner of a partnership

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holding Notes, you should consult your own tax advisor regarding the tax consequences of the purchase, ownership and disposition of the Notes.

This summary of U.S. federal income tax considerations is for general information only and is not tax advice for any particular investor. You are urged to consult your tax advisor with respect to the application of U.S. federal income tax laws to your particular situation, as well as any tax consequences arising under the U.S. federal estate or gift tax rules or under the laws of any state, local, foreign or other taxing jurisdiction or under any applicable tax treaty.

Consequences to U.S. Holders

The following discussion generally will apply to you if you are a "U.S. Holder" of the Notes. You are a "U.S. Holder" if you are a beneficial owner of a Note and you are, for U.S. federal income tax purposes:

an individual citizen or resident of the United States;

a corporation (or any other entity treated as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any state thereof, or the District of Columbia;

an estate, the income of which is subject to U.S. federal income tax regardless of its source; or

a trust if (i) a court within the United States is able to exercise primary supervision over the trust's administration and one or more United States persons have the authority to control all substantial decisions of the trust or (ii) the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person for U.S. federal income tax purposes.

Interest

Stated interest on a Note will be taxable to a U.S. Holder as ordinary income at the time it is paid or accrued in accordance with the U.S. Holder's regular method of accounting for U.S. federal income tax purposes.

Sale or Other Taxable Disposition of Notes

Upon the sale, exchange, redemption or other taxable disposition of a Note, a U.S. Holder generally will recognize taxable gain or loss equal to the difference between the amount realized on such disposition (except to the extent any amount realized is attributable to accrued but unpaid interest, which if not previously included in income, will be treated as interest as described in " Interest" above) and the U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will equal the cost of the Note to such holder. Gain or loss recognized on the disposition of a Note generally will be capital gain or loss, and will be long-term capital gain or loss if, at the time of such disposition, the U.S. Holder's holding period for the Note is more than one year. Long-term capital gains of individuals and other non-corporate taxpayers are generally eligible for reduced rates of taxation. The deductibility of capital losses is subject to certain limitations.

Medicare Tax

Certain U.S. Holders who are individuals, estates or trusts that do not fall into a special class of trusts and whose income exceeds certain thresholds will be subject to a 3.8% Medicare tax on the lesser of (i) the U.S. Holder's "net investment income" for the relevant taxable year ("undistributed net investment income" in the case of an estate or trust) and (ii) the excess of the U.S. Holder's modified adjusted gross income for the taxable year over a certain threshold (or "adjusted gross income" in the

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case of an estate or trust) (which in the case of individuals will be between \$125,000 and \$250,000, depending on the individual's circumstances). For these purposes, net investment income will generally include interest on and capital gains from the sale or other disposition of the Notes, unless such interest or gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). Net investment income may, however, be reduced by deductions that are properly allocable to such income. If you are a U.S. Holder who is an individual, estate or trust, you are urged to consult your own tax advisor regarding the applicability of the Medicare tax to your income and gains in respect of the Notes.

Information Reporting and Backup Withholding

In general, information reporting requirements will apply to payments of interest on the Notes and the proceeds of the sale, exchange, redemption or other taxable disposition of Notes unless the U.S. Holder is an exempt recipient. Backup withholding (at a rate of 28%) may apply to such payments if the U.S. Holder fails to provide its taxpayer identification number or certification of exempt status or has been notified by the IRS that payments to the U.S. Holder are subject to backup withholding. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will generally be allowed as a credit against a U.S. Holder's U.S. federal income tax liability and may entitle a U.S. Holder to a refund, provided that the required information is timely furnished to the IRS. You are urged to consult your own tax advisor regarding the application of backup withholding rules in your particular situation, the availability of an exemption from backup withholding and the procedure for obtaining such an exemption, if applicable.

Consequences to Non-U.S. Holders

The following discussion will generally apply to you if you are a Non-U.S. Holder of Notes. The term "Non-U.S. Holder" means a beneficial owner of a Note that is, for U.S. federal income tax purposes, a nonresident alien individual or a corporation, estate or trust and that is not a U.S. Holder.

Payments of Interest

Subject to the discussion of backup withholding and FATCA below, a Non-U.S. Holder will not be subject to U.S. federal income or withholding tax with respect to any payment of interest on its Notes that is not effectively connected with the conduct of a U.S. trade or business provided that:

the Non-U.S. Holder does not actually or constructively (under applicable attribution rules) own 10% or more of the total combined voting power of our voting stock, within the meaning of Section 871(h)(3) of the Code;

the Non-U.S. Holder is not a controlled foreign corporation that is related to us directly or indirectly through stock ownership; and

either (a) the Non-U.S. Holder provides its name and address, and, among other things, certifies, under penalties of perjury, that it is not a United States person (which certification generally must be made on an "applicable IRS Form W-8," which for the purpose of this discussion includes Form W-8, Form W-8BEN, Form W-8BEN-E or a substitute form containing the same information as the foregoing) or (b) a securities clearing organization, bank, or other financial institution that holds customers' securities in the ordinary course of its business holds the Note on a Non-U.S. Holder's behalf and certifies, under penalties of perjury, either that it has received an applicable IRS Form W-8 from the holder or from another qualifying financial institution intermediary or that it is permitted to establish and has established the Non-U.S. Holder's foreign status through other documentary evidence, and otherwise complies with applicable requirements. If the Notes are held by or through certain foreign intermediaries or

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certain foreign partnerships, such foreign intermediaries or partnerships must also satisfy the certification requirements of applicable Treasury Regulations.

A Non-U.S. Holder that cannot satisfy the requirements described above will be subject to a 30% U.S. federal withholding tax with respect to payments of interest on the Notes, unless the Non-U.S. Holder provides the applicable withholding agent with a properly executed (1) applicable IRS Form W-8 claiming an exemption from or reduction in withholding under an applicable income tax treaty or (2) IRS Form W-8ECI stating that interest paid on the Note is not subject to withholding tax because it is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States.

If a Non-U.S. Holder is engaged in a trade or business in the United States and interest on a Note is effectively connected with the conduct of that trade or business, the Non-U.S. Holder will be required to pay U.S. federal income tax on that interest on a net income basis in the same manner as if the Non-U.S. Holder were a U.S. Holder. If a Non-U.S. Holder is eligible for the benefits of an income tax treaty between the United States and the Non-U.S. Holder's country of residence, any effectively connected income generally will be subject to U.S. federal income tax only if it is also attributable to a permanent establishment or fixed base maintained by the Non-U.S. Holder in the United States. In addition, if a Non-U.S. Holder is a foreign corporation, it may be subject to branch profits tax equal to 30% (unless a lower applicable treaty rate applies) of its earnings and profits for the taxable year, subject to adjustments, that are effectively connected with its conduct of a trade or business in the United States (and, if an income tax treaty applies, attributable to a permanent establishment or fixed base of the Non-U.S. Holder in the United States). For this purpose, interest on the Notes that is effectively connected with the conduct of a trade or business in the United States by a Non-U.S. Holder would be included in earnings and profits.

Sale or Other Taxable Disposition of Notes

Subject to the discussion of backup withholding and FATCA below, amounts received upon the sale, exchange, redemption or other taxable disposition of a Note (except with respect to accrued and unpaid interest, which would be treated as interest as described in " Payments of Interest" above) will not be subject to U.S. federal withholding tax. Such gain also generally will not be subject to U.S. federal income tax unless:

that gain is effectively connected with a Non-U.S. Holder's conduct of a trade or business in the United States (and, if an income tax treaty applies, is attributable to a U.S. permanent establishment or fixed base); or

the Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition, and certain other conditions are met.

A Non-U.S. Holder described in the first bullet point above will generally be required to pay U.S. federal income tax on the net gain derived from the sale in the same manner as if the Non-U.S. Holder were a U.S. Holder. If a Non-U.S. Holder is eligible for the benefits of an income tax treaty between the United States and the Non-U.S. Holder's country of residence, any effectively connected gain generally will be subject to U.S. federal income tax only if it is also attributable to a permanent establishment or fixed base maintained by the Non-U.S. Holder in the United States. In addition, if such Non-U.S. Holder is a foreign corporation, it may also be required to pay branch profits tax on any effectively connected gain at a 30% rate or a lower rate if so specified by an applicable tax treaty.

A Non-U.S. Holder described in the second bullet point will generally be subject to U.S. federal income tax at a rate of 30% on the amount by which its capital gains allocable to U.S. sources, including gain from such disposition, exceed any capital losses allocable to U.S. sources, except as otherwise required by an applicable income tax treaty.

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Information Reporting and Backup Withholding

In general, information returns will be filed with the IRS in connection with payments of interest on the Notes and proceeds from the sale, exchange, redemption or other taxable disposition of the Notes. Copies of the information returns reporting such payments and any withholding may also be made available to the tax authorities in the country in which the Non-U.S. Holder resides under the provisions of an applicable income tax treaty. Backup withholding (at a rate of 28%) may apply to certain payments of principal and interest on the Notes to Non-U.S. Holders, as well as to the proceeds of certain sales of Notes made through brokers, unless the Non-U.S. Holder has made appropriate certifications as to its foreign status, or has otherwise established an exemption. The certification of foreign status described above under " Payments of Interest" is generally effective to establish an exemption from backup withholding. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will generally be allowed as a credit against a Non-U.S. Holder's U.S. federal income tax liability and may entitle a Non-U.S. Holder to a refund, provided that the required information is timely furnished to the IRS. You are urged to consult your own tax advisor regarding the application of backup withholding rules in your particular situation, the availability of an exemption from backup withholding and the procedure for obtaining such an exemption, if applicable.

FATCA

Under the Foreign Account Tax Compliance Act, commonly referred to as "FATCA," a withholding tax of 30% generally will be imposed, subject to certain exceptions, on payments of (a) interest on the Notes, and (b) on or after January 1, 2019, gross proceeds from the sale or other disposition of the Notes. In the case of payments made to a "foreign financial institution" (which includes most foreign banks, hedge funds, private equity funds, mutual funds, securitization vehicles and other investment vehicles), as a beneficial owner or as an intermediary, the tax generally will be imposed, subject to certain exceptions, unless such institution (i) enters into (or is otherwise subject to) and complies with an agreement with the United States government (a "FATCA Agreement") or (ii) is required by and complies with applicable foreign law enacted in connection with an intergovernmental agreement between the United States and a foreign jurisdiction (an "IGA"), in either case to, among other things, collect and provide to the United States or other relevant tax authorities certain information regarding United States account holders of such institution. In the case of payments made to a foreign entity that is not a financial institution (as a beneficial owner), the tax generally will be imposed, subject to certain exceptions, unless such entity provides the withholding agent with a certification that it does not have any "substantial" United States owners (generally, any specified United States person that directly or indirectly owns more than a specified percentage of such entity) or that identifies its "substantial" United States owners. If the Notes are held through a foreign financial institution that enters into (or is otherwise subject to) a FATCA Agreement, such foreign financial institution (or, in certain cases, a person paying amounts to such foreign financial institution) generally will be required, subject to certain exceptions, to withhold such tax on payments of interest and proceeds described above made to (x) a person (including an individual) that fails to comply with certain information requests or (y) a foreign financial institution that has not entered into (and is not otherwise subject to) a FATCA Agreement and is not subject to an IGA. You are urged to consult your own tax advisors regarding FATCA and the application of these requirements to your investment in the Notes.

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ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), the Code and similar federal, state, local and foreign laws that are substantively similar or are of similar effect ("Similar Law") impose certain restrictions on:

employee benefit plans (as defined in Section 3(3) of ERISA) subject to Title I of ERISA ("ERISA Plans");

plans described in Section 4975(e)(1) of the Code, including individual retirement accounts and annuities or Keogh plans;

any entities whose underlying assets include plan assets pursuant to 29 C.F.R. Section 2510.3-101 (as modified by Section 3(42) of ERISA) by reason of a plan's investment in such entities;

governmental plans, certain church plans (each as defined under ERISA) and foreign plans that are not subject to the provisions of Title I of ERISA or Section 4975 of the Code but may be subject to Section 503 of the Code and/or Similar Law ("Non-ERISA Plans") (together with ERISA Plans, plans described in Section 4975(e)(1) of the Code and entities whose underlying assets include plan assets by reason of a plan's investment in such entities, referred to as a "Plan"); and

persons who have certain specified relationships to a Plan ("Parties in Interest" as defined under ERISA and "Disqualified Persons" as defined under the Code).

ERISA, the Code and Similar Law impose certain duties on persons who are fiduciaries of a Plan and prohibit certain transactions involving Plan assets and fiduciaries or other Parties in Interest or Disqualified Persons. Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of a Plan or the management or disposition of assets of a Plan, or who renders investment advice to a Plan for a fee or other compensation, is generally considered a fiduciary of the Plan. Accordingly, among other factors, the investing fiduciary should consider whether:

the investment would satisfy the prudence and diversification requirements of ERISA or Similar Law, including among other things, the risk of loss on such investment and any limitations on liquidity and marketability of such investment;

an investment in the Notes is appropriate for the Plan, taking into account the overall investment policy of the Plan and the composition of the Plan's investment portfolio;

the investment would be consistent with the documents and instruments governing the Plan;

the investment is made solely in the interest of participants and beneficiaries of the Plan;

the acquisition and holding of the Notes would result in (1) a "prohibited transaction" under Section ERISA or the Code for which there is no applicable exemption or (2) a violation of Similar Law; and

the investment does not violate ERISA's prohibition on improper delegation of control over or responsibility for Plan assets.

Notes held by a Plan will be deemed to constitute Plan assets. If we or any of our respective affiliates is or becomes a Party in Interest or a Disqualified Person with respect to a Plan subject to ERISA or Section 4975 of the Code, such Plan's acquisition, holding or disposition of the Notes may constitute or result in a prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code (e.g., the extension of credit between a Plan and a Party in Interest or Disqualified Person), unless the Notes is acquired and held pursuant to and in accordance with an

applicable exemption. In this regard, the U.S. Department of Labor has issued prohibited transaction class exemptions

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("PTCEs") that may apply to the acquisition and holding of the Notes. These class exemptions include: PTCE 84-14 (respecting transactions determined by independent qualified professional asset managers), PTCE 90-1 (respecting transactions involving insurance company separate accounts), PTCE 91-38 (respecting transactions involving bank collective investment funds), PTCE 95-60 (respecting transactions involving insurance company general accounts) and PTCE 96-23 (respecting transactions determined by in-house asset managers). In addition, certain statutory prohibited transaction exemptions may be available to provide exemptive relief for a Plan, including, without limitation, the statutory exemption set forth in Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code regarding transactions with certain service providers who are not exercising investment discretion with respect to the Plan assets involved in the transaction and in which the Plan must pay no more, and receive no less, than "adequate consideration."

Even if the conditions specified in one or more exemptions are met, the scope of the relief provided by these exemptions may or may not cover all acts that could be construed as prohibited transactions. For example, certain of the exemptions may not afford relief from the prohibition on self-dealing contained in ERISA Section 406(b) and Code Sections 4975(c)(1)(E) and (F). As a result, there can be no assurance that any exemption(s) will be available with respect to any particular transaction involving the Notes.

The Notes should not be purchased or held by (i) any person investing assets of a Plan (including any insurance company investing assets in a general or separate account, to the extent such assets are deemed to be "plan assets" as a result of a Plan's investment in such account), unless such purchase and holding will either not constitute a prohibited transaction under ERISA and the Code or will be covered by an applicable exemption or (ii) any person investing assets of a Non-ERISA Plan unless such purchase and holding will not violate applicable Similar Law. Any Plan fiduciary or person that proposes to cause a Plan (or to act on behalf of a Plan) to purchase the Notes should consult with its own counsel with respect to the potential applicability of ERISA, the Code or Similar Law, the potential consequences in its specific circumstances, and whether any exemption or exemptions would be applicable and determine on its own whether all conditions of such exemption or exemptions have been satisfied. In addition, the investing fiduciary should determine whether the investment in the Notes satisfies ERISA's fiduciary standards and other requirements under ERISA, the Code or Similar Law.

Accordingly, by its purchase or holding of any Notes, each purchaser or holder thereof will be deemed to have represented and warranted that either:

the purchaser or holder is not purchasing or holding the Notes with, or on behalf of, the assets of any Plan; or

(1) the purchase, holding and disposition of the Notes satisfies ERISA's fiduciary standards and other requirements under ERISA, the Code or Similar Law, (2) the purchase, holding and disposition of the Notes will not result in a non-exempt prohibited transaction under ERISA or the Code, or violate any Similar Law and (3) neither we nor any of our subsidiaries are or will be deemed to be a fiduciary with respect to any Plan.

The sale or transfer of the Notes to a Plan or person acting on behalf of a Plan is in no way a representation by us that the purchase, holding or disposition of the Notes meets the legal requirements for investments by Plans or is appropriate for Plans.

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UNDERWRITING (CONFLICTS OF INTEREST)

Under the terms and subject to the conditions contained in an underwriting agreement dated as of the date of this prospectus supplement, we have agreed to sell to the underwriters named below, for whom J.P. Morgan Securities LLC, MUFG Securities Americas Inc. and Scotia Capital (USA) Inc. are acting as representatives, the following respective principal amount of the Notes set forth opposite the name of each underwriter:

| Underwriter | Principal Amount of 2027 Notes | Principal Amount of 2046 Notes |
|--------------------------------|---|---|
| J.P. Morgan Securities LLC | \$ | \$ |
| MUFG Securities Americas Inc. | | |
| Scotia Capital (USA) Inc. | | |
| RBC Capital Markets, LLC | | |
| U.S. Bancorp Investments, Inc. | | |
| | | |
| | | |
| Total | \$ | \$ |

The underwriting agreement provides that the underwriters are obligated to purchase all of the Notes if they purchase any of the Notes. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of the non-defaulting underwriter may be increased or the offering of Notes may be terminated.

The underwriters have advised us that they propose to initially offer the Notes to the public at the price to public appearing on the cover page of this prospectus supplement and may also offer the Notes to certain securities dealers at the price to public on the cover of this prospectus supplement less a concession of % of the principal amount of the 2027 Notes and % of the principal amount of the 2046 Notes. The underwriters may allow, and such dealers may re-allow, a discount not in excess of % of the principal amount of the 2027 Notes and % of the principal amount of the 2046 Notes to certain brokers and dealers. After the initial public offering, the price to public, concession and discount may be changed.

We estimate that our out of pocket expenses (excluding underwriting discount and commissions) for this offering will be approximately \$1.4 million.

We have agreed to indemnify the underwriters against liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in that respect.

The Notes are a new issue of securities with no established trading market, and the underwriters are not obligated to make a market in the Notes. We do not intend to apply for listing of the Notes on any securities exchange. The underwriters have advised us that they intend to make a market in the Notes but are not obligated to do so and may discontinue such market-making activities at any time without notice. We cannot give any assurance as to the maintenance of the trading market for, or the liquidity of, the Notes, the ability of the holders to sell their Notes or the price at which holders will be able to sell their Notes.

In connection with the offering, the underwriters may engage in transactions that stabilize the price of the Notes. These transactions may include purchases for the purpose of fixing or maintaining the price of the Notes in accordance with Regulation M under the Exchange Act.

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The underwriters may create a short position in the Notes in connection with the offering. That means they sell a larger principal amount of the Notes than is shown on the cover page of this prospectus supplement. If they create a short position, the underwriters may purchase Notes in the open market to reduce the short position.

If the underwriters purchase the Notes to stabilize the price or to reduce their short position, the price of the Notes could be higher than it might be if they had not made such purchases. The underwriters make no representation or prediction about any effect that purchases may have on the price of the Notes and any of such transactions may be discontinued at any time.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the underwriters or their affiliates have repurchased Notes sold by or for the account of such underwriter in stabilizing or short covering transactions.

A prospectus in electronic format will be made available on the web sites maintained by one or more of the underwriters, or selling group members, if any, participating in this offering and one or more of the underwriters participating in this offering may distribute prospectuses electronically. The representatives may agree to allocate a number of Notes to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make internet distributions on the same basis as other allocations.

Sales of Notes made outside of the United States may be made by affiliates of the underwriters.

We expect to deliver the Notes against payment for the Notes on or about August 11, 2016, which will be the seventh business day following the date of the pricing of the Notes ("T+7"). Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to a trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes prior to the third business day before the settlement date will be required, by virtue of the fact that the Notes initially will settle in T+7, to specify alternative settlement arrangements to prevent a failed settlement.

Conflicts of Interest

We intend to use more than 5% of the net proceeds of this offering to repay outstanding indebtedness under our Previous Black Hills Term Loan, our Previous Source Gas Term Loan, our Interest Rate Swaps and a portion of our New Term Loan. JPMorgan Chase Bank, N.A. acts as the administrative agent of our Previous Black Hills Term Loan and JPMorgan Chase Bank, N.A., Scotiabank (Ireland) Limited, The Bank of Nova Scotia, the Bank of Tokyo-Mitsubishi UFJ, Ltd. and U.S. Bank National Association, among other financial institutions, are lenders. JPMorgan Chase Bank, N.A. acts as the administrative agent of our Previous Source Gas Term Loan and JPMorgan Chase Bank, N.A. and MUFG Union Bank, N.A., among other financial institutions, are lenders. RBC Capital Markets, LLC is a holder of the 2017 SourceGas Notes. The Bank of Nova Scotia is a counterparty to certain of our Interest Rate Swaps. JPMorgan Chase Bank, N.A. acts as the administrative agent under our New Term Loan and JPMorgan Chase Bank, N.A., the Bank of Tokyo-Mitsubishi UFJ, Ltd., the Royal Bank of Canada and U.S. Bank National Association, among other financial institutions, are lenders.

Because J.P. Morgan Securities LLC, an affiliate of JPMorgan Chase Bank, N.A., MUFG Securities Americas Inc., an affiliate of MUFG Union Bank, N.A. and the Bank of Tokyo-Mitsubishi UFJ, Ltd., Scotia Capital (USA) Inc., an affiliate of Scotiabank (Ireland) Limited and The Bank of Nova Scotia, RBC Capital Markets, LLC, an affiliate of the Royal Bank of Canada, and U.S. Bancorp Investments, Inc., an affiliate of U.S. Bank National Association, are underwriters in this offering, a

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"conflict of interest" is deemed to exist under FINRA Rule 5121. Accordingly, the offering will be made in compliance with the applicable provisions of FINRA Rule 5121. In addition, in accordance with Rule 5121, J.P. Morgan Securities LLC, MUFG Securities Americas Inc., Scotia Capital (USA) Inc., RBC Capital Markets, LLC and U.S. Bancorp Investments, Inc. will not make sales to discretionary accounts without the prior written consent of the customer.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to us and to persons and entities with relationships with us, for which they received or will receive customary fees and expenses. In the ordinary course of their various business activities, the underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to our assets, securities and/or instruments (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with us. The underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Notice to Prospective Investors in the European Economic Areas

In relation to each Member State of the European Economic Area (each, a "Relevant Member State"), no offer of Notes may be made to the public in that Relevant Member State other than:

- A. to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- B. to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the representatives; or
- C. in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Company or the representatives to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

Each person in a Relevant Member State who initially acquires any Notes or to whom any offer is made will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive. In the case of any Notes being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, each such financial intermediary will be deemed to have represented, acknowledged and agreed that the Notes acquired by it in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any Notes to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the representatives has been obtained to each such proposed offer or resale.

The Company, the representatives and their affiliates will rely upon the truth and accuracy of the foregoing representations, acknowledgements and agreements.

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This prospectus has been prepared on the basis that any offer of Notes in any Relevant Member State will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of the offering contemplated in this prospectus may only do so in circumstances in which no obligation arises for the Company or any of the underwriters to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither the Company nor the underwriters have authorized, nor do they authorize, the making of any offer of Notes in circumstances in which an obligation arises for the Company or the underwriters to publish a prospectus for such offer.

For the purpose of the above provisions, the expression "an offer to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in the Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (as amended) and includes any relevant implementing measure in the Relevant Member State.

Notice to Prospective Investors in the United Kingdom

In addition, in the United Kingdom, this document is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are "qualified investors" (as defined in the Prospectus Directive) (i) who have professional experience in matters relating to investments falling within Article 19 (5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order") and/or (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). This document must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. In the United Kingdom, any investment or investment activity to which this document relates is only available to, and will be engaged in with, relevant persons.

Notice to Prospective Investors in Switzerland

The Notes may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("SIX") or on any other securities exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other securities exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the Notes or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the offering, the Company, the Notes have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of Notes will not be supervised by, the Swiss Financial Market Supervisory Authority ("FINMA"), and the offer of Notes has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes ("CISA"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of Notes.

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Notice to Prospective Investors in the Dubai International Financial Centre

This prospectus supplement relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority ("DFSA"). This prospectus supplement is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this prospectus supplement nor taken steps to verify the information set forth herein and has no responsibility for the prospectus supplement. The Notes to which this prospectus supplement relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Notes offered should conduct their own due diligence on the Notes. If you do not understand the contents of this prospectus supplement you should consult an authorized financial advisor.

Notice to Prospective Investors in Australia

No placement document, prospectus, product disclosure statement or other disclosure document has been lodged with the Australian Securities and Investments Commission ("ASIC"), in relation to the offering. This prospectus does not constitute a prospectus, product disclosure statement or other disclosure document under the Corporations Act 2001 (the "Corporations Act"), and does not purport to include the information required for a prospectus, product disclosure statement or other disclosure document under the Corporations Act.

Any offer in Australia of the Notes may only be made to persons (the "Exempt Investors") who are "sophisticated investors" (within the meaning of section 708(8) of the Corporations Act), "professional investors" (within the meaning of section 708(11) of the Corporations Act) or otherwise pursuant to one or more exemptions contained in section 708 of the Corporations Act so that it is lawful to offer the Notes without disclosure to investors under Chapter 6D of the Corporations Act.

The Notes applied for by Exempt Investors in Australia must not be offered for sale in Australia in the period of 12 months after the date of allotment under the offering, except in circumstances where disclosure to investors under Chapter 6D of the Corporations Act would not be required pursuant to an exemption under section 708 of the Corporations Act or otherwise or where the offer is pursuant to a disclosure document which complies with Chapter 6D of the Corporations Act. Any person acquiring Notes must observe such Australian on-sale restrictions.

This prospectus contains general information only and does not take account of the investment objectives, financial situation or particular needs of any particular person. It does not contain any securities recommendations or financial product advice. Before making an investment decision, investors need to consider whether the information in this prospectus is appropriate to their needs, objectives and circumstances, and, if necessary, seek expert advice on those matters.

Notice to Prospective Investors in Hong Kong

The Notes have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the Notes has been or may be issued or has been or may be in the possession of any person for the purposes of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons

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outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Notice to Prospective Investors in Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) and, accordingly, will not be offered or sold, directly or indirectly, in Japan, or for the benefit of any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person, except in compliance with all applicable laws, regulations and ministerial guidelines promulgated by relevant Japanese governmental or regulatory authorities in effect at the relevant time. For the purposes of this paragraph, "Japanese Person" shall mean any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

Notice to Prospective Investors in Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire bond capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (a) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (b) where no consideration is or will be given for the transfer;
- (c) where the transfer is by operation of law;
- (d) as specified in Section 276(7) of the SFA; or
- (e) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

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EXPERTS

The consolidated financial statements, and the related financial statement schedule, incorporated in this prospectus supplement by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2015, and the effectiveness of Black Hills Corporation and subsidiaries' internal control over financial reporting have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports, which are incorporated herein by reference. Such financial statements and financial statement schedule have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements of SourceGas Holdings LLC and its subsidiaries as of December 31, 2015 and 2014 and for each of the years in the two year period ended December 31, 2015 included in Exhibit 99.1 of Black Hills Corporation's Current Report on Form 8-K/A dated March 18, 2016 have been incorporated by reference herein in reliance on the report of KPMG LLP, an independent registered public accounting firm, incorporated by reference herein and upon the authority of said firm as experts in auditing and accounting.

LEGAL MATTERS

Certain legal matters in connection with the offering will be passed upon for us by Brian G. Iverson, our Senior Vice President and General Counsel, and Faegre Baker Daniels LLP, Boulder, Colorado and Minneapolis, Minnesota. Certain legal matters in connection with this offering will be passed upon for the underwriters by Davis Polk & Wardwell LLP, New York, New York.

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WHERE YOU CAN FIND MORE INFORMATION

Available Information

We file annual, quarterly and current reports, and other information with the SEC. These SEC filings are available over the Internet at the SEC's web site at (www.sec.gov) or on our own website (www.blackhillscorp.com). Information contained on our website does not constitute part of this prospectus supplement. You may also read and copy any document we file at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for more information on the Public Reference Room.

Incorporation by Reference

The SEC allows us to "incorporate by reference" into this prospectus the information we file with the SEC, which means we can disclose important information by referring you to those documents. The information we incorporate by reference is an important part of this prospectus supplement and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below. Additional documents that we file with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act between the date of this prospectus supplement and the termination of this offering of the Notes are also incorporated herein by reference. These documents contain important information about us and our finances. We are not, however, incorporating, in each case, any documents or information that we are deemed to furnish and not file in accordance with SEC rules.

SEC Filings (File No. 1-31303)

Annual Report on Form 10-K (including information specifically incorporated by reference from our definitive Proxy Statement for our 2016 Annual Meeting of Shareholders)
Quarterly Reports on Form 10-Q
Current Reports on Form 8-K

Period or Date Filed

Year ended December 31, 2015
Quarters ended March 31, 2016 and June 30, 2016
Filed on January 13, 2016, February 12, 2016 (as amended by the Form 8-K/A filed on March 18, 2016), March 18, 2016, April 26, 2016, April 28, 2016, August 3, 2016, and August 10, 2016

You may request a copy of these filings at no cost by writing or telephoning us at the following address:

**Black Hills Corporation
625 North Street
Rapid City, South Dakota 57701
Attention: Investor Relations
(605) 721-1700**

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PROSPECTUS

BLACK HILLS CORPORATION

Senior Debt Securities
Subordinated Debt Securities
Preferred Stock
Depository Shares
Common Stock
Warrants
Purchase Contracts
Units

We may from time to time offer to sell senior debt securities, subordinated debt securities, preferred stock, depository shares, common stock, warrants, purchase contracts or units. Each time we sell securities pursuant to this prospectus, we will provide a supplement to this prospectus that contains specific information about the offering and the specific terms of the securities offered. You should read this prospectus and the applicable prospectus supplement carefully before you invest in our securities.

Our common stock is listed on the New York Stock Exchange under the symbol "BKH."

There are significant risks associated with an investment in our securities. You should read carefully the risks we describe in the accompanying prospectus supplement as well as the risk factors discussed in our periodic reports that we file with the Securities and Exchange Commission, for a better understanding of the risks and uncertainties that investors in our securities should consider.

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

This prospectus may not be used to sell securities unless accompanied by a prospectus supplement.

The date of this prospectus is August 6, 2014.

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

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or the SEC, utilizing a "shelf" registration process. Under this shelf process, we may, from time to time, sell any combination of the securities described in this prospectus in one or more offerings. For further information about our business and the securities, you should refer to the registration statement and its exhibits. The exhibits to the registration statement and the documents incorporated by reference in the registration statement contain the full text of the contracts and other important documents summarized in this prospectus. Since these summaries may not contain all the information that you may find important in deciding whether to purchase the securities that we may offer, you should review the full text of these documents. The registration statement can be obtained from the SEC as indicated under the heading "Where You Can Find More Information."

This prospectus provides you with only a general description of the securities we may offer. Each time we offer to sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update, or change information contained in this prospectus. If there is any inconsistency between the information in this prospectus and the applicable prospectus supplement, you should rely on the information in the prospectus supplement. You should read both this prospectus and the applicable prospectus supplement together with the additional information described under the heading "Where You Can Find More Information."

When we refer to "Black Hills," "our company," "we," "us" and "our" in this prospectus under the headings "Disclosure Regarding Forward-Looking Statements," "Black Hills Corporation" and "Ratios of Earnings to Fixed Charges," we mean Black Hills Corporation, a South Dakota corporation, and all of its subsidiaries collectively unless the context indicates otherwise. When such terms are used elsewhere in this prospectus, we refer only to Black Hills Corporation (parent company only) and not any of its subsidiaries unless the context indicates otherwise.

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, the applicable prospectus supplement and the documents incorporated by reference herein and therein may include forward-looking statements as defined by the SEC. We make these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. Forward-looking statements are all statements other than statements of historical fact, including without limitation those statements that are identified by the words "anticipates," "estimates," "intends," "plans," "predicts" and similar expressions, and include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements that are other than statements of historical facts.

Forward-looking statements involve risks and uncertainties, which could cause actual results or outcomes to differ materially from those expressed. Our expectations, beliefs and projections are expressed in good faith and are believed by us to have a reasonable basis, including without limitation, management's examination of historical operating trends, data contained in the Company's records and other data available from third parties. Nonetheless, the Company's expectations, beliefs or projections may not be achieved or accomplished.

Any forward-looking statement contained in this document speaks only as of the date on which the statement is made, and we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances that occur after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of the factors, nor can it assess the effect of each factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. All forward-looking statements, whether written or oral and whether made by or on behalf of the Company, are expressly qualified by the risk factors and cautionary statements set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013, and in other reports that we file with the SEC from time to time.

BLACK HILLS CORPORATION

We are a growth-oriented, vertically-integrated energy company headquartered in Rapid City, S.D. Our predecessor company, Black Hills Power and Light Company, was incorporated and began providing electric utility service in 1941. It was formed through the purchase and combination of several existing electric utilities and related assets, some of which had served customers in the Black Hills region since 1883. In 1956, we began producing, selling and marketing various forms of energy through non-regulated businesses. We operate principally in the United States with two major business groups: Utilities and Non-regulated Energy. Our Utilities Group is comprised of our regulated Electric Utilities and regulated Gas Utilities segments, and our Non-regulated Energy Group is comprised of Power Generation, Coal Mining, and Oil and Gas segments.

Our Electric Utilities segment generates, transmits and distributes electricity to approximately 203,500 electric customers in South Dakota, Wyoming, Colorado and Montana and also distributes natural gas to approximately 35,500 gas utility customers of Cheyenne Light, Fuel and Power Company in and around Cheyenne, Wyoming. Our Gas Utilities segment serves approximately 538,000 natural gas utility customers in Colorado, Nebraska, Iowa and Kansas. Our Electric Utilities segment owns 709 megawatts of generation and 8,599 miles of electric transmission and distribution lines, and our Gas Utilities segment owns 604 miles of intrastate gas transmission pipelines and 19,998 miles of gas distribution mains and service lines. Our Utilities Group generated net income of \$85 million for the year ended December 31, 2013, and had total assets of \$3.3 billion at December 31, 2013.

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Our Non-regulated Energy Group conducts business in three segments:

Power Generation. Our power generation segment produces electric power from our generating plants and sells the electric capacity and energy primarily to our utilities under long-term contracts. At December 31, 2013, we held varying interests in independent power plants operating in Wyoming and Colorado with a total net ownership of 309 megawatts.

Coal Mining. Our coal mining segment produces coal at our coal mine located near Gillette, Wyoming, in the Powder River Basin and sells the coal primarily under long-term contracts to electric generation facilities including our own regulated and non-regulated generating plants. We produced approximately 4.3 million tons of coal in 2013.

Oil and Gas. Our oil and gas segment engages in the exploration, development and production of oil and natural gas primarily in the Rocky Mountain region of the United States. As of December 31, 2013, the principal assets of our Oil and Gas segment included: (i) operating interests in crude oil and natural gas properties, including properties in the San Juan Basin (with holdings primarily on the tribal lands of the Jicarilla Apache Nation in New Mexico and Southern Ute Nation in Colorado), the Powder River Basin (Wyoming) and the Piceance Basin (Colorado); (ii) non-operated interests in crude oil and natural gas properties, including wells located in the Williston (Bakken Shale primarily in North Dakota), Wind River (Wyoming), Bearpaw Uplift (Montana), Arkoma (Oklahoma), Anadarko (Texas) and Sacramento (California) basins; and (iii) a 44.7 percent ownership interest in the Newcastle gas processing plant and associated gathering system located in Weston County, Wyoming. We also own natural gas gathering, compression and treating facilities serving the operated San Juan and Piceance Basin properties and working interests in similar facilities serving our non-operated Montana and Wyoming properties. At December 31, 2013, we had total reserves of approximately 87 billion cubic feet equivalent, of which natural gas comprised 73 percent and crude oil comprised 27 percent.

Our Non-regulated Energy Group generated net income of \$18 million for the year ended December 31, 2013, and had total assets of \$0.5 billion at December 31, 2013.

Our common stock is listed on the New York Stock Exchange under the symbol "BKH." Our principal and executive offices are located at 625 Ninth Street, Rapid City, South Dakota 57701 and our telephone number is (605) 721-1700. Our Internet address is www.blackhillscorp.com. Information on our website does not constitute part of this prospectus.

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The following table sets forth our ratios of earnings to fixed charges for each of the periods indicated. For this purpose, earnings consist of income from continuing operations (before adjustment for income taxes, minority interests in consolidated subsidiaries or income or loss from equity investees), plus fixed charges, amortization of capitalized interest and distributed income of equity investees and less interest capitalized, preference security dividend requirements of consolidated subsidiaries and minority interest in pre-tax income of subsidiaries that have not incurred fixed charges. Fixed charges consist of interest expensed and capitalized, amortization of debt issuance costs and an estimate of the interest within rental expense.

| | Years Ended December 31, | | | | Six Months Ended | |
|---------------------------------------|--------------------------|-------|-------|-------|------------------|------------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | June 30, 2014 |
| Ratio of earnings to fixed charges(1) | 2.25x | 1.76x | 1.41x | 2.14x | 2.52x | 3.75x |

(1)

The ratio of earnings to fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges for all periods presented because no shares of preferred stock were outstanding during these periods.

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USE OF PROCEEDS

Unless otherwise indicated in the applicable prospectus supplement, we intend to use the net proceeds from the sale of any securities described in this prospectus for working capital and general corporate purposes, which may include:

repayment or refinancing of outstanding debt;

capital expenditures;

acquisitions;

investments; and

other business opportunities.

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DESCRIPTION OF SENIOR DEBT SECURITIES

General

The following description applies to the senior debt securities offered by this prospectus. The senior debt securities will be direct, unsecured obligations of Black Hills and will rank on a parity with all of our outstanding unsecured senior indebtedness. The senior debt securities may be issued in one or more series. The senior debt securities will be issued under the indenture dated May 21, 2003 between us and Wells Fargo Bank, National Association (as successor to LaSalle Bank National Association), as trustee.

The statements under this caption are brief summaries of the provisions contained in the indenture, do not claim to be complete and are qualified in their entirety by reference to the indenture, a copy of which is filed as an exhibit to the registration statement of which this prospectus forms a part. Whenever defined terms are used but not defined in this prospectus, those terms have the meanings given to them in the indenture.

The following describes the general terms and provisions of the senior debt securities to which any prospectus supplement may relate. The particular terms of any senior debt security and the extent, if any, to which these general provisions may apply to the senior debt securities will be described in the prospectus supplement relating to the senior debt securities.

The indenture does not limit the aggregate principal amount of senior debt securities which may be issued under it. Rather, the indenture provides that senior debt securities of any series may be issued under it up to the aggregate principal amount which we may authorize from time to time. Senior debt securities may be denominated in any currency or currency unit we designate. Neither the indenture nor the senior debt securities will limit or otherwise restrict the amount of other debt which we may incur or the other securities which we may issue.

While the senior debt securities will be our unsecured senior obligations, our assets consist primarily of equity in our subsidiaries. We are a separate and distinct legal entity from our subsidiaries. As a result, our ability to make payments on our senior debt securities depends on our receipt of dividends, loan payments and other funds from our subsidiaries. Various federal and state statutes and regulations, including the Federal Power Act and settlement agreements with state regulatory jurisdictions, limit the amount of dividends that may be paid to us as a utility holding company.

In addition, if any of our subsidiaries becomes insolvent, the direct creditors of that subsidiary will have a prior claim on its assets. Holders of the senior debt securities are not creditors of our subsidiaries. The claims of holders of the senior debt securities to the assets of our subsidiaries derive from our own equity interests in those subsidiaries. Claims of such subsidiaries' creditors will generally have priority as to the assets of such subsidiaries over our own equity interest claims and will therefore have priority over the holders of the senior debt securities. Our subsidiaries' creditors may include general creditors, trade creditors, debt holders, any preferred stockholders and taxing authorities. The subordination of creditors of a parent company to prior claims of creditors of its subsidiaries is commonly referred to as structural subordination.

Senior debt securities of a series may be issuable in registered form without coupons, which we refer to as "registered securities," or in the form of one or more global securities in registered form, which we refer to as "global securities."

You must review the prospectus supplement for a description of the following terms, where applicable, of each series of senior debt securities for which this prospectus is being delivered:

the title of the senior debt securities;

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the limit, if any, on the aggregate principal amount or aggregate initial public offering price of the senior debt securities;

the priority of payment of the senior debt securities;

the price or prices, which may be expressed as a percentage of the aggregate principal amount, at which the senior debt securities will be issued;

the date or dates on which the principal of the senior debt securities will be payable;

the interest rate or rates, which may be fixed or variable, for the senior debt securities, if any, or the method of determining the same;

the date or dates from which interest, if any, on the senior debt securities will accrue, the date or dates on which interest, if any, will be payable, the date or dates on which payment of interest, if any, will commence and the regular record dates for the interest payment dates;

the extent to which any of the senior debt securities will be issuable in temporary or permanent global form, or the manner in which any interest payable on a temporary or permanent global senior debt security will be paid;

each office or agency where the senior debt securities may be presented for registration of transfer or exchange;

the place or places where the principal of and any premium and interest on the senior debt securities will be payable;

the date or dates, if any, after which the senior debt securities may be redeemed or purchased in whole or in part, (1) at our option or (2) mandatorily pursuant to any sinking, purchase or similar fund or (3) at the option of the holder, and the redemption or repayment price or prices;

the terms, if any, upon which the senior debt securities may be convertible into or exchanged for any other kind of our securities or indebtedness and the terms and conditions upon which the conversion or exchange would be made, including the initial conversion or exchange price or rate, the conversion period and any other additional provisions;

the authorized denomination or denominations for the senior debt securities;

the currency, currencies or units based on or related to currencies for which the senior debt securities may be purchased and the currency, currencies or currency units in which the principal of and any premium and interest on the senior debt securities may be payable;

any index used to determine the amount of payments of principal of and any premium and interest on the senior debt securities;

the payment of any additional amounts with respect to the senior debt securities;

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whether any of the senior debt securities will be issued with original issue discount;

information with respect to book-entry procedures, if any;

any additional covenants or events of default not currently included in the indenture relating to the senior debt securities; and

any other terms of the senior debt securities not inconsistent with the provisions of the indenture.

If any of the senior debt securities are sold for one or more foreign currencies or foreign currency units or if the principal of or any premium or interest on any series of senior debt securities is payable in one or more foreign currencies or foreign currency units, the restrictions, elections, tax

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consequences, specific terms and other information with respect to that issue of senior debt securities and those currencies or currency units will be described in the applicable prospectus supplement.

A judgment for money damages by courts in the United States, including a money judgment based on an obligation expressed in a foreign currency, will ordinarily be rendered only in U.S. dollars. New York statutory law provides that a court shall render a judgment or decree in the foreign currency of the underlying obligation and that the judgment or decree shall be converted into U.S. dollars at the exchange rate prevailing on the date of entry of the judgment or decree.

Senior debt securities may be issued as original issue discount senior debt securities, which bear no interest or interest at a rate which at the time of issuance is below market rates, to be sold at a substantial discount below their stated principal amount due at the stated maturity of the senior debt securities. There may be no periodic payments of interest on original issue discount securities. In the event of an acceleration of the maturity of any original issue discount security, the amount payable to the holder of the original issue discount security upon acceleration will be determined in accordance with the applicable prospectus supplement, the terms of the security and the indenture, but will be an amount less than the amount payable at the maturity of the principal of the original issue discount security.

If the senior debt securities are issued with "original issue discount" within the meaning of the Internal Revenue Code of 1986, as amended, then a holder of those senior debt securities will be required under the Internal Revenue Code to include original issue discount in ordinary income for federal income tax purposes as it accrues, in accordance with a constant interest method that takes into account the compounding of interest, in advance of receipt of cash attributable to that income. Generally, the total amount of original issue discount on a senior debt security will be the excess of the stated redemption price at maturity of the security over the price at which the security is sold to the public. To the extent a holder of a senior debt security receives a payment (at the time of acceleration of maturity, for example) that represents payment of original issue discount already included by the holder in ordinary income or reflected in the holder's tax basis in the security, that holder generally will not be required to include the payment in income. The specific terms of any senior debt securities that are issued with original issue discount and the application of the original discount rules under the Internal Revenue Code to those securities will be described in the prospectus supplement for those securities.

Registration and Transfer

Unless otherwise indicated in the applicable prospectus supplement, senior debt securities will be issued only as registered securities. Senior debt securities issued as registered securities will not have interest coupons.

Registered securities (other than a global security) may be presented for transfer, with the form of transfer endorsed thereon duly executed, or exchanged for other senior debt securities of the same series at the office of the security registrar specified in the indenture. The indenture provides that, with respect to registered securities having The City of New York as a place of payment, we will appoint a security registrar or co-security registrar located in The City of New York for such transfer or exchange. Transfer or exchange will be made without service charge, but we may require payment of any taxes or other governmental charges.

Book-Entry Senior Debt Securities

Senior debt securities of a series may be issued in whole or in part in the form of one or more global securities. Each global security will be deposited with, or on behalf of, a depositary identified in the applicable prospectus supplement. Global securities will be issued in registered form and in either temporary or permanent form. Until exchanged in whole or in part for the individual securities which it

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represents, a global security may not be transferred except as a whole by the depositary for the global security to a nominee of the depositary or by a nominee of the depositary to the depositary or another nominee of the depositary or by the depositary or any nominee to a successor depositary or any nominee of the successor. The specific terms of the depositary arrangement for a series of senior debt securities will be described in the applicable prospectus supplement.

Payment and Paying Agents

Unless otherwise indicated in an applicable prospectus supplement, payment of principal of and any premium and interest on registered securities will be made at the office of such paying agent or paying agents as we may designate from time to time. In addition, at our option, payment of any interest may be made by:

check mailed to the address of the person entitled to the payment at the address in the applicable security register; or

wire transfer to an account maintained by the person entitled to the payment as specified in the applicable security register.

Unless otherwise indicated in an applicable prospectus supplement, payment of any installment of interest on registered securities will be made to the person in whose name the senior debt security is registered at the close of business on the regular record date for the payment.

Consolidation, Merger or Sale of Assets

The indenture relating to the senior debt securities provides that we may, without the consent of the holders of any of the senior debt securities outstanding under the indenture, consolidate with, merge into or transfer our assets substantially as an entirety to any person, provided that:

any successor assumes our obligations on the senior debt securities and under the indenture; and

after giving effect to the consolidation, merger or transfer, no event of default (as defined in the indenture) will have happened and be continuing.

Any consolidation, merger or transfer of assets substantially as an entirety, which meets the conditions described above, would not create an event of default which would entitle holders of the senior debt securities, or the trustee acting on their behalf, to take any of the actions described below under " Events of Default, Waivers, Etc."

Leveraged and Other Transactions

The indenture and the senior debt securities do not contain provisions which would protect holders of the senior debt securities in the event we engaged in a highly leveraged or other transaction which could adversely affect the holders of senior debt securities.

Modification of the Indenture

The indenture provides that, with the consent of the holders of not less than a majority in aggregate principal amount of the outstanding senior debt securities of each affected series, modifications and alterations of the indenture may be made which affect the rights of the holders of the senior debt securities. However, no modification or alteration may be made without the consent of the holder of each senior debt security affected which would, among other things:

modify the terms of payment of principal of or any premium or interest on the senior debt securities; or

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reduce the percentage in principal amount of outstanding senior debt securities required to modify or alter the indenture.

Events of Default, Waivers, Etc.

An "event of default" with respect to senior debt securities of any series is defined in the indenture to include:

- (1) default in the payment of principal of or any premium on any of the outstanding senior debt securities of that series when due;
- (2) default in the payment of interest on any of the outstanding senior debt securities of that series when due and continuance of such default for 30 days;
- (3) default in the performance of any of our other covenants in the indenture with respect to the senior debt securities of that series and continuance of such default for 60 days after written notice;
- (4) certain events of bankruptcy, insolvency or reorganization relating to us; and
- (5) any other event that may be specified in the applicable prospectus supplement with respect to any series of senior debt securities.

If an event of default with respect to any series of outstanding senior debt securities occurs and is continuing, either the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding senior debt securities of that series may declare the principal amount (or with respect to original issue discount securities, the portion of the principal amount as may be specified in the terms of that series) of all senior debt securities of that series to be immediately due and payable. The holders of a majority in aggregate principal amount of the outstanding senior debt securities of any series may waive an event of default resulting in acceleration of the senior debt securities, but only if all events of default with respect to senior debt securities of such series have been remedied and all payments due, other than those due as a result of acceleration, have been made.

If an event of default occurs and is continuing, the trustee may, in its discretion, and at the written request of holders of not less than a majority in aggregate principal amount of the outstanding senior debt securities of any series and upon reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request and subject to certain other conditions set forth in the indenture will, proceed to protect the rights of the holders of all the senior debt securities of that series. Prior to acceleration of maturity of the outstanding senior debt securities of any series, the holders of a majority in aggregate principal amount of the senior debt securities may waive any past default under the indenture except a default in the payment of principal of or any premium or interest on the senior debt securities of that series.

The indenture provides that upon the occurrence of an event of default specified in clauses (1) or (2) of the first paragraph in this subsection, we will, upon demand of the trustee, pay to it, for the benefit of the holders of any senior debt securities, the whole amount then due and payable on the affected senior debt securities for principal, premium, if any, and interest, if any. The indenture further provides that if we fail to pay such amount upon demand, the trustee may, among other things, institute a judicial proceeding for the collection of those amounts.

The indenture also provides that notwithstanding any of its other provisions, the holder of any senior debt security of any series will have the right to institute suit for the enforcement of any payment of principal of or any premium or interest on the senior debt securities when due and that such right will not be impaired without the consent of that holder.

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We are required to file annually with the trustee a written statement of our officers as to the existence or non-existence of defaults under the indenture or the senior debt securities.

Satisfaction and Discharge and Defeasance

The indenture provides, among other things, that when all senior debt securities not previously delivered to the trustee for cancellation (1) have become due and payable or (2) will become due and payable at their stated maturity (or be called for redemption) within one year, we may deposit with the trustee funds, in trust, for the purpose and in an amount sufficient to pay and discharge the entire indebtedness on the senior debt securities not previously delivered to the trustee for cancellation. Those funds will include all principal, premium, if any, and interest, if any, to the date of the deposit or to the stated maturity, as applicable. Upon such deposit, the indenture will cease to be of further effect except as to our obligations to pay all other sums due under the indenture and to provide the officers' certificates and opinions of counsel required under the indenture. At such time we will be deemed to have satisfied and discharged the indenture.

In addition, at the time that we establish a series of senior debt securities under the indenture, we can provide that the senior debt securities are subject to the defeasance and discharge provisions of the indenture. Unless we specify otherwise in the applicable prospectus supplement, the senior debt securities offered thereby will be subject to the defeasance and discharge provisions of the applicable indenture, and we may elect either (1) to defease and be discharged from any and all obligations with respect to the senior debt securities of a series (except for, among other things, obligations to register the transfer or exchange of the debt securities, to replace temporary or mutilated, destroyed, lost or stolen debt securities, to maintain an office or agency with respect to the debt securities and to hold moneys for payment in trust) ("legal defeasance") or (2) to be released from our obligations to comply with the restrictive covenants we designate when we establish the series of senior debt securities, and any omission to comply with such obligations will not constitute a default or an event of default with respect to such senior debt securities ("covenant defeasance"). Legal defeasance or covenant defeasance, as the case may be, will be conditioned upon, among other things, the irrevocable deposit by us with the trustee, in trust, of an amount in U.S. dollars, or U.S. government obligations, or both, applicable to the debt securities of that series which through the scheduled payment of principal and interest in accordance with their terms will provide money in an amount sufficient to pay the principal or premium, if any, and interest on the senior debt securities on the scheduled due dates therefor.

If we effect covenant defeasance with respect to any series of senior debt securities, the amount in money, or U.S. government obligations, or both, on deposit with the trustee will be sufficient, in the opinion of a nationally recognized firm of independent accountants, to pay amounts due on the senior debt securities of that series in accordance with the terms of the indenture and such senior debt securities.

We will be required to deliver to the trustee an opinion of counsel that the deposit and related defeasance will not cause the holders and beneficial owners of the senior debt securities of that series to recognize income, gain or loss for U.S. federal income tax purposes. If we elect legal defeasance, that opinion of counsel must be based upon a ruling from the U.S. Internal Revenue Service or a change in law to that effect.

We may exercise our legal defeasance option notwithstanding our prior exercise of our covenant defeasance option.

Governing Law

The indenture and the senior debt securities will be governed by, and construed in accordance with, the laws of the State of New York.

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Regarding the Trustee

Wells Fargo Bank, National Association, is the trustee under the indenture for the senior debt securities. From time to time, we and certain of our subsidiaries maintain deposit accounts and conduct other banking transactions, including lending transactions, with the trustee in the ordinary course of business.

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DESCRIPTION OF SUBORDINATED DEBT SECURITIES

General

The following description applies to the subordinated debt securities offered by this prospectus. The subordinated debt securities will be unsecured, subordinated obligations of Black Hills. The subordinated debt securities may be issued in one or more series. The subordinated debt securities will be issued under an indenture between us and the trustee specified in the applicable prospectus supplement.

The statements under this caption are brief summaries of the provisions contained in the indenture, do not claim to be complete and are qualified in their entirety by reference to the indenture, the form of which is filed as an exhibit to the registration statement of which this prospectus forms a part. Whenever defined terms are used but not defined in this prospectus, those terms have the meanings given to them in the indenture.

The following describes the general terms and provisions of the subordinated debt securities to which any prospectus supplement may relate. The particular terms of any subordinated debt security and the extent, if any, to which these general provisions may apply to the subordinated debt securities will be described in the prospectus supplement relating to the subordinated debt securities.

The indenture does not limit the aggregate principal amount of subordinated debt securities which may be issued under it. Rather, the indenture provides that subordinated debt securities of any series may be issued under it up to the aggregate principal amount which we may authorize from time to time. Subordinated debt securities may be denominated in any currency or currency unit we designate. Neither the indenture nor the subordinated debt securities will limit or otherwise restrict the amount of other debt which we may incur or the other securities which we may issue.

The subordinated debt securities will be our unsecured subordinated obligations. Our assets consist primarily of equity in our subsidiaries. We are a separate and distinct legal entity from our subsidiaries. As a result, our ability to make payments on our subordinated debt securities depends on our receipt of dividends, loan payments and other funds from our subsidiaries. Various federal and state statutes and regulations, including the Federal Power Act and settlement agreements with state regulatory jurisdictions, limit the amount of dividends that may be paid to us as a utility holding company.

In addition, if any of our subsidiaries becomes insolvent, the direct creditors of that subsidiary will have a prior claim on its assets. Holders of the subordinated debt securities are not creditors of our subsidiaries. The claims of holders of the subordinated debt securities to the assets of our subsidiaries derive from our own equity interests in those subsidiaries. Claims of such subsidiaries' creditors will generally have priority as to the assets of such subsidiaries over our own equity interest claims and will therefore have priority over the holders of the subordinated debt securities. Our subsidiaries' creditors may include general creditors, trade creditors, debt holders, any preferred stockholders and taxing authorities. The subordination of creditors of a parent company to prior claims of creditors of its subsidiaries is commonly referred to as structural subordination.

Subordinated debt securities of a series may be issuable in the form of registered securities or global securities.

You must review the prospectus supplement for a description of the following terms, where applicable, of each series of subordinated debt securities for which this prospectus is being delivered:

the title of the subordinated debt securities;

the limit, if any, on the aggregate principal amount or aggregate initial public offering price of the subordinated debt securities;

the priority of payment of the subordinated debt securities;

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the price or prices, which may be expressed as a percentage of the aggregate principal amount, at which the subordinated debt securities will be issued;

the date or dates on which the principal of the subordinated debt securities will be payable;

the interest rate or rates, which may be fixed or variable, for the subordinated debt securities, if any, or the method of determining the same;

the date or dates from which interest, if any, on the subordinated debt securities will accrue, the date or dates on which interest, if any, will be payable, the date or dates on which payment of interest, if any, will commence and the regular record dates for the interest payment dates;

the extent to which any of the subordinated debt securities will be issuable in temporary or permanent global form, or the manner in which any interest payable on a temporary or permanent global subordinated debt security will be paid;

each office or agency where the subordinated debt securities may be presented for registration of transfer or exchange;

the place or places where the principal of and any premium and interest on the subordinated debt securities will be payable;

the date or dates, if any, after which the subordinated debt securities may be redeemed or purchased in whole or in part, (1) at our option or (2) mandatorily pursuant to any sinking, purchase or similar fund or (3) at the option of the holder, and the redemption or repayment price or prices;

the terms, if any, upon which the subordinated debt securities may be convertible into or exchanged for any other kind of our securities or indebtedness and the terms and conditions upon which the conversion or exchange would be made, including the initial conversion or exchange price or rate, the conversion period and any other additional provisions;

the authorized denomination or denominations for the subordinated debt securities;

the currency, currencies or units based on or related to currencies for which the subordinated debt securities may be purchased and the currency, currencies or currency units in which the principal of and any premium and interest on the subordinated debt securities may be payable;

any index used to determine the amount of payments of principal of and any premium and interest on the subordinated debt securities;

the payment of any additional amounts with respect to the subordinated debt securities;

whether any of the subordinated debt securities will be issued with original issue discount;

information with respect to book-entry procedures, if any;

the terms of subordination;

any additional covenants or events of default not currently included in the indenture relating to the subordinated debt securities; and

any other terms of the subordinated debt securities not inconsistent with the provisions of the indenture.

If any of the subordinated debt securities are sold for one or more foreign currencies or foreign currency units or if the principal of or any premium or interest on any series of subordinated debt securities is payable in one or more foreign currencies or foreign currency units, the restrictions, elections, tax consequences, specific terms and other information with respect to that issue of

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subordinated debt securities and those currencies or currency units will be described in the applicable prospectus supplement.

A judgment for money damages by courts in the United States, including a money judgment based on an obligation expressed in a foreign currency, will ordinarily be rendered only in U.S. dollars. New York statutory law provides that a court shall render a judgment or decree in the foreign currency of the underlying obligation and that the judgment or decree shall be converted into U.S. dollars at the exchange rate prevailing on the date of entry of the judgment or decree.

Subordinated debt securities may be issued as original issue discount securities, to be sold at a substantial discount below their stated principal amount due at the stated maturity of the subordinated debt securities. There may be no periodic payments of interest on original issue discount securities. In the event of an acceleration of the maturity of any original issue discount security, the amount payable to the holder of the original issue discount security upon acceleration will be determined in accordance with the prospectus supplement, the terms of the security and the indenture, but will be an amount less than the amount payable at the maturity of the principal of the original issue discount security.

If the subordinated debt securities are issued with "original issue discount" within the meaning of the Internal Revenue Code of 1986, as amended, then a holder of those subordinated debt securities will be required under the Internal Revenue Code to include original issue discount in ordinary income for federal income tax purposes as it accrues, in accordance with a constant interest method that takes into account the compounding of interest, in advance of receipt of cash attributable to that income. Generally, the total amount of original issue discount on a subordinated debt security will be the excess of the stated redemption price at maturity of the security over the price at which the security is sold to the public. To the extent a holder of a subordinated debt security receives a payment (at the time of acceleration of maturity, for example) that represents payment of original issue discount already included by the holder in ordinary income or reflected in the holder's tax basis in the security, that holder generally will not be required to include the payment in income. The specific terms of any subordinated debt securities that are issued with original issue discount and the application of the original discount rules under the Internal Revenue Code to those securities will be described in the prospectus supplement for those securities.

Registration and Transfer

Unless otherwise indicated in the applicable prospectus supplement, subordinated debt securities will be issued only as registered securities. Subordinated debt securities issued as registered securities will not have interest coupons.

Registered securities (other than a global security) may be presented for transfer, with the form of transfer endorsed thereon duly executed, or exchanged for other subordinated debt securities of the same series at the office of the security registrar specified in the indenture. The indenture provides that, with respect to registered securities having The City of New York as a place of payment, we will appoint a security registrar or co-security registrar located in The City of New York for such transfer or exchange. Transfer or exchange will be made without service charge, but we may require payment of any taxes or other governmental charges.

Book-Entry Subordinated Debt Securities

Subordinated debt securities of a series may be issued in whole or in part in the form of one or more global securities. Each global security will be deposited with, or on behalf of, a depository identified in the applicable prospectus supplement. Global securities will be issued in registered form and in either temporary or permanent form. Until exchanged in whole or in part for the individual securities which it represents, a global security may not be transferred except as a whole by the depository for the global security to a nominee of the depository or by a nominee of the depository to

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the depositary or another nominee of the depositary or by the depositary or any nominee to a successor depositary or any nominee of the successor. The specific terms of the depositary arrangement for a series of subordinated debt securities will be described in the applicable prospectus supplement.

Payment and Paying Agents

Unless otherwise indicated in an applicable prospectus supplement, payment of principal of and any premium and interest on registered securities will be made at the office of such paying agent or paying agents as we may designate from time to time. In addition, at our option, payment of any interest may be made by:

check mailed to the address of the person entitled to the payment at the address in the applicable security register; or

wire transfer to an account maintained by the person entitled to the payment as specified in the applicable security register.

Unless otherwise indicated in an applicable prospectus supplement, payment of any installment of interest on registered securities will be made to the person in whose name the subordinated debt security is registered at the close of business on the regular record date for the payment.

Subordination

The subordinated debt securities will be subordinated and junior in right of payment to our senior indebtedness. Unless otherwise specified in the applicable prospectus supplement, "senior indebtedness" means the principal of, premium, if any, interest (including all interest accruing subsequent to the commencement of any bankruptcy or similar proceeding, whether or not a claim for post-petition interest is allowable as a claim in any such proceeding) and rent payable on or in connection with, and all fees, costs, expenses and other amounts accrued or due on or in connection with any of our indebtedness, whether outstanding on the date of the indenture or thereafter created, incurred, assumed, guaranteed or in effect guaranteed by us (including all deferrals, renewals, extensions or refundings of, or amendments, modifications or supplements to, the foregoing). However, senior indebtedness does not include our indebtedness to any of our subsidiaries or any particular indebtedness the instrument creating or evidencing the same or the assumption or guarantee thereof expressly provides that such Indebtedness shall not be senior in right of payment to the subordinated debt securities or expressly provides that such indebtedness is "pari passu" or "junior" to the subordinated debt security.

Consolidation, Merger or Sale of Assets

The indenture relating to the subordinated debt securities provides that we may, without the consent of the holders of any of the subordinated debt securities outstanding under the indenture, consolidate with, merge into or transfer our assets substantially as an entirety to any person, provided that:

any successor assumes our obligations on the subordinated debt securities and under the indenture; and

after giving effect to the consolidation, merger or transfer, no event of default (as defined in the indenture) will have happened and be continuing.

Any consolidation, merger or transfer of assets substantially as an entirety, which meets the conditions described above, would not create an event of default which would entitle holders of the subordinated debt securities, or the trustee acting on their behalf, to take any of the actions described below under " Events of Default, Waivers, Etc."

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Leveraged and Other Transactions

The indenture and the subordinated debt securities do not contain provisions which would protect holders of the subordinated debt securities in the event we engaged in a highly leveraged or other transaction which could adversely affect the holders of subordinated debt securities.

Modification of the Indenture

The indenture provides that, with the consent of the holders of not less than a majority in aggregate principal amount of the outstanding subordinated debt securities of each affected series, modifications and alterations of the indenture may be made which affect the rights of the holders of the subordinated debt securities. However, no modification or alteration may be made without the consent of the holder of each subordinated debt security affected which would, among other things:

modify the terms of payment of principal of or any premium or interest on the subordinated debt securities;

adversely modify the subordination terms of the subordinated debt securities; or

reduce the percentage in principal amount of outstanding subordinated debt securities required to modify or alter the indenture.

Events of Default, Waivers, Etc.

An "event of default" with respect to subordinated debt securities of any series is defined in the indenture to include:

- (1) default in the payment of principal of or any premium on any of the outstanding subordinated debt securities of that series when due;
- (2) default in the payment of interest on any of the outstanding subordinated debt securities of that series when due and continuance of such default for 30 days;
- (3) default in the performance of any of our other covenants in the indenture with respect to the subordinated debt securities of that series and continuance of such default for 60 days after written notice;
- (4) certain events of bankruptcy, insolvency or reorganization relating to us; and
- (5) any other event that may be specified in the prospectus supplement with respect to any series of subordinated debt securities.

If an event of default with respect to any series of outstanding subordinated debt securities occurs and is continuing, either the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding subordinated debt securities of that series may declare the principal amount (or with respect to original issue discount securities, the portion of the principal amount as may be specified in the terms of that series) of all subordinated debt securities of that series to be immediately due and payable. The holders of a majority in aggregate principal amount of the outstanding subordinated debt securities of any series may waive an event of default resulting in acceleration of the subordinated debt securities, but only if all events of default with respect to subordinated debt securities of such series have been remedied and all payments due, other than those due as a result of acceleration, have been made.

If an event of default occurs and is continuing, the trustee may, in its discretion, and at the written request of holders of not less than a majority in aggregate principal amount of the outstanding subordinated debt securities of any series and upon reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request and subject to certain other conditions set

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forth in the indenture will, proceed to protect the rights of the holders of all the subordinated debt securities of that series. Prior to acceleration of maturity of the outstanding subordinated debt securities of any series, the holders of a majority in aggregate principal amount of the subordinated debt securities may waive any past default under the indenture except a default in the payment of principal of or any premium or interest on the subordinated debt securities of that series.

The indenture provides that upon the occurrence of an event of default specified in clauses (1) or (2) of the first paragraph in this subsection, we will, upon demand of the trustee, pay to it, for the benefit of the holders of any subordinated debt securities, the whole amount then due and payable on the affected subordinated debt securities for principal, premium, if any, and interest, if any. The indenture further provides that if we fail to pay such amount upon demand, the trustee may, among other things, institute a judicial proceeding for the collection of those amounts.

The indenture also provides that notwithstanding any of its other provisions, the holder of any subordinated debt security of any series will have the right to institute suit for the enforcement of any payment of principal of or any premium or interest on the subordinated debt securities when due and that such right will not be impaired without the consent of that holder.

We are required to file annually with the trustee a written statement of our officers as to the existence or non-existence of defaults under the indenture or the subordinated debt securities.

Satisfaction and Discharge and Defeasance

The indenture provides, among other things, that when all subordinated debt securities not previously delivered to the trustee for cancellation (1) have become due and payable or (2) will become due and payable at their stated maturity (or called for redemption) within one year, we may deposit with the trustee funds, in trust, for the purpose and in an amount sufficient to pay and discharge the entire indebtedness on the subordinated debt securities not previously delivered to the trustee for cancellation. Those funds will include all principal, premium, if any, and interest, if any, to the date of the deposit or to the stated maturity, as applicable. Upon such deposit, the indenture will cease to be of further effect except as to our obligations to pay all other sums due under the indenture and to provide the officers' certificates and opinions of counsel required under the indenture. At such time we will be deemed to have satisfied and discharged the indenture.

In addition, at the time that we establish a series of subordinated debt securities under the indenture, we can provide that the subordinated debt securities are subject to the defeasance and discharge provisions of that indenture. Unless we specify otherwise in the applicable prospectus supplement, the debt securities offered thereby will be subject to the defeasance and discharge provisions of the applicable indenture, and we may elect either (1) to defease and be discharged from any and all obligations with respect to the subordinated debt securities of a series (except for, among other things, obligations to register the transfer or exchange of the debt securities, to replace temporary or mutilated, destroyed, lost or stolen debt securities, to maintain an office or agency with respect to the subordinated debt securities and to hold moneys for payment in trust) ("legal defeasance") or (2) to be released from our obligations to comply with the restrictive covenants we designate when we establish the series of subordinated debt securities, and any omission to comply with such obligations will not constitute a default or an event of default with respect to such subordinated debt securities ("covenant defeasance"). Legal defeasance or covenant defeasance, as the case may be, will be conditioned upon, among other things, the irrevocable deposit by us with the trustee, in trust, of an amount in U.S. dollars, or U.S. government obligations, or both, applicable to the debt securities of that series which through the scheduled payment of principal and interest in accordance with their terms will provide money in an amount sufficient to pay the principal or premium, if any, and interest on the subordinated debt securities on the scheduled due dates therefor.

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If we effect covenant defeasance with respect to any series of subordinated debt securities, the amount in money, or U.S. government obligations, or both, on deposit with the trustee will be sufficient, in the opinion of a nationally recognized firm of independent accountants, to pay amounts due on the subordinated debt securities of that series in accordance with the terms of the indenture and such subordinated debt securities.

We will be required to deliver to the trustee an opinion of counsel that the deposit and related defeasance will not cause the holders and beneficial owners of the subordinated debt securities of that series to recognize income, gain or loss for U.S. federal income tax purposes. If we elect legal defeasance, that opinion of counsel must be based upon a ruling from the U.S. Internal Revenue Service or a change in law to that effect.

We may exercise our legal defeasance option notwithstanding our prior exercise of our covenant defeasance option.

Governing Law

The indenture and the subordinated debt securities will be governed by, and construed in accordance with, the laws of the State of New York.

Regarding the Trustee

Information concerning the trustee for a series of subordinated debt securities will be set forth in the prospectus supplement relating to that series of subordinated debt securities.

We may have normal banking relationships with the trustee in the ordinary course of business.

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DESCRIPTION OF CAPITAL STOCK

General

Our authorized capital stock consists of 100,000,000 shares of common stock, par value \$1.00 per share, and 25,000,000 shares of preferred stock, without par value. As of June 30, 2014, 44,641,935 shares of common stock and no shares of preferred stock were outstanding.

Common Stock

The holders of our common stock are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders. Holders may use cumulative voting for the election of directors. Subject to preferences that may be applicable to any outstanding series of preferred stock, holders of our common stock are entitled to receive equally dividends as they may be declared by our board of directors out of funds legally available for the payment of dividends. Our revolving credit facility and other debt obligations contain restrictions on the payment of cash dividends upon a default or event of default. In the event of our liquidation or dissolution, holders of our common stock are entitled to share equally in all assets remaining after payment of liabilities and the liquidation preference of any outstanding series of preferred stock.

Holders of our common stock have no preemptive rights and have no rights to convert their common stock into any other securities. All of the outstanding shares of our common stock are, and the shares of common stock we sell in any offering will be, duly authorized, validly issued, fully paid and nonassessable.

Preferred Stock

Our board of directors has the authority, without further action by our shareholders, to issue shares of undesignated preferred stock from time to time in one or more series and to fix the related number of shares and the designations, voting powers, preferences, optional and other special rights, and restrictions or qualifications of that preferred stock. The particular terms of any series of preferred stock will be described in the prospectus supplement relating to that series of preferred stock. The rights, preferences, privileges and restrictions or qualifications of different series of preferred stock may differ from common stock and other series of preferred stock with respect to dividend rates, amounts payable on liquidation, voting rights, conversion rights, redemption provisions, sinking fund provisions and other matters. The issuance of additional series of preferred stock could:

decrease the amount of earnings and assets available for distribution to holders of common stock;

adversely affect the rights and powers, including voting rights, of holders of common stock; and

have the effect of delaying, deferring or preventing a change in control.

Depositary Shares

We may issue fractional shares of preferred stock rather than full shares of preferred stock. If we exercise this option, we will issue receipts for depositary shares, and each of these depositary shares will represent a fraction (to be set forth in the prospectus supplement relating to such depositary shares) of a share of a particular series of preferred stock.

The shares of any series of preferred stock underlying the depositary shares will be deposited under a deposit agreement between us and a bank or trust company selected by us. The depositary will have its principal office in the United States and a combined capital and surplus of at least \$50,000,000. Subject to the terms of the deposit agreement, each owner of a depositary share will be entitled, in proportion to the applicable fraction of a share of preferred stock underlying the depositary share, to

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all of the rights and preferences of the preferred stock underlying that depositary share. Those rights may include dividend, voting, redemption, conversion and liquidation rights.

The depositary shares will be evidenced by depositary receipts issued under a deposit agreement. Depositary receipts will be distributed to those persons purchasing the fractional shares of preferred stock underlying the depositary shares, in accordance with the terms of the offering. We will describe the material terms of the deposit agreement, the depositary shares and the depositary receipts in the prospectus supplement relating to the depositary shares. You should also refer to the forms of the deposit agreement and depositary receipts that will be filed with the SEC in connection with the offering of the specific depositary shares.

Anti-Takeover Effects of South Dakota Law and Provisions of Our Charter and Bylaws

South Dakota law and our articles of incorporation and bylaws contain certain provisions that may be characterized as anti-takeover provisions. These provisions may make it more difficult to acquire control of us or remove our management.

Control Share Acquisitions

We have elected in our articles of incorporation not to be subject to the control share acquisition provisions of the South Dakota Domestic Public Corporation Takeover Act, which would otherwise apply to us. These provisions provide generally that the shares of a publicly held South Dakota corporation acquired by a person that exceed the thresholds of voting power described below will have the same voting rights as other shares of the same class or series only if approved by:

the affirmative vote of the majority of all outstanding shares entitled to vote, including all shares held by the acquiring person; and

the affirmative vote of the majority of all outstanding shares entitled to vote, excluding all interested shares.

Each time an acquiring person reaches a threshold, an election must be held as described above before the acquiring person will have any voting rights with respect to shares in excess of such threshold. The thresholds which require shareholder approval before voting powers are obtained with respect to shares acquired in excess of such thresholds are 20%, 33¹/₃% and 50%, respectively.

Business Combinations

We are subject to the provisions of Section 47-33-17 of the South Dakota Domestic Public Corporation Takeover Act. In general, Section 47-33-17 prohibits a publicly held South Dakota corporation from engaging in a "business combination" with an "interested shareholder", unless the business combination or the transaction in which the person became an interested shareholder is approved in a prescribed manner. Unless the interested shareholder has been an interested shareholder for at least four years, a business combination with the interested shareholder must be approved by the board of directors of the corporation prior to the date of the interested shareholder's acquisition of the corporation's voting stock, by the affirmative vote of all of the holders of all of the outstanding voting shares, or, under some circumstances, by the affirmative vote of the holders of a majority of the outstanding voting shares exclusive of those shares beneficially owned by the interested shareholder or any of its affiliates or associates. After the four year period has elapsed, the business combination must still be approved, if not previously approved in the manner prescribed, by the affirmative vote of the holders of a majority of the outstanding voting shares exclusive, in some instances, of those shares beneficially owned by the interested shareholder or any of its affiliates or associates. Generally, an "interested shareholder" is a person who, together with affiliates and associates, beneficially owns, directly or indirectly, 10% or more of the corporation's voting stock. A "business combination" includes

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a merger, a transfer of 10% or more of the corporation's assets, the issuance or transfer of stock equal to 5% or more of the aggregate market value of all of the corporation's outstanding shares, the adoption of a plan of liquidation or dissolution, or other transaction resulting in a financial benefit to the interested shareholder. The provisions of Section 47-33-17 of the South Dakota Domestic Public Corporation Takeover Act may delay, defer or prevent a change in control of us without the shareholders taking further action.

The South Dakota Domestic Public Corporation Takeover Act further provides that our board, in determining whether to approve a merger or other change of control, may take into account both the long-term as well as short-term interests of us and our shareholders, the effect on our employees, customers, creditors and suppliers, the effect upon the community in which we operate and the effect on the economy of the state and nation. This provision may permit our board to vote against some proposals that, in the absence of this provision, it would otherwise have a fiduciary duty to approve.

Fair Price Provision

Our articles of incorporation require the affirmative vote of the holders of 80% or more of the outstanding shares of our voting stock to approve any "business transaction" with any "related person" or any "business transaction" in which a "related person" has an interest. However, if a majority of the continuing members of our board who are not affiliated with the related party approve the business transaction, or if the cash or fair market value of any consideration received by our shareholders pursuant to a business transaction meets certain enumerated requirements, then the 80% voting requirement will not be applicable. Generally, our articles of incorporation define a "business transaction" to include, among other things, a merger, asset or stock sale. Our articles of incorporation generally define a "related person" as any person, entity or group that, together with its affiliates and associates, beneficially owns 10% or more of our outstanding voting stock. The likely effect of this provision is to delay, defer or prevent a change in control.

Board Composition

Our articles of incorporation and bylaws provide for a staggered board of directors divided into three classes, with the term of office of one class expiring each year. Our articles of incorporation and bylaws also provide that our directors may be removed only for cause and by the affirmative vote of the majority of the remaining members of the board of directors. The likely effect of our staggered board of directors and the limitation on the removal of directors is an increase in the time required for the shareholders to change the composition of our board of directors.

Authorized but Unissued Shares

The authorized but unissued shares of our common stock and preferred stock are available for future issuance without shareholder approval. These additional shares may be used for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. The existence of authorized but unissued and unreserved common stock and preferred stock could also render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

Our board of directors has no present intention to issue any new series of preferred stock; however, our board has the authority, without further shareholder approval, to issue one or more series of preferred stock that could, depending on the terms of the series, either impede or facilitate the completion of a merger, tender offer or other takeover attempt. Although our board of directors is required to make any determination to issue such stock based on its judgment as to the best interest of our shareholders, our board could act in a manner that would discourage an acquisition attempt or other transaction that some, or a majority, of the shareholders might believe to be in their best

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interests or in which shareholders might receive a premium for their stock over the then market price of such stock. Our board of directors does not intend to seek shareholder approval prior to any issuance of stock, unless otherwise required by law or the rules of the stock exchange on which our common stock is listed.

Shareholder Action by Written Consent Must Be Unanimous

South Dakota law provides that any action which may be taken at a meeting of shareholders may be taken without a meeting if a written consent, setting forth the action taken, is signed by all of the shareholders entitled to vote with respect to the action taken. This provision prevents holders of less than all of our common stock from unilaterally using the written consent procedure to take shareholder action.

Transfer Agent

The transfer agent and registrar for our common stock is Wells Fargo Shareowner Services. Its address is P.O. Box 64854, St. Paul, Minnesota 55164-0854, and its telephone number for shareholder services is (800) 468-9716.

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DESCRIPTION OF WARRANTS

Offered Warrants

We may issue warrants that are debt warrants or equity warrants. We may offer warrants separately or together with one or more additional warrants or debt or equity securities or any combination of those securities in the form of units, as described in the applicable prospectus supplement. If we issue warrants as part of a unit, the accompanying prospectus supplement will specify whether those warrants may be separated from the other securities in the unit prior to the warrants' expiration date.

Debt Warrants

We may issue, together with debt securities or separately, warrants for the purchase of debt securities on terms to be determined at the time of sale.

Equity Warrants

We may also issue, together with equity securities or separately, warrants to purchase shares of our common or preferred stock on terms to be determined at the time of sale.

General Terms of Warrants

The applicable prospectus supplement will contain, where applicable, the following terms of and other information relating to the warrants:

the specific designation and aggregate number of, and the price at which we will issue, the warrants;

the currency with which the warrants may be purchased;

the date on which the right to exercise the warrants will begin and the date on which that right will expire or, if you may not continuously exercise the warrants throughout that period, the specific date or dates on which you may exercise the warrants;

whether the warrants will be issued in fully registered form or bearer form, in definitive or global form or in any combination of these forms, although, in any case, the form of a warrant included in a unit will correspond to the form of the unit and of any debt security included in that unit;

any applicable material United States federal income tax consequences;

the identity of the warrant agent for the warrants and of any other depositaries, execution or paying agents, transfer agents, registrars, determination agents or other agents;

the proposed listing, if any, of the warrants or any securities purchasable upon exercise of the warrants on any securities exchange;

if applicable, the minimum or maximum amount of the warrants that may be exercised at any one time;

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information with respect to book-entry procedures, if any;

the terms of the securities issuable upon exercise of the warrants;

the antidilution provisions of the warrants, if any;

any redemption or call provisions;

the exercise price and procedures for exercise of the warrants;

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the terms of any warrant spread and the market price of our common stock which will trigger our obligation to issue shares of our common stock in settlement of a warrant spread;

whether the warrants are to be sold separately or with other securities as part of units; and

any other terms of the warrants.

Significant Provisions of the Warrant Agreements

We will issue the warrants under one or more warrant agreements to be entered into between us and a bank or trust company, as warrant agent, in one or more series, which will be described in the prospectus supplement for the warrants. The following summaries of significant provisions of the warrant agreements and the warrants are not intended to be comprehensive, and holders of warrants should review the detailed description of the relevant warrant agreement included in any prospectus supplement.

Modifications Without Consent of Warrantheolders

We and the warrant agent may amend the terms of the warrants and the warrant certificates without the consent of the holders to:

cure any ambiguity;

cure, correct or supplement any defective or inconsistent provision; or

amend the terms in any other manner which we may deem necessary or desirable and which will not adversely affect the interests of the affected holders in any material respect.

Enforceability of Rights of Warrantheolders

The warrant agents will act solely as our agents in connection with the warrant certificates and will not assume any obligation or relationship of agency or trust for or with any holders of warrant certificates or beneficial owners of warrants. Any holder of warrant certificates and any beneficial owner of warrants may, without the consent of any other person, enforce by appropriate legal action, on its own behalf, its right to exercise the warrants evidenced by the warrant certificates in the manner provided for in that series of warrants or pursuant to the applicable warrant agreement. No holder of any warrant certificate or beneficial owner of any warrants will be entitled to any of the rights of a holder of the debt securities or any other warrant property, if any, purchasable upon exercise of the warrants, including, without limitation, the right to receive the payments on those debt securities or other warrant property or to enforce any of the covenants or rights in the relevant indenture or any other similar agreement.

Registration and Transfer of Warrants

Subject to the terms of the applicable warrant agreement, warrants in registered, definitive form may be presented for exchange and for registration of transfer at the corporate trust office of the warrant agent for that series of warrants, or at any other office indicated in the prospectus supplement relating to that series of warrants, without service charge. However, the holder will be required to pay any taxes and other governmental charges as described in the warrant agreement. The transfer or exchange will be effected only if the warrant agent for the series of warrants is satisfied with the documents of title and identity of the person making the request.

New York Law to Govern

The warrants and each warrant agreement will be governed by, and construed in accordance with, the laws of the State of New York.

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DESCRIPTION OF PURCHASE CONTRACTS

We may issue purchase contracts, including contracts obligating holders to purchase from us and us to sell to the holders, a specified principal amount of debt securities or a specified number of shares of common stock or preferred stock or any of the other securities that we may sell under this prospectus (or a range of principal amount or number of shares pursuant to a predetermined formula) at a future date or dates. The consideration payable upon settlement of the purchase contracts may be fixed at the time the purchase contracts are issued or may be determined by a specific reference to a formula set forth in the purchase contracts. The purchase contracts may be issued separately or as part of units consisting of a purchase contract and other securities or obligations issued by us or third parties, including United States treasury securities, securing the holders' obligations to purchase the relevant securities under the purchase contracts. The purchase contracts may require us to make periodic payments to the holders of the purchase contracts or units or vice versa, and the payments may be unsecured or prefunded on some basis. The purchase contracts may require holders to secure their obligations under the purchase contracts in a specified manner and in some circumstances we may deliver newly issued prepaid purchase contracts, often referred to as "prepaid securities," upon release to a holder of any collateral securing such holder's obligations under the original purchase contract.

The applicable prospectus supplement will describe the terms of any purchase contracts or purchase units and, if applicable, such other securities or obligations. The description in the prospectus supplement will not necessarily be complete and will be qualified in its entirety by reference to the purchase contracts, and, if applicable, collateral arrangements, relating to the purchase contracts.

DESCRIPTION OF UNITS

We may issue units consisting of one or more purchase contracts, warrants, debt securities, shares of preferred stock, shares of common stock or any combination of such securities. The applicable prospectus supplement will describe:

the terms of the units and of the purchase contracts, warrants, debt securities, preferred stock and/or common stock comprising the units, including whether and under what circumstances the securities comprising the units may be traded separately;

a description of the terms of any unit agreement governing the units; and

a description of the provisions for the payment, settlement, transfer or exchange of the units.

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PLAN OF DISTRIBUTION

From time to time, we may sell the securities offered by this prospectus:

through underwriters or dealers;

through agents;

directly to purchasers; or

through a combination of any of these methods of sale.

This prospectus may be used in connection with any offering of our securities through any of these methods or other methods described in the applicable prospectus supplement. Any underwriter, dealer or agent may be deemed to be an "underwriter" within the meaning of the Securities Act of 1933.

The applicable prospectus supplement relating to the securities will set forth:

their offering terms, including the name or names of any underwriters, dealers or agents;

the purchase price of the securities and the net proceeds we may receive from the sale;

any underwriting discounts, fees, commissions and other items constituting compensation to underwriters, dealers or agents;

any initial public offering price;

any discounts, commissions or concessions allowed or reallocated or paid by underwriters or dealers to other dealers; and

any securities exchanges on which the securities may be listed.

If underwriters or dealers are used in the sale, the securities will be acquired by the underwriters or dealers for their own account and may be resold from time to time in one or more transactions:

at a fixed price or prices which may be changed;

at market prices prevailing at the time of sale;

at prices related to such prevailing market prices; or

at negotiated prices.

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The securities may be offered to the public either through underwriting syndicates represented by one or more managing underwriters or directly by one or more of such firms. Unless otherwise set forth in the applicable prospectus supplement, the obligations of underwriters or dealers to purchase the offered securities will be subject to certain conditions precedent, and the underwriters or dealers will be obligated to purchase all the offered securities if any are purchased. Any public offering price and any discounts or concessions allowed or reallocated or paid by underwriters or dealers to other dealers may be changed from time to time.

Securities may be sold directly by us or through agents designated by us from time to time. Any agent involved in the offer or sale of the securities in respect of which this prospectus is delivered will be named, and any commissions payable by us to the agent will be set forth, in the applicable prospectus supplement. Unless otherwise indicated in the applicable prospectus supplement, any such agent will be acting on a best efforts basis for the period of its appointment.

If so indicated in the applicable prospectus supplement, we will authorize underwriters, dealers or agents to solicit offers from certain specified institutions to purchase securities from us at the public offering price set forth in the prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on a specified date in the future. Such contracts will be subject to any

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conditions set forth in the applicable prospectus supplement and the prospectus supplement will set forth the commission payable for solicitation of such contracts. The underwriters and other persons soliciting such contracts will have no responsibility for the validity or performance of any such contracts.

Underwriters, dealers and agents may be entitled under agreements entered into with us to indemnification by us against certain civil liabilities, including liabilities under the Securities Act of 1933, or to contribution by us to payments which they may be required to make. Underwriters, dealers and agents may be customers of, engage in transactions with, or perform services for, us in the ordinary course of business.

Each class or series of securities will be a new issue of securities with no established trading market, other than our common stock, which is listed on the New York Stock Exchange. We may elect to list any other class or series of securities on any exchange, but are not obligated to do so. Any underwriters to whom securities are sold by us for public offering and sale may make a market in such securities, but such underwriters will not be obligated to do so and may discontinue any market making at any time without notice. No assurance can be given as to the liquidity of the trading market for any securities.

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LEGAL OPINIONS

The validity of the securities offered by this prospectus will be passed upon for Black Hills Corporation by Steven J. Helmers, Senior Vice President-General Counsel of Black Hills, with respect to matters governed by South Dakota law, and by Faegre Baker Daniels LLP, Minneapolis, Minnesota, special counsel to Black Hills, with respect to matters governed by New York law. Certain legal matters will be passed upon for Black Hills by Faegre Baker Daniels LLP, Minneapolis, Minnesota, and for the underwriters, dealers, or agents, if any, by their own legal counsel. Mr. Helmers owns, directly or indirectly, 56,042 shares of our common stock.

EXPERTS

The consolidated financial statements, and the related financial statement schedules, incorporated in this prospectus by reference from the Company's Annual Report on Form 10-K, and the effectiveness of Black Hills Corporation and subsidiaries' internal control over financial reporting have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports, which are incorporated herein by reference. Such consolidated financial statements and financial statement schedules have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

We have derived the estimates of proved oil and natural gas reserves and related future net revenues and the present value thereof as of December 31, 2013 included in our Annual Report on Form 10-K for the year ended December 31, 2013 and incorporated by reference in this prospectus from the reserve report of Cawley, Gillespie & Associates, Inc., independent petroleum engineers, given on the authority of Cawley, Gillespie & Associates, Inc. as experts in such matters.

WHERE YOU CAN FIND MORE INFORMATION

This prospectus constitutes a part of a registration statement on Form S-3 (together with all amendments, supplements, schedules and exhibits to the registration statement, referred to as the registration statement) that we have filed with the SEC under the Securities Act of 1933 with respect to the securities offered by this prospectus. This prospectus does not contain all the information which is in the registration statement. Certain parts of the registration statement are omitted as allowed by the rules and regulations of the SEC. We refer you to the registration statement for further information about our company and the securities offered by this prospectus. Statements contained in this prospectus concerning the provisions of documents are not necessarily complete, and each statement is qualified in its entirety by reference to the copy of the applicable document filed with the SEC.

We also file annual, quarterly and special reports, proxy statements and other information with the SEC. You can inspect and copy the registration statement and the reports and other information we file with the SEC at the public reference room maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. You can obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website which provides online access to reports, proxy and information statements and other information regarding companies that file electronically with the SEC at the address <http://www.sec.gov>.

The SEC allows us to "incorporate by reference" into this prospectus the information we file with them, which means we can disclose important business and financial information about us to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus, except for any information that is superseded by information included directly in this prospectus and any prospectus supplement. Information that we file later with the SEC will also automatically update and supersede the information included in or incorporated by reference into this prospectus. We incorporate by reference the documents listed below that we previously filed with the SEC (SEC File No. 1-31303) and any future filings we make with the SEC under Section 13(a), 13(c),

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14 or 15(d) of the Securities Exchange Act of 1934 (other than any portions of such filings that are furnished rather than filed under applicable SEC rules) until the termination of the offerings made under this prospectus:

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2013;

Our Quarterly Reports on Form 10-Q for the quarters ended March 31 and June 30, 2014;

Our Current Reports on Form 8-K filed on May 2, 2014, May 30, 2014, and July 2, 2014; and

The description of our common stock contained in our registration statement on Form 8-A, dated April 19, 2002, including any amendment or report filed before or after the date of this prospectus for the purpose of updating the description.

These filings have not been included in or delivered with this prospectus. We will provide to each person, including any beneficial owner to whom this prospectus is delivered, a copy of any or all information that has been incorporated by reference in this prospectus but not delivered with this prospectus. You may obtain a copy of these filings, at no cost, from our Internet website (www.blackhillscorp.com) or by writing or telephoning us at the following address:

Black Hills Corporation
625 Ninth Street
Rapid City, South Dakota 57701
Attention: Investor Relations
(605) 721-1700

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