

NISOURCE INC/DE
Form U-13-60
April 28, 2005

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Form U-13-60

Mutual and Subsidiary Service Companies
Revised February 7, 1980

ANNUAL REPORT

For the Period

Beginning January 1, 2004 and Ending December 31, 2004

To The

U.S. SECURITIES AND EXCHANGE COMMISSION

OF

NISOURCE CORPORATE SERVICES COMPANY, INC.

(Exact Name of Report Company)

A Subsidiary Service Company
(Mutual or Subsidiary)

Date of Incorporation December 31, 1932

State or Sovereign Power Under which Incorporated or Organized Delaware

Location of Principal Executive Offices of Reporting Company:

801 East 86th Avenue, Merrillville, IN

SUSANNE M. TAYLOR, CONTROLLER
200 Civic Center Drive
Columbus, OH 43215

(Name, title and address of officer to whom correspondence concerning
this report should be addressed)

NISOURCE, INC/COLUMBIA ENERGY GROUP

(Name of Principal Holding Company whose Subsidiaries are served by
Reporting Company)

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INSTRUCTIONS FOR USE OF FORM U-13-60

1. **Time of Filing** Rule 94 provides that on or before the first day of May in each calendar year, each mutual service company and each subsidiary service company as to which the Commission shall have made a favorable finding pursuant to Rule 88, and every service company whose application for approval or declaration pursuant to Rule 88 is pending shall file with the Commission an annual report on Form U-13-60 and in accordance with the instructions for that form.
2. **Number of Copies** Each annual report shall be filed in duplicate. The company should prepare and retain at least one extra copy for itself in case correspondence with reference to the report become necessary.
3. **Period Covered by Report** The first report filed by any company shall cover the period from the date the Uniform System of Accounts was required to be made effective as to that company under Rules 82 and 93 to the end of that calendar year. Subsequent reports should cover a calendar year.
4. **Report Format** Reports shall be submitted on the forms prepared by the Commission. If the space provided on any sheet of such form is inadequate, additional sheets may be inserted on the same size as a sheet of the form or folded to such size.
5. **Money Amounts Displayed** All money amounts required to be shown in financial statements may be expressed in whole dollars, in thousands of dollars or in hundred thousands of dollars, as appropriate and subject to provisions of Regulation S-X (Section 210.3-01[b]).
6. **Deficits Displayed** Deficits and other like entries shall be indicated by the use of either brackets or a parenthesis with corresponding reference in footnotes. (Regulation S-X, Section 210.3-01[C]).
7. **Major Amendments or Corrections** Any company desiring to amend or correct a major omission or error in a report after it has been filed with the Commission shall submit an amended report including only those pages, schedules, and entries that are to be amended or corrected. A cover letter shall be submitted requesting the Commission to incorporate the amended report changes and shall be signed by a duly authorized officer of the company.
8. **Definitions** Definitions contained in Instruction 01-8 to the Uniform System of Accounts for Mutual Service Companies and Subsidiary Service Companies, Public Utility Holding Company Act of 1935, as amended February 2, 1979, shall be applicable to words or terms used specifically within this Form U-13-60.
9. **Organization Chart** The service company shall submit with each annual report a copy of its current organization chart.
10. **Methods of Allocation** The service company shall submit with each annual report a listing of the currently effective methods of allocation being used by the service company and on file with the Securities and Exchange Commission pursuant to the Public Utility Holding Company Act of 1935.
11. **Annual Statement of Compensation for Use of Capital Billed** The service company shall submit with each annual report a copy of the annual statement supplied to each associate company in support of the amount of compensation for use of capital billed during the calendar year.

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2004

SCHEDULE I COMPARATIVE BALANCE SHEET

Give balance sheet of the Company as of December 31 of the
current and prior year

| ACCOUNT | ASSETS AND OTHER DEBITS | AS OF DECEMBER 31 | |
|---------|--|-------------------|-----------------|
| | | CURRENT \$ 000 | PRIOR \$ 000 |
| | SERVICE COMPANY PROPERTY | | |
| 101 | Service company property (Schedule II) | 80,101 | 71,844 |
| 107 | Construction work in progress (Schedule II) | | |
| | Total Property | 80,101 | 71,844 |
| 108 | Less accumulated provision for depreciation and amortization of service company property (Schedule III) | 38,447 | 31,312 |
| | Net Service Company Property | 41,654 | 40,532 |
| | INVESTMENTS | | |
| 123 | Investments in associate companies (Schedule IV) | | |
| 124 | Other investments (Schedule IV) | | |
| | Total Investments | | |
| | CURRENT AND ACCRUED ASSETS | | |
| 131 | Cash | 1,023 | 1,460 |
| 134 | Special deposits | 171 | 171 |
| 135 | Working funds | 972 | 755 |
| 136 | Temporary cash investments (Schedule IV) | | |
| 141 | Notes receivable | | |
| 143 | Accounts receivable | 3,626 | 5,372 |
| 144 | Accumulated provision for uncollectible accounts | | |
| | Accounts receivable from associate companies | | |
| 146 | (Schedule V) | 34,296 | 43,024 |
| 152 | Fuel stock expenses undistributed (Schedule VI) | | |
| 154 | Materials and supplies | | |
| 163 | Stores expense undistributed (Schedule VII) | | |
| 165 | Prepayments | 1,464 | 1,178 |
| 174 | Miscellaneous current and accrued assets | | 1,387 |

(Schedule VIII)

| | | | |
|-----|--|---------|---------|
| | Total Current and Accrued Assets | 41,552 | 53,347 |
| | DEFERRED DEBITS | | |
| 181 | Unamortized debt expense | | |
| 184 | Clearing accounts | 2,141 | 1,172 |
| 186 | Miscellaneous deferred debits (Schedule IX) | 54,693 | 45,126 |
| 188 | Research, development, or demonstration expenditures (Schedule X) | | |
| 190 | Accumulated deferred income taxes | 32,615 | 30,458 |
| | Total Deferred Debits | 89,449 | 76,756 |
| | TOTAL ASSETS AND OTHER DEBITS | 172,655 | 170,635 |

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2004

SCHEDULE I COMPARATIVE BALANCE SHEET

| ACCOUNT | LIABILITIES AND PROPRIETARY CAPITAL | AS OF DECEMBER 31 | |
|---------|---|-------------------|-----------------|
| | | CURRENT \$ 000 | PRIOR \$ 000 |
| | PROPRIETARY CAPITAL | | |
| 201 | Common stock issued (Schedule XI) | 400 | 400 |
| 211 | Miscellaneous paid-in-capital (Schedule XI) | | |
| 215 | Appropriated retained earnings (Schedule XI) | | |
| 216 | Unappropriated retained earnings (Schedule XI) | | |
| 219 | Other Comprehensive Income | (11,710) | (10,319) |
| | Total Proprietary Capital | (11,310) | (9,919) |
| | LONG-TERM DEBT | | |
| 223 | Advances from associate companies (Schedule XII) | 21,684 | 23,930 |
| 224 | Other long-term debt (Schedule XII) | | |
| 225 | Unamortized premium on long-term debt | | |
| 226 | Unamortized discount on long-term debt | | |
| | Total Long-Term Debt | 21,684 | 23,930 |
| | CURRENT AND ACCRUED LIABILITIES | | |
| 231 | Notes payable | | |
| 232 | Accounts payable | 7,001 | 8,560 |
| 233 | Notes payable to associate companies (Schedule XIII) | 2,246 | |
| 234 | Accounts payable to associate companies (Schedule XIII) | 52,789 | 47,664 |
| 236 | Taxes accrued | (6,329) | (949) |
| 237 | Interest accrued | 945 | 945 |
| 238 | Dividends declared | | |
| 241 | Tax collections payable | 410 | 577 |
| 242 | Miscellaneous current and accrued liabilities (Schedule XIII) | 57,867 | 60,866 |
| | Total Current and Accrued Liabilities | 114,929 | 117,663 |
| | DEFERRED CREDITS | | |
| 253 | Other deferred credits | 42,053 | 34,893 |

| | | | |
|-----|---|---------|---------|
| 255 | Accumulated deferred investment tax credits | | |
| | Total Deferred Credits | 42,053 | 34,893 |
| 282 | ACCUMULATED DEFERRED INCOME TAXES | 5,299 | 4,068 |
| | TOTAL LIABILITIES AND PROPRIETARY CAPITAL | 172,655 | 170,635 |

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For the Year Ended December 31, 2004

SCHEDULE II SERVICE COMPANY PROPERTY

| DESCRIPTION | BALANCE AT BEGINNING OF YEAR \$000 | ADDITIONS \$000 | RETIREMENTS OR SALES \$000 | OTHER CHANGES \$ 000 | BALANCE AT CLOSE OF YEAR \$000 |
|--|--|--------------------|----------------------------------|----------------------------|--|
| SERVICE COMPANY PROPERTY | | | | | |
| Account: | | | | | |
| 301 ORGANIZATION | | | | | |
| MISCELLANEOUS INTANGIBLE | | | | | |
| 303 PLANT | | | | | |
| 304 LAND AND LAND RIGHTS | 62 | | | | 62 |
| STRUCTURES AND | | | | | |
| 305 IMPROVEMENTS | 23,921 | | | | 23,921 |
| 306 LEASEHOLD IMPROVEMENTS | | | | | |
| 307 EQUIPMENT (1) | 31,443 | 8,376 | | (180) | 39,639 |
| OFFICE FURNITURE AND | | | | | |
| 308 EQUIPMENT | 2,665 | 90 | | | 2,755 |
| 309 AUTOMOBILES, OTHER VEHICLES AND RELATED GARAGE EQUIPMENT | 403 | | 29 | | 374 |
| AIRCRAFT AND AIRPORT | | | | | |
| 310 EQUIPMENT | 13,207 | | | | 13,207 |
| OTHER SERVICE COMPANY | | | | | |
| 311 PROPERTY (3) | 143 | | | | 143 |
| SUB-TOTAL | 71,844 | 8,466 | 29 | (180) | 80,101 |

CONSTRUCTION WORK IN
107 PROGRESS (4)

| | | | | | |
|-------|--------|-------|----|-------|--------|
| TOTAL | 71,844 | 8,466 | 29 | (180) | 80,101 |
|-------|--------|-------|----|-------|--------|

(1) PROVIDE AN EXPLANATION OF THOSE CHANGES CONSIDERED MATERIAL:

307 Costs incurred in the development of Information Technology infrastructure.

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SCHEDULE II CONTINUED

(2) SUBACCOUNTS ARE REQUIRED FOR EACH CLASS OF EQUIPMENT OWNED. THE SERVICE COMPANY SHALL PROVIDE A LISTING BY SUBACCOUNT OF EQUIPMENT ADDITIONS DURING THE YEAR AND THE BALANCE AT THE CLOSE OF THE YEAR:

| | SUBACCOUNT DESCRIPTION | ADDITIONS \$ 000 | BALANCE AT CLOSE OF YEAR \$000 |
|--------|--|---------------------|---|
| 307-1 | Telecommunications Equipment | | 90 |
| 307-2 | Communications Management Center | | 724 |
| 307-3 | Data Processing Equipment | | 872 |
| 307-4 | Print Services Equipment | | |
| 307-5 | Research & Laboratory Equipment | | |
| 307-6 | Telecommunications Equipment | 452 | 7,371 |
| 307-7 | EDP Equipment 4 years | 6,941 | 21,093 |
| 307-8 | EDP Equipment 10 years | | 5 |
| 307-9 | Personal Computer and Peripheral Equipment | 983 | 7,696 |
| 307-10 | Distribution Research Equipment | | |
| 307-11 | Electrical Supply Generators | | 1,788 |
| 307-14 | CGT EQUIPMENT | | |
| 307-37 | CPA EQUIPMENT | | |
| 307-51 | TCO Equipment | | |
| 307-90 | NiSource Equipment | | |
| | TOTAL | 8,376 | 39,639 |

(3) DESCRIBE OTHER SERVICE COMPANY PROPERTY:

Costs incurred in the internal development of the Employee Accounting System Interface, Labor Distribution System, and Intercompany Billing software.

(4) DESCRIBE CONSTRUCTION WORK IN PROGRESS:

Not Applicable

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For the Year Ended December 31, 2004

SCHEDULE III

ACCUMULATED PROVISION FOR DEPRECIATION AND
AMORTIZATION OF SERVICE COMPANY PROPERTY

| ACCOUNT | DESCRIPTION | BALANCE AT BEGINNING OF YEAR \$000 | ADDITIONS CHARGED TO ACCOUNT 403 \$000 | RETIREMENTS \$000 | OTHER CHANGES ADD (DEDUCT) \$000 | BALANCE AT CLOSE OF YEAR \$000 |
|---------|--|--|---|----------------------|--|--|
| 301 | ORGANIZATION | | | | | |
| 303 | MISCELLANEOUS INTANGIBLE PLANT | | | | | |
| 304 | LAND AND LAND RIGHTS | | | | | |
| 305 | STRUCTURES AND IMPROVEMENTS | 8,000 | 478 | | | 8,478 |
| 306 | LEASEHOLD IMPROVEMENTS | | | | | |
| 307 | EQUIPMENT (1) | 19,689 | 6,007 | | | 25,696 |
| 308 | OFFICE FURNITURE AND FIXTURES (1) | 1,695 | 150 | | | 1,845 |
| 309 | AUTOMOBILES, OTHER VEHICLES AND RELATED GARAGE EQUIPMENT | 376 | 23 | 29 | | 370 |
| 310 | AIRCRAFT AND AIRPORT EQUIPMENT | 1,409 | 506 | | | 1,915 |
| 311 | OTHER SERVICE COMPANY PROPERTY | 143 | | | | 143 |

| | | | | |
|-------|--------|-------|----|--------|
| TOTAL | 31,312 | 7,164 | 29 | 38,447 |
|-------|--------|-------|----|--------|

(1) PROVIDE AN EXPLANATION OF THOSE CHANGES CONSIDERED MATERIAL:
Please refer to page 7

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For the Year Ended December 31, 2004

SCHEDULE IV INVESTMENTS

INSTRUCTIONS: Complete the following schedule concerning investments.

Under Account 124, Other Investments, state each investment separately, with description, including, the name of issuing company, number of shares or principal amount, etc.

Under Account 136, Temporary Cash Investments, list each investment separately.

| DESCRIPTION | BALANCE AT BEGINNING OF YEAR | BALANCE AT CLOSE OF YEAR |
|--|---------------------------------------|-----------------------------------|
| Account 123 - Investment in Associate Companies | NONE | NONE |
| Account 124 - Other Investments | NONE | NONE |
| Account 136 - Temporary Cash Investments System Money Pool Unaffiliated | NONE | NONE |
| TOTAL | NONE | NONE |

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ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.
For the Year Ended December 31, 2004

SCHEDULE V ACCOUNTS RECEIVABLE FROM ASSOCIATE COMPANIES

INSTRUCTIONS: Complete the following schedule listing accounts receivable from each associate company. Where the service company has provided accommodation or convenience payments for associate companies, a separate listing of total payments for each associate company

| DESCRIPTION | BALANCE AT BEGINNING OF YEAR \$ 000 | BALANCE AT CLOSE OF YEAR \$000 |
|--|--|---|
| ACCOUNT 146 - ACCOUNTS RECEIVABLE FROM ASSOCIATE COMPANIES | | |
| Bay State Massachusetts | 3,566 | 2,936 |
| Columbia Atlantic Trading Corporation | 2 | |
| Columbia Deepwater Services | 3 | 2 |
| Columbia Energy Group | 2,143 | 913 |
| Columbia Energy Services Corporation | 64 | 36 |
| Columbia Finance Corporation | 5 | |
| Columbia Gas of Kentucky, Inc. | 965 | 911 |
| Columbia Gas of Maryland, Inc. | 285 | 275 |
| Columbia Gas of Ohio, Inc. | 7,680 | 5,848 |
| Columbia Gas of Pennsylvania, Inc. | 3,227 | 2,673 |
| Columbia Gas of Virginia, Inc. | 1,968 | 1,352 |
| Columbia Gas Transmission Corporation | 6,467 | 5,391 |
| Columbia Gulf Transmission Company | 1,015 | 1,359 |
| Columbia Network Services Corporation | 20 | 58 |
| Columbia Remainder Corporation | 74 | 36 |
| Energy USA, Inc. | 444 | 422 |
| Granite State Gas | 36 | 41 |
| Kokomo Gas and Fuel Company | 142 | 83 |
| NiSource Capital Markets | 3 | 3 |
| NiSource Crossroads Pipeline | 42 | 177 |
| NiSource Development Company, Inc. | (281) | 440 |
| NiSource Energy Services, Inc. | 116 | 41 |
| NiSource Energy Technology | 52 | 57 |
| NiSource Finance Company | 70 | 126 |
| NiSource Insurance Corporation, Ltd. | 6 | 1,279 |
| NiSource Retail Services | | 136 |
| NiSource, Inc. | 3,860 | 1,307 |
| Northern Indiana Fuel and Light Company | 395 | 66 |
| Northern Indiana Public Service Company | 9,657 | 7,563 |
| Northern Utilities Maine | 293 | 285 |

| | | |
|----------------------------------|--------|--------|
| Northern Utilities New Hampshire | 354 | 328 |
| Primary Energy, Inc. | 351 | 152 |
| TOTAL | 43,024 | 34,296 |

ANALYSIS OF CONVENIENCE OR ACCOMMODATION PAYMENTS:

| | |
|---------------------------|----------------------------|
| | TOTAL PAYMENTS \$000 |
| See Schedule V-A, page 12 | |
| TOTAL PAYMENT | 513,913 |

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SCHEDULE V-A

NISOURCE CORPORATE SERVICES COMPANY, INC.

Convenience & Accommodation Payments
For the Year Ended December 31, 2004

| Associate Company | AUDIT FEES \$000 | CORPORATE INSURANCE \$ 000 | EMPLOYEE BENEFITS \$000 | LEASING \$000 | POSTAGE AND MAILING SERVICES \$000 | TELE- COMMUNICATIONS \$000 | OTHER \$000 | TOTAL |
|--|---|--|---|---|--|--|---|---|
| Bay State Massachusetts Columbia Atlantic Trading Corporation Columbia Deepwater Services Columbia Energy Group Columbia Energy Services Corporation Columbia Gas of Kentucky, Inc. Columbia Gas of Maryland, Inc. Columbia Gas of Ohio, Inc. Columbia Gas of Pennsylvania, Inc. Columbia Gas of Virginia, Inc. Columbia Gas Transmission Corporation Columbia Gulf Transmission Company Columbia Network Services Corporation Columbia Remainder Corporation Energy USA, Inc. Granite State Gas Kokomo Gas and Fuel Company NiSource Capital Markets | 437 1 1 69 14 136 48 987 395 276 812 185 1 159 7 11 1 | 3,128 1 1 1,573 (182) 908 247 7,875 3,875 1,264 5,869 2,947 3 (97) 142 74 158 1 | 10,479 1 2,961 40 3,950 1,116 33,754 13,743 5,184 37,385 6,066 65 13 669 106 850 | 423 (216) 552 195 3,316 1,470 979 3,418 467 5 1 | 194 542 122 5,298 1,562 813 20 25 | 1,569 7 357 77 2,425 1,283 636 4,245 601 | 1,044 7,384 113,904 153 1,459 122 57,048 3,533 1,638 3,277 343 31 273 18 323 2,544 | 17,274 7,386 2 118,291 32 7,904 1,927 110,703 25,861 10,790 55,026 10,634 100 (84) 1,275 206 1,343 2,546 |

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| | | | | | | | | |
|---|-------|--------|---------|--------|-------|--------|---------|---------|
| NiSource Crossroads Pipeline | 6 | 30 | | | | 7 | 158 | 201 |
| NiSource Development Company, Inc. | 29 | 73 | | | | | 660 | 762 |
| NiSource Energy Services, Inc. | 43 | 51 | | | | | 3,125 | 3,219 |
| NiSource Energy Technology | 6 | 20 | 169 | 2 | | 12 | 23 | 232 |
| NiSource Finance Company | 55 | 5 | | | | | 345 | 405 |
| NiSource Insurance Corporation, Ltd. | 1 | 1,281 | | | | | 10 | 1,292 |
| NiSource Retail Services | | 21 | 16 | 3 | 4 | 1 | 111 | 156 |
| NiSource, Inc. | 469 | 553 | | | | | 2,577 | 3,599 |
| Northern Indiana Fuel and Light Company | 18 | 188 | 1,233 | | | | 208 | 1,647 |
| Northern Indiana Public Service Company | 1,041 | 18,649 | 60,389 | 2,076 | | 2,767 | 41,826 | 126,748 |
| Northern Utilities Maine | 43 | 382 | 964 | 61 | 28 | 167 | 99 | 1,744 |
| Northern Utilities New Hampshire | 45 | 299 | 751 | 2 | 30 | 154 | 179 | 1,460 |
| Primary Energy, Inc. | 86 | 949 | 111 | | | 24 | 62 | 1,232 |
| Grand Total | 5,382 | 50,288 | 180,014 | 12,754 | 8,638 | 14,360 | 242,477 | 513,913 |

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For the Year Ended December 31, 2004

SCHEDULE VI FUEL STOCK EXPENSES UNDISTRIBUTED

INSTRUCTIONS: Report the amount of labor and expenses incurred with respect to fuel stock expenses during the year and indicate amount attributable to each associate company. Under the section headed Summary listed below give an overall report of the fuel functions performed by the service company.

| DESCRIPTION | LABOR \$000 | EXPENSES \$000 | TOTAL \$000 |
|---|----------------|-------------------|----------------|
| Account 152 - Fuel Stock Expenses Undistributed | NONE | NONE | NONE |
| TOTAL | NONE | NONE | NONE |

SUMMARY:

Not Applicable

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ANNUAL REPORT OF NISOURCE CORPORATE SERVICES

For the Year Ended December 31, 2004

SCHEDULE VII STORES EXPENSE UNDISTRIBUTED

INSTRUCTIONS: Report the amount of labor and expenses incurred with respect to stores expense during the year and indicate amount attributable to each associate company.

| DESCRIPTION | LABOR \$000 | EXPENSES \$000 | TOTAL \$000 |
|---|----------------|-------------------|----------------|
| Account 163 - Stores Expenses Undistributed | NONE | NONE | NONE |
| TOTAL | NONE | NONE | NONE |

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ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.

For the Year Ended December 31, 2004

SCHEDULE VIII

MISCELLANEOUS CURRENT AND ACCRUED ASSETS

INSTRUCTIONS: Provide detail of items in this account. Items less than \$10,000 may be grouped, showing the number of items in each group.

| DESCRIPTION | BALANCE AT BEGINNING OF YEAR \$000 | BALANCE AT CLOSE OF YEAR \$000 |
|--|---|---|
| Account 174 - Miscellaneous Current and Accrued Assets | 1,387 | |
| Non-Compete Deferred Debit | | |
| TOTAL | 1,387 | |

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ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.

For the Year Ended December 31, 2004

SCHEDULE IX MISCELLANEOUS DEFERRED DEBITS

INSTRUCTIONS: Provide detail of items in this account. Items less than \$10,000 may be grouped by class showing the number of items in each class.

| DESCRIPTION | BALANCE AT BEGINNING OF YEAR \$000 | BALANCE AT CLOSE OF YEAR \$000 |
|---|---|---|
| ACCOUNT 186 - MISCELLANEOUS DEFERRED DEBITS | | |
| Other Post Retirement Employee Benefits | 13,054 | 18,356 |
| Deferred Insurance Receivables | 1,456 | 2,796 |
| Intangible Asset Pension Restoration Plan | 16,824 | 16,487 |
| Miscellaneous Deferred Property | 13,792 | 17,054 |
| TOTAL | 45,126 | 54,693 |

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For the Year Ended December 31, 2004

SCHEDULE X

RESEARCH, DEVELOPMENT OR DEMONSTRATION EXPENDITURES

INSTRUCTIONS: Provide description of each material research, development, or demonstration project which incurred costs by the service corporation during the year.

| DESCRIPTION | AMOUNT \$000 |
|---|-----------------|
| ACCOUNT 188 - Research, Development or Demonstration Expenditures | NONE |
| TOTAL | NONE |

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ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.

For the Year Ended December 31, 2004

SCHEDULE XI PROPRIETARY CAPITAL

| ACCOUNT NUMBER | CLASS OF STOCK | NUMBER OF SHARES AUTHORIZED | PAR OR STATED VALUE PER SHARE | OUTSTANDING CLOSE OF PERIOD | |
|----------------|----------------|-----------------------------------|--|--------------------------------|-----------------|
| | | | | NO. OF SHARES | TOTAL AMOUNT |
| 201 | COMMON STOCK | 4,000 | \$ 100 | 4,000 | \$ 400,000 |

INSTRUCTIONS: Classify amounts in each account with brief explanation, disclosing the general nature of transactions which give rise to the reported amount.

| DESCRIPTION | | AMOUNT |
|-------------|--------------------------------|--------|
| ACCOUNT 211 | MISCELLANEOUS PAID-IN CAPITAL | \$0 |
| ACCOUNT 215 | APPROPRIATED RETAINED EARNINGS | \$0 |
| TOTAL | | \$0 |

INSTRUCTIONS: Give particulars concerning net income or (loss) during the year, distinguishing between compensation for the use of capital owed or net loss remaining from servicing nonassociates per the General Instructions of the Uniform System of Accounts. For dividends paid during the year in cash or otherwise, provide rate percentage, amount of dividend, date declared and date paid.

| DESCRIPTION | BALANCE AT BEGINNING OF YEAR | NET INCOME OR (LOSS) | DIVIDENDS PAID | BALANCE AT CLOSE OF YEAR |
|-------------|------------------------------------|-------------------------|-------------------|--------------------------------|
| | \$000 | | | \$000 |

ACCOUNT 216 - UNAPPROPRIATED
RETAINED EARNINGS

| | | | |
|------------|----------|---------------|-----------|
| Rate/Share | Amount | Date Declared | Date Paid |
| | of | | |
| | Dividend | | |

\$ \$ 000

TOTAL

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For the Year Ended December 31, 2004

Schedule XII LONG-TERM DEBT

INSTRUCTIONS: Advances From Associate Companies should be reported separately for advances on notes, and advances on open account. Names of associate companies from which advances were received shall be shown under the class and series of obligation column. For Account 224 Other Long-Term Debt provide the name of creditor company or organization, terms of the obligation, date of maturity, interest rate, and the amount authorized and outstanding.

| NAME OF CREDITOR | TERMS OF OBLIG | DATE | INTEREST | BALANCE | | | DEDUC- | BALANCE |
|--|-----------------|----------|----------|---------|-----------|-------|--------|---------|
| | CLASS & SERIES | OF | | AT | AMOUNT | AT | | |
| | OF OBLIGATION | MATURITY | | RATE | BEGINNING | ADDI- | | |
| | | | % | \$000 | \$000 | \$000 | (1) | CLOSE |
| | | | | | | | \$000 | OF |
| | | | | | | | | YEAR |
| ACCOUNT 223 - ADVANCES FROM ASSOCIATE COMPANIES: | | | | | | | | |
| Columbia Energy Group | Promissory Note | 11/28/07 | 7.55 | 2,246 | 2,246 | | | 2,246 |
| Columbia Energy Group | Promissory Note | 11/28/10 | 7.82 | 2,246 | 2,246 | | | 2,246 |
| Columbia Energy Group | Promissory Note | 03/01/14 | 7.33 | 12,700 | 12,700 | | | 12,700 |
| Columbia Energy Group | Promissory Note | 11/28/15 | 7.92 | 2,246 | 2,246 | | | 2,246 |
| Columbia Energy Group | Promissory Note | 11/28/25 | 8.12 | 2,246 | 2,246 | | | 2,246 |
| ACCOUNT 224 - OTHER LONG-TERM DEBT: | | | | | | | | |
| TOTAL | | | | 21,684 | 21,684 | | | 21,684 |

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ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.
For the Year Ended December 31, 2004

SCHEDULE XIII CURRENT AND ACCRUED LIABILITIES

INSTRUCTIONS: Provide balance of notes and accounts payable to each associate company. Give description and amount of miscellaneous current and accrued liabilities. Items less than \$10,000 may be grouped, showing the number of items in each group.

| DESCRIPTION | BALANCE AT BEGINNING OF YEAR \$000 | BALANCE AT CLOSE OF YEAR \$ 000 |
|---|---|--|
| ACCOUNT 233 - NOTES PAYABLE TO ASSOCIATE COMPANIES | | |
| Columbia Energy Group | | 2,246 |
| TOTAL | | 2,246 |
| ACCOUNT 234 - ACCOUNTS PAYABLE TO ASSOCIATE COMPANIES | | |
| Bay State Massachusetts | 202 | |
| Columbia Energy Group | 4,476 | 4,476 |
| Columbia Gas of Kentucky, Inc. | 13 | |
| Columbia Gas of Maryland, Inc. | 14 | |
| Columbia Gas of Ohio, Inc. | 887 | 692 |
| Columbia Gas of Pennsylvania, Inc. | 105 | |
| Columbia Gas of Virginia, Inc. | 207 | 6 |
| Columbia Gas Transmission Corporation | 98 | 147 |
| Columbia Gulf Transmission Company | 7 | 49 |
| Energy USA, Inc. | 229 | |
| NiSource Development Company, Inc. | 208 | 208 |
| NiSource Energy Services, Inc. | | 158 |
| NiSource Energy Technology | 186 | |
| NiSource, Inc. | 4,543 | (625) |
| Northern Indiana Public Service Company | 712 | |
| Northern Utilities Maine | 15 | |
| Primary Energy, Inc. | 449 | |
| System Money Pool Interest | 67 | 92 |
| System Money Pool Principal | 35,246 | 47,586 |
| TOTAL | 47,664 | 52,789 |

ACCOUNT 242 - MISCELLANEOUS CURRENT AND ACCRUED
LIABILITIES

| | | |
|--|--------|--------|
| Accrued Vacation | 8,670 | 10,908 |
| Change in Control | 600 | |
| Comprehensive Medical Expense Plan Accrual | 803 | 703 |
| Contingent Stock Dividend | 470 | |
| Deferred Compensation | 5,153 | |
| Dental Assistance Plan Accrual | 20 | 174 |
| Employee Thrift Plan | 1,337 | |
| Flexible Spending | 2,651 | 4,167 |
| Incentive/Bonus Accrual | 7,787 | 9,209 |
| LTIP Dividend Credit | 195 | |
| Pension Restoration Plan | 7,677 | 12,174 |
| Pension Retirement Benefits | 2,250 | 2,180 |
| Phantom Stock Liability | 7,856 | |
| Post Employment Benefit Obligation | 52 | 194 |
| Prescription Drug Liability | | 85 |
| Retirement Income Plan | 10,410 | 14,364 |
| Severance | 1,032 | |
| Thrift Plan Company | 60 | 60 |
| Thrift Restoration Plan | 2,243 | 1,811 |
| Unclaimed Funds | 94 | 85 |
| Workers Compensation | | 73 |
| Miscellaneous | 1,506 | 1,680 |
| TOTAL | 60,866 | 57,867 |

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SCHEDULE XIII-A

ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.

For the Year Ended December 31, 2004

NOTES PAYABLE TO ASSOCIATE COMPANIES

Account 233

| | | Balance at Beginning of Year \$000 | Balance at Close of Year \$000 |
|-----------------------|-----------------------------|---|---|
| Columbia Energy Group | | | |
| 7.30% | Installment Promissory Note | | 2,246 |
| 7.55% | Installment Promissory Note | | |
| 7.82% | Installment Promissory Note | | |
| 7.33% | Installment Promissory Note | | |
| 7.92% | Installment Promissory Note | | |
| 8.12% | Installment Promissory Note | | |
| Total | | | 2,246 |

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ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.
For the Year Ended December 31, 2004

SCHEDULE XIV

NOTES TO FINANCIAL STATEMENTS

INSTRUCTIONS: The space below is provided for important notes regarding the financial statements or any account thereof. Furnish particulars as to any significant contingent assets or liabilities existing at the end of the year. Notes relating to financial statements shown elsewhere in this report may be indicated here by reference.

1. SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

a. Property, Plant and Equipment
and Related Depreciation

Property, Plant and Equipment is stated at historical cost. Depreciation is provided on a composite straight-line basis using the average of depreciable property at the beginning and end of each year.

b. Income Taxes

The Corporation provides deferred taxes with respect to timing differences in the recognition of revenues and expenses for tax and accounting purposes. The major difference results from using accelerated depreciation for tax purposes. The Corporation is included in the Consolidated Federal Income Tax Return filed for NiSource, Inc.

c. Pension Costs

The Corporation participates in the NiSource, Inc. Pension Plan and the

Retirement Income Plan of the Columbia Energy Group. These are trustee noncontributory pension plans which, with certain exceptions, cover all regular employees. NiSource Corporate Services Company, Inc.'s portion was \$4,840,000 in 2004 and \$7,992,000 in 2003.

d. Leases

Payments made by the Corporation in connection with operating leases are charged to expense incurred. No capitalized leases existed in 2004.

e. Account Numbers

The Corporation uses certain FERC accounts which do not match existing SEC accounts; therefore, the year-end balances of the following FERC accounts were reclassified to a corresponding SEC account.

| Account Description | Account Number | | Year-End Balance \$000 |
|-----------------------|----------------|-----|------------------------------|
| | FERC | SEC | |
| Interest Receivable | 171 | 143 | |
| Deferred Income Taxes | 283 | 282 | (342) |

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ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.
For the Year Ended December 31, 2004

SCHEDULE XIV

NOTES TO FINANCIAL STATEMENTS

f. Post-Retirement Benefits Other Than Pensions

During 1991, the System adopted SFAS No. 106, Employer's Accounting for Post-Retirement Benefits Other Than Pensions, retroactive to January 1, 1991. The Corporation has elected to record and defer the full amount of its estimated accumulated post-retirement obligations other than pensions. These obligations total \$42,219,054 as of December 31, 2004, and represent the actuarial present value of the post-retirement benefits to be paid to current employees and retirees based on services rendered.

g. System Money Pool

The Parent Company and its subsidiaries participate in the System Money Pool (Pool) which is administered by the Corporation on behalf of the participants.

Participants invest their excess funds to the Pool. Short-term financing requirements of participants, with the exception of the Parent Company, are satisfied by advances from the Pool. Excess funds in the Pool are invested by the Corporation on a short-term basis on behalf of the depositors.

Participants depositing funds in the Pool share in the interest earned on these investments plus interest paid to the Pool by borrowers on a basis proportionate to its investment in the Pool. Participants borrowing from the Pool pay interest at the rate equivalent to the composite rate on short-term transactions of the Pool. Participants may withdraw their investments in the Pool at any time. Borrowings from the Pool are payable on demand, and may be prepaid at any time without premium or penalty.

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SCHEDULE XV

COMPARATIVE INCOME STATEMENT

| ACCOUNT | DESCRIPTION | 2004 CURRENT YEAR \$ 000 | 2003 PRIOR YEAR \$ 000 |
|---------|---|-----------------------------------|---------------------------------|
| | INCOME | | |
| 457 | Services Rendered to Associate Companies | 279,799 | 277,807 |
| 458 | Services Rendered to Nonassociate Companies | | |
| 417 | Interest Revenue | | |
| 419 | Interest Revenue Other | 7 | 14 |
| 421 | Miscellaneous Income or Loss | | (24) |
| | Total Income | 279,806 | 277,797 |
| | EXPENSE | | |
| 920 | Salaries and Wages | 123,923 | 118,019 |
| 921 | Office Supplies and Expenses | 14,136 | 13,180 |
| 922 | Administrative Expense Transferred Credit | (462) | |
| 923 | Outside Services Employed | 50,536 | 52,443 |
| 924 | Property Insurance | 83 | 2 |
| 925 | Injuries and Damages | 2,059 | 1,472 |
| 926 | Employee Pensions and Benefits | 29,904 | 30,189 |
| 928 | Regulatory Commission Expense | | 568 |
| 930.1 | General Advertising Expenses | 276 | 531 |
| 930.2 | Miscellaneous General Expenses | 3,051 | 3,948 |
| 931 | Rents | 22,740 | 21,162 |
| 932 | Maintenance of Structures and Equipment | 14,492 | 15,621 |
| 403 | Depreciation and Amortization Expense | 7,163 | 7,064 |
| 408 | Taxes Other Than Income Taxes | 9,214 | 9,111 |
| 409 | Income Taxes | (563) | 7,083 |
| 410 | Provision for Deferred Income Taxes | 1,086 | 1,543 |
| 411 | Provision for Deferred Income Taxes Credit | (1,298) | (7,741) |
| 426.1 | Donations | 68 | 370 |
| 426.5 | Other Deductions | 6 | 49 |
| 430 | Interest on Debt to Associate Companies | 2,813 | 2,737 |
| 431 | Other Interest Expense | 579 | 446 |

| | | |
|----------------------|---------|---------|
| Total Expense | 279,806 | 277,797 |
| Net Income or (Loss) | | |

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ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.,

For the Year ended December 31, 2004

ANALYSIS OF BILLING

ASSOCIATE COMPANIES
ACCOUNT 457

| NAME OF ASSOCIATE COMPANY | DIRECT COSTS CHARGED 457-1 \$000 | INDIRECT COSTS CHARGED 457-2 \$000 | COMPENSATION FOR USE OF CAPITAL 457-3 \$000 | TOTAL AMOUNT BILLED \$000 |
|---|--|--|---|------------------------------------|
| Bay State Massachusetts | 15,082 | 9,880 | 179 | 25,141 |
| Columbia Atlantic Trading Corporation | 5 | 2 | | 7 |
| Columbia Deepwater Services | 12 | 10 | | 22 |
| Columbia Energy Group | 5,378 | 436 | 8 | 5,822 |
| Columbia Energy Services Corporation | 304 | 119 | 2 | 425 |
| Columbia Finance Corporation | 16 | 19 | | 35 |
| Columbia Gas of Kentucky, Inc. | 4,603 | 3,151 | 55 | 7,809 |
| Columbia Gas of Maryland, Inc. | 1,573 | 1,078 | 19 | 2,670 |
| Columbia Gas of Ohio, Inc. | 31,671 | 20,991 | 363 | 53,025 |
| Columbia Gas of Pennsylvania, Inc. | 13,434 | 8,469 | 152 | 22,055 |
| Columbia Gas of Virginia, Inc. | 7,433 | 5,073 | 90 | 12,596 |
| Columbia Gas Transmission Corporation | 30,352 | 17,114 | 320 | 47,786 |
| Columbia Gulf Transmission Company | 6,266 | 4,122 | 75 | 10,463 |
| Columbia Network Services Corporation | 57 | 32 | 1 | 90 |
| Columbia Remainder Corporation | 466 | 76 | 2 | 544 |
| Energy USA, Inc. | 2,003 | 1,270 | 23 | 3,296 |
| Granite State Gas | 219 | 197 | 3 | 419 |
| Kokomo Gas and Fuel Company | 362 | 179 | 3 | 544 |
| Nisource Capital Markets | 25 | 10 | | 35 |
| NiSource Crossroads Pipeline | 198 | 158 | 3 | 359 |
| Nisource Development Company, Inc. | 1,677 | 343 | 6 | 2,026 |
| Nisource Energy Services, Inc. | 424 | 186 | 3 | 613 |
| Nisource Energy Technology | 206 | 141 | 3 | 350 |
| Nisource Finance Company | 175 | 35 | 1 | 211 |
| NiSource Insurance Corporation, Ltd. | 37 | 24 | | 61 |
| NiSource Retail Services | 762 | 368 | 6 | 1,136 |
| NiSource, Inc. | 15,304 | 2,728 | 50 | 18,082 |
| Northern Indiana Fuel and Light Company | 395 | 199 | 4 | 598 |
| Northern Indiana Public Service Company | 40,083 | 20,518 | 383 | 60,984 |
| Northern Utilities Maine | 1,315 | 913 | 16 | 2,244 |
| Northern Utilities New Hampshire | 1,674 | 1,073 | 19 | 2,766 |

| | | | | |
|--|---------|---------|-------|---------|
| Primary Energy, Inc. | 1,499 | 573 | 11 | 2,083 |
| Total Amount Billed in 2004 | 183,010 | 99,487 | 1,800 | 284,297 |
| Reconciliation to Total Revenues: | | | | |
| Difference between Amount of Unbilled Revenue December 2003 and December 2004 | 2,930 | (7,428) | | (4,498) |
| | 185,940 | 92,059 | 1,800 | 279,799 |

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ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC,

For the Year Ended December 31, 2004

ANALYSIS OF BILLING

NONASSOCIATE COMPANIES
ACCOUNT 458

| NAME OF NONASSOCIATE COMPANY | DIRECT | | INDIRECT | | COMPENSATION | | EXCESS OR DEFICIENCY | AMOUNT BILLED |
|------------------------------|-----------------|-----------------|-----------------|-----------------|--------------------------|---------------|----------------------------|------------------|
| | COST CHARGED | COST CHARGED | COST CHARGED | COST CHARGED | FOR USE OF CAPITAL | TOTAL COST | | |
| | 458-1 | 458-2 | 458-3 | 458-4 | | | | |
| N/A | \$000 | \$000 | \$ 000 | \$000 | | \$000 | \$ 000 | |

INSTRUCTION: Provide a brief description of the services rendered to each nonassociate company:

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ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.
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Schedule XVI

ANALYSIS OF CHARGES FOR SERVICE
ASSOCIATE AND NONASSOCIATE COMPANIES

| DESCRIPTION OF ITEMS | ASSOCIATE COMPANY CHARGES | | | NONASSOCIATE COMPANY CHARGES | | | TOTAL CHARGES FOR SERVICE | | |
|--|---------------------------|----------------|---------|------------------------------|---------------|-------|---------------------------|----------------|---------|
| | DIRECT | INDIRECT | TOTAL | DIRECT | INDIRECT | TOTAL | DIRECT | INDIRECT | TOTAL |
| | COST \$000 | COST \$ 000 | | COST \$000 | COST \$000 | | COST \$000 | COST \$ 000 | |
| 920 Salaries and Wages | 90,082 | 33,841 | 123,923 | | | | 90,082 | 33,841 | 123,923 |
| 921 Office Supplies and Expenses | 11,292 | 2,844 | 14,136 | | | | 11,292 | 2,844 | 14,136 |
| 922 Administrative Expenses Transferred Credit | 251 | (713) | (462) | | | | 251 | (713) | (462) |
| 923 Outside Services Employed | 49,248 | 1,288 | 50,536 | | | | 49,248 | 1,288 | 50,536 |
| 924 Property Insurance | | 83 | 83 | | | | | 83 | 83 |
| 925 Injuries and Damages | 1,850 | 209 | 2,059 | | | | 1,850 | 209 | 2,059 |
| 926 Employee Pensions and Benefits | 949 | 28,955 | 29,904 | | | | 949 | 28,955 | 29,904 |
| 928 Regulatory Commission Expense | | | | | | | | | |
| 930.1 General Advertising Expenses | 250 | 26 | 276 | | | | 250 | 26 | 276 |
| 930.2 Miscellaneous General Expense | 2,782 | 269 | 3,051 | | | | 2,782 | 269 | 3,051 |
| 931 Rents | 9,693 | 13,047 | 22,740 | | | | 9,693 | 13,047 | 22,740 |
| 932 Maintenance of Structure and Equipment | 12,709 | 1,783 | 14,492 | | | | 12,709 | 1,783 | 14,492 |
| 403 Depreciation and Amortization Expense | 6,663 | 500 | 7,163 | | | | 6,663 | 500 | 7,163 |
| 408 Taxes Other Than Income Taxes | 83 | 9,131 | 9,214 | | | | 83 | 9,131 | 9,214 |
| 409 Income Taxes | | (563) | (563) | | | | | (563) | (563) |
| 410 Provision for Deferred Income Taxes | | 1,086 | 1,086 | | | | | 1,086 | 1,086 |
| 411 Provision for Deferred Income | | (1,298) | (1,298) | | | | | (1,298) | (1,298) |

| | | | | | | |
|--------------------------------------|--------|-----|-----|----|-----|-----|
| Taxes | Credit | | | | | |
| 419 Other Interest | | (7) | (7) | | (7) | (7) |
| 421 Gain/Loss on Sale of Property | | | | | | |
| 426.1 Donations | 68 | | 68 | 68 | | 68 |
| 426.5 Other Deductions | 2 | 4 | 6 | 2 | 4 | 6 |
| 427 Interest on Long-Term Debt | | | | | | |
| 431 Other Interest Expense | 18 | 561 | 579 | 18 | 561 | 579 |

Instructions: Total cost of service will equal the amount billed to associate and nonassociate companies under their separate analysis of billing schedules.

| | | | | | | |
|---|---------|--------|---------|---------|--------|---------|
| Total Expenses | 185,940 | 91,046 | 276,986 | 185,940 | 91,046 | 276,986 |
| Interest on 430 Short-Term Debt | | | 1,013 | | | 1,013 |
| Compensation for Use of Capital- Associated Companies | | | | | | |
| Intercompany Interest 430 on Indebtedness | | | 1,800 | | | 1,800 |
| Compensation for Use of Equity Capital | | | | | | |
| Total Cost of Service | | | 279,799 | | | 279,799 |

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ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.
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Schedule XVII

SCHEDULE OF EXPENSE BY DEPARTMENT OR SERVICE FUNCTION

| DESCRIPTION OF ITEMS | | DEPARTMENT OR SERVICE FUNCTION | | | | | | | | | |
|----------------------|--|--------------------------------|----------|--------------------------------|----------|--------------------------------|--------------------|----------------------|----------------|------------------------|------------------------|
| | | TOTAL | | DEPARTMENT OR SERVICE FUNCTION | | | | | | | |
| | | AMOUNT | OVERHEAD | Accounting | Auditing | Chairman and CEO Manager | Company General | Company President | Communications | Corporate Insurance | Corporate Secretary |
| | | \$ 000 | \$ 000 | \$000 | \$000 | \$ 000 | \$000 | \$000 | \$ 000 | \$000 | \$000 |
| 920 | Salaries and Wages | 123,923 | 33,841 | 6,551 | 1,452 | 1,089 | 562 | 514 | 1,356 | 443 | 288 |
| 921 | Office Supplies and Expenses | 14,136 | 2,844 | 143 | 150 | 54 | 58 | 52 | 243 | 6 | 67 |
| 922 | Administrative Expenses Transferred Credit | (462) | (713) | | | | | | | | |
| 923 | Outside Services Employed | 50,536 | 1,288 | 518 | 53 | 1,293 | 28 | 208 | 813 | | 1,711 |
| 924 | Property Insurance | 83 | 83 | | | | | | | | |
| 925 | Injuries and Damages | 2,059 | 209 | | | | | | | 1,850 | |
| 926 | Employee Pensions and Benefits | 29,904 | 28,955 | 6 | | 7 | 12 | | | | |
| 928 | Regulatory Commission Expense | | | | | | | | | | |
| 930.1 | General Advertising Expense | 276 | 26 | 3 | | | | | 3 | | |
| 930.2 | Miscellaneous General Expense | 3,051 | 269 | 105 | 73 | 79 | 12 | 557 | 128 | | 149 |
| 931 | Rents | 22,740 | 13,047 | 17 | | 17 | 3 | 7 | 31 | | |
| 932 | Maintenance of Structures and Equipment | 14,492 | 1,783 | | | 7 | 1 | 5 | | | 1 |
| 403 | | 7,163 | 500 | | | | | | | | |

| | | | | | | | | | | | |
|--|---|---------|---------|-------|-------|-------|-----|-------|-------|-------|-------|
| | Depreciation and Amortization Expense | | | | | | | | | | |
| 408 | Taxes Other Than Income Taxes | 9,214 | 9,131 | | | | | | | | |
| 409 | Income Taxes | (563) | (563) | | | | | | | | |
| 410 | Provision for Deferred Income Taxes | 1,086 | 1,086 | | | | | | | | |
| 411 | Administrative Expenses Transferred Credit | (1,298) | (1,298) | | | | | | | | |
| 411.5 | Investment Tax Credit | | | | | | | | | | |
| 419 | Other Interest | (7) | (7) | | | | | | | | |
| 421 | Miscellaneous Income or Loss | | | | | | | | | | |
| 426.1 | Donations | 68 | | | | 9 | | | | 58 | |
| 426.5 | Other Deductions | 6 | 4 | | | | | | | | |
| 427 | Interest on Long-Term Debt | | | | | | | | | | |
| 430 | Interest on Debt to Associate Companies | 2,813 | 2,813 | | | | | | | | |
| 431 | Other Interest Expense | 579 | 561 | | | | | | | | |
| Instruction: Indicate each department or service function. (See Instruction 01-3 General Structure of Accounting System: Uniform System Account) | | | | | | | | | | | |
| | Total Expenses | 279,799 | 93,859 | 7,343 | 1,728 | 2,555 | 676 | 1,343 | 2,632 | 2,299 | 2,216 |

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Schedule XVII
SCHEDULE OF EXPENSE BY DEPARTMENT OR SERVICE FUNCTION

| Account Number | DEPARTMENT OR SERVICE FUNCTION | | | | | | | | | |
|----------------|--------------------------------|---------------------|------------------|---------------|----------------------------|----------------------------|--------------------------|-----------------------|---------------------|-------------------------|
| | Corporate | Customer Contact | Energy Supply | Environmental | Executive VP and CFO | Executive VP and COO | Facilities Management | Financial Planning | Fleet Management | Governmental Affairs |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| 920 | 825 | 1,573 | 1,906 | 4,914 | 392 | 748 | 783 | 4,000 | 1,002 | 243 |
| 921 | 317 | 58 | 306 | 672 | 26 | 50 | 802 | 241 | 81 | 56 |
| 922 | | | | | | | 713 | | | |
| 923 | 1,654 | 4 | 107 | 420 | 315 | 4,093 | 56 | 446 | 16 | 265 |
| 924 | | | | | | | | | | |
| 925 | | | | | | | | | | |
| 926 | | | 5 | 53 | | 3 | 164 | 63 | | |
| 928 | | | | | | | | | | |
| 930.1 | | | 113 | 1 | | | | | | |
| 930.2 | 135 | 31 | 34 | 216 | 6 | 11 | 4 | 15 | 2 | 17 |
| 931 | 485 | 6 | 14 | 130 | 21 | 14 | 3 | 50 | 5 | 99 |
| 932 | 123 | 77 | | 79 | 2 | 2 | 3,289 | | | |
| 403 | 506 | | | | | | 240 | | | |
| 408 | 2 | | | | | | | | | |
| 409 | | | | | | | | | | |
| 410 | | | | | | | | | | |
| 411 | | | | | | | | | | |
| 411.5 | | | | | | | | | | |
| 419 | | | | | | | | | | |
| 421 | | | | | | | | | | |
| 426.1 | | | | | | | | | | |
| 426.5 | | | | | | | | | | |
| 427 | | | | | | | | | | |
| 430 | | | | | | | | | | |
| 431 | | | | | | | | | | |
| Total Expenses | 4,047 | 1,749 | 2,485 | 6,485 | 762 | 4,921 | 6,054 | 4,815 | 1,106 | 680 |

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Schedule XVII
SCHEDULE OF EXPENSE BY DEPARTMENT OR SERVICE FUNCTION

DEPARTMENT OR SERVICE FUNCTION

| Account Number | Human Resources/Benefits | | Information Technology | | Investor Relations | | Large Customer Relationships and Transportation | | Legal | | Materials & Supplies | | Meter-to-Cash Processes | | New NiSource Business Retail Operations | | Services Integration | |
|----------------|--------------------------|--------|------------------------|-------|--------------------|-------|---|-------|-------|-------|----------------------|-------|-------------------------|-------|---|-------|----------------------|-------|
| | \$ 000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| 920 | 5,055 | 27,720 | 301 | 4,699 | 3,893 | 2,041 | 1,362 | | | | | | | | 945 | 267 | | |
| 921 | 494 | 2,784 | 79 | 225 | 1,429 | 101 | 1,759 | 3 | 91 | 68 | | | | | | | | |
| 922 | | | | | | | | | | | | | | | | | | |
| 923 | 1,750 | 7,043 | 102 | 362 | 23,849 | 79 | 426 | 1 | 1,137 | 362 | | | | | | | | |
| 924 | | | | | | | | | | | | | | | | | | |
| 925 | | | | | | | | | | | | | | | | | | |
| 926 | 175 | | | 18 | 153 | | | | | | | | | | 208 | | | |
| 928 | | | | | | | | | | | | | | | | | | |
| 930.1 | 41 | 6 | | | 24 | | | | | | | | | | 59 | | | |
| 930.2 | 321 | 1,119 | 6 | 13 | 87 | 5 | 14 | | 8 | 3 | | | | | | | | |
| 931 | 33 | 8,579 | | 29 | 34 | 8 | 8 | | 2 | 4 | | | | | | | | |
| 932 | 1 | 8,953 | | 31 | | 3 | 26 | | 5 | | | | | | | | | |
| 403 | | 5,917 | | | | | | | | | | | | | | | | |
| 408 | | 81 | | | | | | | | | | | | | | | | |
| 409 | | | | | | | | | | | | | | | | | | |
| 410 | | | | | | | | | | | | | | | | | | |
| 411 | | | | | | | | | | | | | | | | | | |
| 411.5 | | | | | | | | | | | | | | | | | | |
| 419 | | | | | | | | | | | | | | | | | | |
| 421 | | | | | | | | | | | | | | | | | | |
| 426.1 | 1 | | | | | | | | | | | | | | | | | |
| 426.5 | | | | | | | | | | | | | | | | | | |
| 427 | | | | | | | | | | | | | | | | | | |
| 430 | | | | | | | | | | | | | | | | | | |
| 431 | | | | | | | | | | | | | | | | | | |
| Total Expenses | 7,871 | 62,202 | 488 | 5,377 | 29,469 | 2,237 | 3,595 | 4 | 2,455 | 704 | | | | | | | | |

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Schedule XVII
SCHEDULE OF EXPENSE BY DEPARTMENT OR SERVICE FUNCTION

| Account Number | DEPARTMENT OR SERVICE FUNCTION | | | | | | | | |
|----------------|--|------------|----------|-----------------|-----------------------|-------|-------------------------|---------|-------|
| | Regulatory & President NiSource | Government | Security | Supply Chain | Support Operations | Tax | Technical Operations | TPC/NET | Other |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| 920 | 505 | 2,113 | 325 | 1,254 | 1,096 | 1,556 | 1,889 | 305 | 6,115 |
| 921 | 80 | 114 | 30 | 73 | 145 | 110 | 322 | 3 | |
| 922 | | | | | | | | | (462) |
| 923 | 60 | 863 | | 208 | 14 | 650 | 342 | | |
| 924 | | | | | | | | | |
| 925 | | | | | | | | | |
| 926 | 5 | 73 | | | | | 4 | | |
| 928 | | | | | | | | | |
| 930.1 | | | | | | | | | |
| 930.2 | 12 | 68 | 2 | 87 | 14 | 10 | 39 | | (600) |
| 931 | 5 | 27 | | 2 | 19 | 5 | 36 | | |
| 932 | | | 2 | | 4 | 91 | 7 | | |
| 403 | | | | | | | | | |
| 408 | | | | | | | | | |
| 409 | | | | | | | | | |
| 410 | | | | | | | | | |
| 411 | | | | | | | | | |
| 411.5 | | | | | | | | | |
| 419 | | | | | | | | | |
| 421 | | | | | | | | | |
| 426.1 | | | | | | | | | |
| 426.5 | | | | 2 | | | | | |
| 427 | | | | | | | | | |
| 430 | | | | | | | | | |
| 431 | | | | | | | | | 18 |
| Total Expenses | 667 | 3,258 | 359 | 1,626 | 1,292 | 2,422 | 2,639 | 308 | 5,071 |

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ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.

For the Year Ended December 31, 2004

DEPARTMENTAL ANALYSIS OF SALARIES

ACCOUNT 920

| NAME OF DEPARTMENT Indicate each department or service function | DEPARTMENTAL SALARY EXPENSE <u>INCLUDED IN AMOUNTS BILLED TO</u> | | | NON ASSOCIATES \$000 | NUMBER PERSONNEL END OF YEAR |
|---|---|----------------------------|------------------------------|----------------------------|---------------------------------------|
| | TOTAL AMOUNT \$000 | PARENT COMPANY \$000 | OTHER ASSOCIATES \$000 | | |
| Accounting | 6,551 | 164 | 6,387 | | 153 |
| Auditing | 1,452 | 134 | 1,318 | | 24 |
| Chairman and CEO | 1,089 | 403 | 686 | | 4 |
| Company General Managers | 562 | | 562 | | 4 |
| Company Presidents | 514 | | 514 | | 2 |
| Corporate Communications | 1,356 | 33 | 1,323 | | 20 |
| Corporate Insurance | 443 | | 443 | | 9 |
| Corporate Secretary | 288 | 177 | 111 | | 5 |
| Corporate Treasury | 825 | 89 | 736 | | 13 |
| Customer Contact Centers | 1,573 | 6 | 1,567 | | 37 |
| Energy Supply Services | 1,906 | | 1,906 | | 34 |
| Environmental Affairs | 4,914 | 133 | 4,781 | | 79 |
| Executive VP and CFO | 392 | 97 | 295 | | 2 |
| Executive VP and COO | 748 | 118 | 630 | | 5 |
| Facilities Management | 783 | 23 | 760 | | 19 |
| Financial Planning | 4,000 | 73 | 3,927 | | 60 |

| | | | | |
|---|--------|-----|--------|-----|
| Fleet Management | 1,002 | | 1,002 | 8 |
| Governmental Affairs | 243 | 28 | 215 | 3 |
| Human Resources/Benefits | 5,055 | 30 | 5,025 | 79 |
| Information Technology | 27,720 | 372 | 27,348 | 540 |
| Investor Relations | 301 | 35 | 266 | 3 |
| Large Customer Relationships and Transportation | 4,699 | 3 | 4,696 | 75 |

Continued on page 33

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ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.

For the Year Ended December 31, 2004

DEPARTMENTAL ANALYSIS OF SALARIES

ACCOUNT 920

| NAME OF DEPARTMENT Indicate each department or service function | DEPARTMENTAL SALARY EXPENSE <u>INCLUDED IN AMOUNTS BILLED TO</u> | | | | NUMBER PERSONNEL END OF YEAR |
|---|---|----------------------------|------------------------------|----------------------------|---------------------------------------|
| | TOTAL AMOUNT \$000 | PARENT COMPANY \$000 | OTHER ASSOCIATES \$000 | NON ASSOCIATES \$000 | |
| Legal | 3,893 | | 3,893 | | 49 |
| Materials & Supplies | 2,041 | 2 | 2,039 | | 34 |
| Meter-to-Cash | 1,362 | | 1,362 | | 29 |
| New Business Processes | | 7 | (7) | | 2 |
| NiSource Retail Services | 945 | (33) | 978 | | 25 |
| Operations Integration | 267 | 118 | 149 | | 3 |
| President NiSource | 505 | 41 | 464 | | 3 |
| Regulatory & Government | 2,113 | 1 | 2,112 | | 35 |
| Security | 325 | 38 | 287 | | 4 |
| Supply Chain | 1,254 | 32 | 1,222 | | 15 |
| Support Operations | 1,096 | | 1,096 | | 14 |
| Tax | 1,556 | 96 | 1,460 | | 25 |
| Technical Operations | 1,889 | | 1,889 | | 26 |
| TPC/NET | 305 | | 305 | | 3 |
| Other | 6,115 | 4,438 | 1,677 | | 0 |
| Total | 90,082 | 6,658 | 83,424 | | 1,445 |

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ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.

For the Year Ended December 31, 2004

OUTSIDE SERVICES EMPLOYED

ACCOUNT 923

INSTRUCTIONS: Provide a breakdown by subaccount of outside services employed. If the aggregate amounts paid to any one payee and included within one subaccount is less than \$100,000, only the aggregate number and the amount of all such payments included within the subaccount need be shown. Provide a subtotal for each type of service.

| FOR WHOM PURCHASED | ADDRESS | RELATIONSHIP "A"= ASSOCIATE "NA"= NON-ASSOCIATE | AMOUNT \$000 |
|--------------------|---------|---|-----------------|
| See schedule 923-A | | | 50,536 |

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SCHEDULE 923-A
ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.
OUTSIDE SERVICES EMPLOYED
ACCOUNT 923

| WHOM PURCHASED | ADDRESS | RELATIONSHIP "A"=ASSOCIATE "NA"=NON ASSOCIATE | \$ |
|---------------------------------|--|--|-----|
| ices Audit | | | |
| ons | | | |
| Total Special Services Audit | | | |
| ices Legal | | | |
| DANIELS | P.O. BOX 664091, INDIANAPOLIS IN 46266-4091 | NA | |
| THORNBURG | 11 S MERIDIAN ST, INDIANAPOLIS IN 46204-3556 | NA | |
| ECKLER LLP | 100 S THIRD ST, COLUMBUS OH 43215-4236 | NA | |
| SEARS & SORETT, P.A. | 75 FEDERAL ST, BOSTON MA 02110-2699 | NA | |
| EENE & PARENTE | 90 STATE ST, ALBANY NY 12207 | NA | |
| SAUNDERS, DANIELS & | 320 S BOSTON AVE STE 500, TULSA OK 74103-3725 | NA | |
| & EICHHORN | 200 RUSSELL ST, HAMMOND IN 46325 | NA | |
| & HART LLP | SPECIAL MASTER FUND GRYNBERG, CHEYENNE WY 82003-1347 | NA | |
| Y, REAVIS & POGUE | P.O. BOX 165017, COLUMBUS OH 43216-5017 | NA | |
| LAMB, GREENE & MACRAE | 99 WASHINGTON AVENUE, ALBANY NY 12210-2820 | NA | |
| YAN | 707 EAST MAIN STREET, RICHMOND VA 23219 | NA | |
| WOODS | ONE JAMES CENTER-ACCOUNTING, RICHMOND VA 23219-4030 | NA | |
| LEWIS AND BOCKIUS | P.O. BOX 8500 S-6050, PHILADELPHIA PA 19178-6050 | NA | |
| TINGS, JANOFSKY & | 1299 PENNSYLVANIA AVE NW, WASHINGTON DC 20004 | NA | |
| RIGHT, MORRIS & WRIGHT | 41 SOUTH HIGH STREET, COLUMBUS OH 43215-6194 | NA | |
| H LLP | P.O. BOX 360074M, PITTSBURGH PA 15251-6074 | NA | 1. |
| KERN ESQ | 1200 CRA-MER LN, CHAPEL HILL NC 27516-8382 | NA | |
| USCHLER ESQ | 3886 UNIVERSITY DRIVE, FAIRFAX VA 22030 | NA | |
| & MCELWEE LLP | P.O. BOX 1791, CHARLESTON WV 25326 | NA | 2. |
| RDIN LLP | 6600 SEARS TOWER, CHICAGO IL 60606-6473 | NA | 10. |
| STIN BROWN & WOOD LLP | P.O. BOX 0642, CHICAGO IL 60690 | NA | |
| AGINE SMITH | REDFEARN LLP, NEW ORLEANS LA 701633000 | NA | |
| JOHNSON | CLARKSBURG WV 26302-1732 | NA | 1. |
| ID & PRIEST LLP | 875 THIRD AVENUE, NEW YORK NY 10022 | NA | |
| CK SCHORR AND SOLIS CO. | 1650 ARCH STREET, PHILADELPHIA PA 19103-2097 | NA | |
| AND MCLAUGHLIN LLP | ONE INDIANA SQ, INDIANAPOLIS IN 46204-4208 | NA | |

ations

2.

Total Special Services Legal

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SCHEDULE 923-A
ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.
OUTSIDE SERVICES EMPLOYED
ACCOUNT 923

| FOR WHOM PURCHASED | ADDRESS | RELATIONSHIP "A"=ASSOCIATE "NA"=NON ASSOCIATE | \$ |
|----------------------------|--|--|----|
| <u>Services Consulting</u> | | | |
| RE LLP | P.O. BOX 70629, CHICAGO IL 60673-0629 | NA | 2 |
| LLC | P.O. BOX 632997, CINCINNATI OH 45263-2997 | NA | |
| EMPLOYMENT | P.O. BOX 371084, PITTSBURGH PA 15250-7084 | NA | |
| DATA SERVICES GROUP | P.O. BOX 198531, ATLANTA GA 30384-8531 | NA | |
| CORPORATION | P.O. BOX 99974, CHICAGO IL 60696-7774 | NA | |
| ORATION | P.O. BOX 532428, ATLANTA GA 30353-2428 | NA | |
| INC | P.O. BOX 533028, ATLANTA GA 30353-2028 | NA | |
| & TOUCHE LLP | BANK OF AMERICA, CHICAGO IL 60693-0042 | NA | |
| RESOURCES LLC | 39 WINDEMERE DRIVE, GROSSE POINTE FARMS MI 48236 | NA | |
| A, INC | 2614 ARTIE ST STE 37-462, HUNTSVILLE AL 35805 | NA | |
| | 140 CONCORD CIR, VALPARAISO IN 46385-8070 | NA | 1 |
| | 191 W NATIONWIDE BLVD STE 650, COLUMBUS OH 43215 | NA | |
| ORATION | P.O. BOX 643600, PITTSBURGH PA 15264-3600 | NA | |
| ION CONTROL CORPORATION | 2500 CORPORATE EXCHANGE DR, COLUMBUS OH 43231 | NA | |
| ION INTEGRATORS, INC | 2540 FOSSIL STONE RD, DYER IN 46311-1956 | NA | |
| ULTING, INC | HAWTHORN WOODS IL 60047 | NA | |
| SULTING, INC | P.O. BOX 350020, BOSTON MA 02241-0520 | NA | |
| P. FOLEY, JR. | 219 CYPRESS DR, SCHERERVILLE IN 46375 | NA | |
| ENERGY GROUP, INC | 2905 SACKETT SUITE 200, HOUSTON TX 77098 | NA | |
| FORMATION SERVICES, INC | 7500 WEST 125 NORTH, LAPORTE IN 46350 | NA | |
| MULCHAY | 801 E86TH AVE, MERRILLVILLE IN 46410 | NA | |
| FT, USA, INC | DEPT CH 10699, PALATINE IL 60055-0699 | NA | |
| REYNOLDS ASSOCIATES | CHURCH STREET STATION, NEW YORK NY 102496427 | NA | |
| TECHNOLOGIES | P.O. BOX 30727, HARTFORD CT 06150-0727 | NA | |
| TEINER | 361 SOUTH COLLEGE AVENUE, VALPARAISO IN 46383 | NA | |
| INICAL SERVICES, INC | 235 SAWYER AVE., GLEN ELLYN IL 60137 | NA | |
| GY CONSULTING ASSOC. | 5887 GLENRIDGE DRIVE, ATLANTA GA 30328 | NA | |
| H, INC | P.O. BOX 95169, PALATINE IL 60095-0169 | NA | |
| OC ASSOCIATES | 101 CONSTITUTION AVENUE NW, WASHINGTON DC 20001-2133 | NA | |
| N & ASSOCIATES | 3339 TAYLORSVILLE ROAD, LOUISVILLE KY 40205-3103 | NA | |

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Total Special Services Consulting

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SCHEDULE 923-A
ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.
OUTSIDE SERVICES EMPLOYED
ACCOUNT 923

| FOR WHOM PURCHASED | ADDRESS | RELATIONSHIP "A"=ASSOCIATE "NA"=NON ASSOCIATE | |
|------------------------------|---|--|-----|
| <u>Services</u> <u>Other</u> | | | |
| EMPLOYMENT | P.O. BOX 371084, PITTSBURGH PA 15250-7084 | NA | 1,4 |
| Y SERVICES | P.O. BOX 23487, NEWARK NJ 07189 | NA | 1 |
| | 7872 COLLECTION CENTER DR, CHICAGO IL 60693 | NA | 2 |
| MPANY LP | ACCOUNTING DEPT, BUFFALO NY 14240-3171 | NA | 1 |
| TY RESOURCE SERVICE | 33501 L LAKE RD, AVON LAKE OH 44012 | NA | 1 |
| UISSE FIRST BOSTON | ATTN: ACCTS REC IBD, NEW YORK NY 10010 | NA | 1 |
| C | GPO P.O. BOX 26858, NEW YORK NY 10087-6858 | NA | 1 |
| GROUP, INC | P.O. BOX 911319, DALLAS TX 75391-1319 | NA | 1 |
| ORATION | 5591 CHAMBLEE DUNWOODY RD, ATLANTA GA 30338 | NA | 1 |
| TROST, CONSULTING | 35 STATEN DR, HOCKESSIN DE 19707 | NA | 1 |
| CONSIDINE, P C | 1BOSTON PL 28TH FL, BOSTON MA 02108 | NA | 1 |
| ORLDWIDE INC | P.O. BOX 101960, ATLANTA GA 30392-1960 | NA | 2 |
| SAK & ASSOCIATES INC | 2448 SOUTHWAY DRIVE, UPPER ARLINGTON OH 43221 | NA | 1 |
| NG SERVICES BY VECTRA | 3990 BUSINESS PARK DRIVE, COLUMBUS OH 43204 | NA | 2 |
| NVESTOR SERVICES, LLC | P.O. BOX 3317, SOUTH HACKENSACK NJ 07608 | NA | 8 |
| INVESTORS SERVICE | P.O. BOX 102597, ATLANTA GA 30368-0597 | NA | 1 |
| G & COMPANY INC | P.O. BOX 210, SOUTH BEND IN 46624-0210 | NA | 1 |
| K STOCK EXCHANGE, INC | P.O. BOX 4695, NEW YORK NY 10163 | NA | 3 |
| N INDIANA PUBLIC SERVICE CO. | 5201 INDUSTRIAL HIGHWAY, GARY IN 46406-1125 | A | 7 |
| COMPUTER RESOURCES | 4013 WASHINGTON STREET WEST, CHARLESTON WV 25313 | NA | 2 |
| RVICES CORPORATION | P.O. BOX 18878, NEWARK NJ 07191-8878 | NA | 1 |
| ALF TECHNOLOGY | 12400 COLLECTION CENTER DR, CHICAGO IL 60693-0124 | NA | 1 |
| AVAILABILITY SERVICES | P.O. BOX 91233, CHICAGO IL 60693 | NA | 1 |
| NIZATIONS | | | 4,9 |

Total Special Services Other

Total All Special Services

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ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.

For the Year Ended December 31, 2004

EMPLOYEE PENSIONS AND BENEFITS

ACCOUNT 926

INSTRUCTIONS: Provide a listing of each pension plan and benefit program provided by the service company. Such listing should be limited to \$25,000.

| DESCRIPTION | AMOUNT |
|--------------------------------|--------|
| | \$000 |
| Dental Assistance Plan | 1,270 |
| Educational Assistance | 216 |
| Employee Assistance Plan | 118 |
| Employee Cafeteria Subsidy | 328 |
| Employee Relocation Expense | 1,580 |
| Employee Retirement Expense | 4,840 |
| Group Life Insurance | 375 |
| Long-Term Disability Insurance | 595 |
| Medical Expense Plan | 11,086 |
| Other Post Employment Benefits | 1,211 |
| Pension Restoration Plan | 4,628 |
| Thrift Plan | 3,666 |
| Miscellaneous | (9) |
| Total | 29,904 |

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ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.

For the Year Ended December 31, 2004

GENERAL ADVERTISING EXPENSES

ACCOUNT 930.1

INSTRUCTIONS: Provide a listing of the amount included in Account 930.1, General Advertising Expenses, classifying the items according to the nature of the advertising and as defined in the account definition. If a particular class includes an amount in excess of \$3,000 applicable to a single payee, show separately the name of the payee and the aggregate amount applicable thereto.

| DESCRIPTION | NAME OF PAYEE | AMOUNT \$000 |
|---------------------------------|--------------------------------|-----------------|
| Employee Recruiting/Advertising | Kinkos, Inc. | 4 |
| Employee Recruiting/Advertising | Nationwide Advertising Service | 7 |
| Employee Recruiting/Advertising | Service Web Offset Corporation | 54 |
| Employee Recruiting/Advertising | Shaw Print and Promotion | 108 |
| Employee Recruiting/Advertising | The Austin Group Energy LP | 16 |
| Employee Recruiting/Advertising | The David Group | 34 |
| Employee Recruiting/Advertising | Think, Inc. | 17 |
| Employee Recruiting/Advertising | TMP Worldwide | 28 |
| Employee Recruiting/Advertising | All Others | 8 |
| TOTAL | | 276 |

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ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.

For the Year Ended December 31, 2004

MISCELLANEOUS GENERAL EXPENSES

ACCOUNT 930.2

INSTRUCTIONS: Provide a listing of the amount included in Account 930.2, Miscellaneous General Expenses, classifying such expenses according to their nature. Payments and expenses permitted by Section 321 (b)(2) of the Federal Election Campaign Act, as amended by Public Law 94-283 in 1976 (2 U.S.C. Section 441 (b)(2) shall be separately classified.

| DESCRIPTION | AMOUNT |
|--------------------------------|--------|
| | \$ 000 |
| Aircraft Service | 21 |
| Dues and Memberships Corporate | 1,024 |
| Employee Recruiting | 220 |
| Employee Training | 1,519 |
| Other | 267 |
| TOTAL | 3,051 |

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ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.

For the Year Ended December 31, 2004

RENTS

ACCOUNT 931

INSTRUCTIONS: Provide a listing of the amount included in Account 931, Rents , classifying such expenses by major grouping of property, as defined in the account definition of the Uniform System of Accounts.

| | AMOUNT |
|------------------------|--------|
| | \$000 |
| Air Transportation | 432 |
| Auto and General Tools | 495 |
| Communications | 939 |
| Data Processing | 4,578 |
| Office Space | 12,770 |
| Miscellaneous | 3,526 |
| TOTAL | 22,740 |

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ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.

For the Year Ended December 31, 2004

TAXES OTHER THAN INCOME TAXES

ACCOUNT 408

INSTRUCTIONS: Provide an analysis of Account 408, Taxes Other Than Income Taxes. Separate the analysis into two groups: (1) other than U.S. Government taxes, and (2) U.S. Government taxes. Specify each of the various kinds of taxes and show the amounts thereof. Provide a subtotal for each class tax.

| | AMOUNT |
|---------------------------------------|--------|
| | \$000 |
| (1) Other than U.S. Government Taxes: | |
| Property | 780 |
| Unemployment | 375 |
| License or Franchise | 6 |
| Total other | 1,161 |
| (2) U.S. Government Taxes: | |
| Federal Insurance Contribution | 7,956 |
| Unemployment | 89 |
| Miscellaneous | 8 |
| Total Federal | 8,053 |
| TOTAL | 9,214 |

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ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.

For the Year Ended December 31, 2004

DONATIONS

ACCOUNT 426.1

INSTRUCTIONS: Provide a listing of the amount included in Account 426.1, Donations, classifying such expenses by its purpose. The aggregate number and amount of all items of less than \$3,000 may be shown in lieu of details.

| NAME OF RECIPIENT | PURPOSE OF DONATION | AMOUNT \$000 |
|-------------------------------|---------------------|-----------------|
| Indiana Society of Washington | Community Welfare | 8 |
| Fitz Gerald & Robbins Inc. | Community Welfare | 7 |
| First Night Columbus | Community Welfare | 6 |
| Miscellaneous (78) | | 47 |
| TOTAL | | 68 |

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ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.

For the Year Ended December 31, 2004

OTHER DEDUCTIONS

ACCOUNT 426.5

INSTRUCTIONS: Provide a listing of the amount included in Account 426.5, Other Deductions, classifying such expenses according to their nature.

| DESCRIPTION | AMOUNT |
|-------------|--------|
| | \$000 |
| Fees | 6 |
| TOTAL | 6 |

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ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.

For the Year Ended December 31, 2004

SCHEDULE XVIII

NOTES TO STATEMENT OF INCOME

INSTRUCTIONS: The space below is provided for important notes regarding the statement of income or any account thereof. Furnish particulars as to any significant increase in services rendered or expenses incurred during the year. Notes relating to financial statements shown elsewhere in this report may be indicated here by reference.

Salary and wage expense was \$5.9 million higher in 2004 when compared to 2003. \$3.2 million of this increase was due to bonuses increasing from \$7.7 to \$10.9 million in 2003 and 2004 respectively. \$2.8 million of the increase was due to higher wages in 2004. Salary and wage expense also increased due to severance related costs increasing approximately \$3.9 million in 2004 when compared to 2003. The increase in severance related costs is primarily due the reversal of accrued severance in 2003. The above increases in salary and wage expense were offset by a decrease in stock based compensation of approximately \$5.5 million.

Income Taxes and Provision for Deferred Income Taxes decreased approximately \$1.7 million from 2003 to 2004. This decrease is primarily due to adjustments made under FAS 109 for Deferred Income Taxes and a reduction in non-deductible expenses.

Outside Services decreased approximately \$1.9 million from 2003 to 2004. This decrease is primarily due to lower legal expenses of \$3.5 million in 2004 when compared to 2003 offset by an increase in consulting expenses of \$1.7 million.

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ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.

METHODS OF ALLOCATION

The following Basis of Allocation have been approved by the SEC as a method of allocating Job Order charges and convenience payments directly to Associate Companies.

Total Gross Fixed Assets and Total Operating Expenses
Total Gross Fixed Assets
Total Operating Expenses and Gross Depreciable Property
Gross Depreciable Property
Number of Automobile Units Owned and Leased
Number of Retail Customers
Number of Regular Employees
Fixed Allocation
Number of Transportation Customers
Total Employees and Customers
Total Plant, State Employees and Customers
Total Tariff and Transportation Customers
Direct Costs

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ANNUAL REPORT OF NISOURCE CORPORATE SERVICES COMPANY, INC.

For the Year Ended December 31, 2004

ANNUAL STATEMENT OF COMPENSATION FOR USE OF CAPITAL BILLED

COMPENSATION FOR USE OF CAPITAL
SUMMARY OF BILLING TO ASSOCIATE COMPANIES

| Company | Direct & Allocated Labor \$ 000 | Compensation Billed \$ 000 |
|---|--|----------------------------------|
| Bay State Massachusetts | 7,910 | 179 |
| Columbia Atlantic Trading Corporation | 2 | |
| Columbia Deepwater Services | 8 | |
| Columbia Energy Group | 352 | 8 |
| Columbia Energy Services Corporation | 99 | 2 |
| Columbia Finance Corporation | 13 | |
| Columbia Gas of Kentucky, Inc. | 2,446 | 55 |
| Columbia Gas of Maryland, Inc. | 837 | 19 |
| Columbia Gas of Ohio, Inc. | 16,056 | 363 |
| Columbia Gas of Pennsylvania, Inc. | 6,719 | 152 |
| Columbia Gas of Virginia, Inc. | 3,985 | 90 |
| Columbia Gas Transmission Corporation | 14,157 | 320 |
| Columbia Gulf Transmission Company | 3,307 | 75 |
| Columbia Network Services Corporation | 25 | 1 |
| Columbia Remainder Corporation | 69 | 2 |
| Energy USA, Inc. | 1,026 | 23 |
| Granite State Gas | 151 | 3 |
| Kokomo Gas and Fuel Company | 151 | 3 |
| NiSource Capital Markets | 8 | |
| NiSource Crossroads Pipeline | 120 | 3 |
| NiSource Development Company, Inc. | 268 | 6 |
| NiSource Energy Services, Inc. | 146 | 3 |
| NiSource Energy Technology | 130 | 3 |
| NiSource Finance Company | 27 | 1 |
| NiSource Insurance Corporation, Ltd. | 19 | |
| NiSource Retail Services | 269 | 6 |
| NiSource, Inc. | 2,216 | 50 |
| Northern Indiana Fuel and Light Company | 166 | 4 |
| Northern Indiana Public Service Company | 16,961 | 383 |
| Northern Utilities Maine | 715 | 16 |
| Northern Utilities New Hampshire | 851 | 19 |
| Primary Energy, Inc. | 486 | 11 |

| | | |
|-------|--------|-------|
| Total | 79,695 | 1,800 |
|-------|--------|-------|

The above is a summary of the Compensation for Use of Capital billed to each company. Attached is a sample of the annual statement sent to each associate company. Since they are identical except for the amount billed, the summary is included in lieu of thirty-two individual statements (see page 49).

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NISOURCE CORPORATE SERVICES COMPANY, INC.

COMPENSATION FOR USE OF CAPITAL

BILLED TO

COLUMBIA GAS TRANSMISSION CORPORATION

DURING 2004

&nbs

Supplemental disclosures of cash flow information

Cash paid for interest expense

\$ 152,609

\$ 97,559

See notes to consolidated financial statements.

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PATIENT INFOSYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Patient Infosystems, Inc. and subsidiaries (the Company) designs and develops health care services to manage, collect and analyze patient-related information to improve patient compliance with prescribed treatment protocols or adherence with utilization guidelines. Through its various patient programs for disease, case, demand and utilization management, Patient Infosystems provides important benefits for the patient, the health care provider and the payor. American CareSource Holdings, Inc., a subsidiary of Patient Infosystems, is in the business of providing national administration, coordination and case management of ancillary healthcare services for employment groups through separate contracts with a national network of providers and it provides administration of patient claims for health care organizations.

During the year ended December 31, 2004, Patient Infosystems dissolved its wholly owned subsidiary, Patient Infosystems Canada, Inc., which ceased operations in January 2001, and merged the remaining assets and liabilities into Patient Infosystems.

The consolidated financial statements include the accounts of Patient Infosystems and its wholly owned subsidiaries, American CareSource Holdings, Inc. ("ACS") and CBCA Care Management, Inc. ("CMI"). Significant intercompany transactions and balances have been eliminated in consolidation.

Acquisitions - On December 31, 2003, Patient Infosystems acquired substantially all the assets and liabilities of American CareSource Corporation for a total purchase price of \$5,800,209. The purchase consideration included (a) 1,100,000 shares of common stock valued at \$1,848,000; (b) \$3,679,499 of notes and accrued interest owed Patient Infosystems by American CareSource Corporation that was extinguished by the business combination and (c) \$272,710 of direct expenses associated with the acquisition. The common stock issued in the transaction was valued at \$1.68 per share based upon the measurement date for this transaction of April 14, 2003, which is the date the terms of the proposed transaction were agreed upon and announced to the public.

During 2004 the Company completed its valuation for the allocation of identifiable intangible assets and goodwill. As a result of the valuation \$1,886,565 was allocated from goodwill to identifiable intangible assets. In addition \$68,093 of additional expenses were incurred during 2004 and added to goodwill.

Information related to the acquisition is as follows:

| | | |
|--------------------------------|----|-------------|
| Purchase price: | \$ | 5,800,209 |
| Purchase allocation: | | |
| Current assets | | 504,087 |
| Property and equipment | | 152,480 |
| Identifiable intangible assets | | 2,348,565 |
| Current liabilities | | (2,033,915) |
| Long-term debt | | (334,412) |
| Goodwill | | 5,163,404 |

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\$ 5,800,209

The acquisition of assets from American Caresource Corporation has been accounted for using the purchase method of accounting and accordingly, the results of operations from the acquired assets from January 1, 2004 have been included in the consolidated financial statements.
In December 2003

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Patient Infosystems formed ACS, a Delaware corporation, as wholly owned subsidiary to hold and operate the assets acquired from American Caresource Corporation.

On September 22, 2004, Patient Infosystems acquired all the outstanding equity of CMI for a total purchase price of \$7,293,959 which included (1) \$7,100,000 in cash and (2) direct expenses of \$193,959. Patient Infosystems recorded the CMI acquisition using the purchase method of accounting.

Information related to the CMI acquisition is as follows:

| | | |
|--------------------------------|-----------|-----------|
| Purchase price: | \$ | 7,293,959 |
| Purchase allocation: | | |
| Property and equipment | 181,852 | |
| Identifiable intangible assets | 250,000 | |
| Current liabilities | (242,059) | |
| Current assets | 228,187 | |
| Goodwill | 6,875,979 | |
| | \$ | 7,293,959 |

The acquisition of CMI has been accounted for using the purchase method of accounting and accordingly, the results of operations of CMI from September 22, 2004 have been included in the consolidated financial statements.

The allocation of the identifiable intangible assets and goodwill of CMI has not been finalized and any required adjustments will be recorded as necessary when the information becomes available.

The following unaudited pro forma summary presents Patient Infosystems' consolidated results of operations for 2004 and 2003 as if the acquisitions of CMI and ACS had been consummated at January 1 of each respective year. The pro forma consolidated results of operations include certain pro forma adjustments, including the amortization of identifiable intangible assets, interest and expenses on certain debt.

| | December 31, 2004 | 2003 |
|--|----------------------|----------------|
| Revenue | \$ 21,172,658 | \$ 21,689,656 |
| Operational costs | (22,312,331) | (24,770,700) |
| Other costs | (2,290,427) | (3,206,933) |
| Net loss | (3,430,100) | (6,287,977) |
| Dividends and beneficial conversions | (826,738) | (8,265,390) |
| Net loss attributable to common shareholders | \$ (4,256,838) | \$(14,553,367) |
| Net loss per share | \$ (0.54) | \$ (2.93) |
| Weighted average common shares | 7,815,063 | 4,960,339 |

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The pro forma results are not necessarily indicative of those that would have occurred had the acquisition taken place at the beginning of the periods presented.

Going Concern - The accompanying 2004 and 2003 consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The independent auditors report on the 2003 financial statements includes an explanatory paragraph indicating that recurring losses from operations and negative working capital raise substantial doubt about Patient Infosystems ability to continue as a going concern. As shown in the accompanying consolidated financial statements, Patient Infosystems

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incurred a net loss for 2003 of \$3,377,961 and had negative working capital of \$2,808,649 at December 31, 2003. These factors, among others, may indicate that as of December 31, 2003, Patient Infosystems would be unable to continue as a going concern for a reasonable period of time.

The consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of liabilities that might be necessary should Patient Infosystems be unable to continue as a going concern. Patient Infosystems' continuation as a going concern is dependant upon its ability to generate sufficient cash flow to meet its obligations, to obtain additional financing and, ultimately, to attain successful operations.

Management is currently assessing Patient Infosystems' operating structure for the purpose of reducing ongoing expenses and increasing sources of revenue. The recently completed acquisition of CMI is being integrated into the operation of Patient Infosystems. Patient Infosystems is planning to divest its ACS subsidiary as a dividend to its shareholders. After such dividend, Patient Infosystems anticipates that ACS will become an independent public entity in which Patient Infosystems will hold less than 10% ownership (see note 9).

Opportunities to expand the existing customer relationships of the entire organization to include the services of all organizations are being assessed by management. Management believes that the increased revenue provided by CMI combined with the divestiture of ACS will allow Patient Infosystems access to working capital through its operations. In addition, successes in outcomes from disease management programs are continuing to be leveraged in an attempt to increase revenues from sales from both the Patient Infosystems, Inc. and its subsidiary, CMI.

Use of Estimates in the Preparation of Financial Statements - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

Fair Value of Financial Instruments - Patient Infosystems' financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, borrowings from directors, a line of credit and long-term debt. The fair value of instruments is determined by reference to various market data and other valuation techniques, as appropriate. Unless otherwise disclosed, the fair value of short-term financial instruments approximates their recorded values due to the short-term nature of the instruments. Based on the borrowing rates currently available to Patient Infosystems for bank loans with similar terms and average maturities, the fair value of long-term debt approximates its carrying value.

Revenue Recognition and Deferred Revenue - Patient Infosystems' principal source of revenue are contracts for the provision of provider improvement services for federally funded health centers or disease, demand, case and utilization management services to self insured employers, health and welfare funds or other such entities that accept medical risk for defined populations. Deferred revenue represents amounts that may be billed in advance of delivery under these contracts.

Disease, demand, case and utilization management - Patient Infosystems' contracts may call for a per member per month, per employee per month or per-enrolled patient fee to be paid by the customer for a series of program services as defined in the contract or a fixed monthly fee which is intended to provide a defined set of services. The timing of customer payments varies by contract, but typically occurs in advance of the associated services being provided. Revenues from program operations are recognized ratably as the program services are delivered.

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Ancillary health revenues are reported when services by providers have been authorized and performed and collections from payors are reasonably assured. Patient claims revenues are recognized by Patient Infosystems as the services are provided. Both ancillary health and patient claims revenues are reported at gross amounts billed and collectible.

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Development Contracts - Patient Infosystems' program enhancements consist of specific changes or modifications to existing products requested by customers and are short-term in nature. Therefore, revenue is recognized upon delivery of the enhancement.

Cash and Cash Equivalents - Cash and cash equivalents include all highly liquid debt instruments with original maturities of three months or less.

Concentrations of Credit Risk - Financial instruments, which potentially subject Patient Infosystems to concentration of credit risk, consist principally of cash and cash equivalents and accounts receivable. Management of Patient Infosystems believes it places its cash and cash equivalents with high credit quality institutions.

Patient Infosystems' current revenue is concentrated in a small number of customers, consequently, the loss of any one of its customers could have a material adverse effect on Patient Infosystems and its operations. During the years ended December 31, 2004 and 2003, the Patient Infosystems Segment had revenues of approximately \$5.1 million (53%) and \$3.2 million (57%), respectively, from a single customer and accounts receivable balances of \$511,000 and \$122,000 from that customer as of December 31, 2004 and 2003, respectively. The contract with this customer is due to renew on April 1, 2005, at which time Patient Infosystems anticipates that the revenue from this customer may decrease by as much as 45%. During the year ended December 31, 2004, the American Caresource Segment had revenues of approximately \$3.9 million (65%) from two customers and an accounts receivable balance of \$349,000 from those customers as of December 31, 2004. While Patient Infosystems has found new sources of revenue, no assurance can be given that any such sources will provide the same amount of revenue, nor that such revenue sources will provide a comparable operating margin.

Property and Equipment - Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 10 years.

Asset Impairment - Patient Infosystems regularly assesses all of its long lived assets for impairment and recognizes a loss when the carrying value of an asset exceeds its fair value.

Intangible Assets As a result of the business combinations that are more fully explained in Note *Acquisitions* above, the following is a summary of the intangible assets of Patient Infosystems as of December 31, 2004:

| | Gross Carrying Amount | Accumulated Amortization |
|----------------------|--------------------------|-----------------------------|
| Software, ACS | \$ 427,581 | \$ 85,516 |
| Contracts, ACS | 1,920,984 | 128,066 |
| Contracts, CMI (est) | 250,000 | 12,500 |
| Other intangibles | 622,724 | 622,724 |
| | \$ 3,221,289 | \$ 848,806 |

The estimated aggregate amortization expenses for the next five years are as follows:

| Year ending December 31, | Estimated Amortization Expense |
|--------------------------|--------------------------------|
| 2005 | \$ 264,000 |
| 2006 | 264,000 |
| 2007 | 264,000 |
| 2008 | 264,000 |
| 2009 | 166,000 |
| TOTAL | \$ 1,222,000 |

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Goodwill As a result of the business combinations that are more fully explained in Note 1 *Acquisitions* above, the following is a summary of the goodwill assets of Patient Infosystems as of December 31, 2004 and reportable changes by segment:

| | CMI | ACS | Total |
|-----------------------------|--------------|--------------|--------------|
| Balance, beginning | \$ - | \$ 6,981,876 | \$ 6,981,876 |
| Final valuation adjustments | - | (1,818,472) | (1,818,472) |
| Adjusted balance | - | 5,163,404 | 5,163,404 |
| Acquired during the year | 6,875,979 | - | 6,875,979 |
| Impairment losses | - | (802,105) | (802,105) |
| Balance, ending | \$ 6,875,979 | \$ 4,361,299 | \$11,237,278 |

The ACS segment was tested annually for impairment as of December 31. Based on an independent valuation of ACS in December 2004, a goodwill impairment loss of \$802,105 was recognized in the ACS segment. The fair value of the ACS segment was estimated using the expected present value of future cash flows.

The CMI segment will be tested within 12 months of the acquisition, which occurred on September 22, 2004. Any impairment of the CMI Segment will be recorded in the quarter in which the testing takes place.

Research and Development - Research and development costs are expensed as incurred.

Income Taxes - Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss and tax credit carryforwards.

Net Loss Per Share The calculations for the basic and diluted loss per share were based on net loss attributable to common stockholders of \$4,393,047 and \$11,049,518 and a weighted average number of common shares outstanding, of 7,815,063 and 924,109 for the years ended December 31, 2004 and 2003 after giving effect to the 1 for 12 reverse stock split approved by Patient Infosystems' stockholders on December 31, 2003, respectively. All per share information included in the consolidated financial statements and the footnotes thereto have been restated for effect of the 1 for 12 reverse stock split. The computation of fully diluted loss per share for 2004 and 2003 did not include 11,471,769 and 2,568,274 shares of common stock, respectively, which consist of the common equivalents of outstanding convertible preferred shares, options and warrants because the effect would be antidilutive due to the net loss in those years.

In 2004 Patient Infosystems was required to adopt the provisions of EITF 03-06 *Participating Securities and the Two-Class Method Under FASB Statement No. 128* which effects the computation of earnings per share when there are convertible preferred securities outstanding. Under the provisions of EITF 3-06, when Patient Infosystems experiences a net loss for the year, the convertible securities are not considered common stock equivalents unless they share in the losses of the common securities. Based on the new guidance, the preferred shares are assumed to not share in the losses of the common shares and accordingly the 2003 loss per share of \$3.25 presented previously has been revised as permitted using EITF 03-06 to \$11.96.

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The calculation of Patient Infosystems' net loss per share for the years ended December 31, 2004 and 2003 is as follows:

| | Year Ended December 31, 2004 | Year Ended December 31, 2003 |
|--|---|---|
| Net Loss | \$ (3,566,308) | \$ (3,377,961) |
| Convertible preferred stock dividends | \$ (826,739) | \$ (7,671,557) |
| Net loss attributable to common stockholders | \$ (4,393,047) | \$ (11,049,518) |
| Weighted average Common Stock outstanding | 7,815,063 | 924,109 |
| Net Loss per share - Basic and Diluted | \$ (0.56) | \$ (11.96) |

Retirement Plan - Patient Infosystems has a retirement plan that qualifies under Section 401(k) of the Internal Revenue Code. This retirement plan allows eligible employees to contribute a portion of their income on a pretax basis to the plan, subject to the limitations specified under the Internal Revenue Code. Patient Infosystems' annual contribution to the plan is at the discretion of the Board of Directors. Patient Infosystems made no contributions to this plan in 2004 and 2003.

New Accounting Pronouncements In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 123(Revised), "Share-Based Payment" ("SFAS No.123(R)), establishing accounting standards for transactions in which an entity exchanges its equity instruments for goods or services. SFAS No. 123(R) also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments, or that may be settled by the issuance of those equity instruments. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including stock options, restricted stock plans, performance-based stock awards, stock appreciation rights, and employee stock purchase plans. SFAS No. 123(R) replaces existing requirements under SFAS No. 123, "Accounting for Stock-Based Compensation," and eliminates the ability to account for share-based compensation transactions using APB Opinion No. 25. The provisions of SFAS No. 123(R) are effective for Patient Infosystems on July 1, 2005. Patient Infosystems is currently assessing the financial statement impact of adopting SFAS No. 123(R).

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets-an amendment of APB Opinion No. 29" ("SFAS No. 153"), addressing the measurement of exchanges of nonmonetary assets. SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar production assets in APB Opinion No. 29 "Accounting for Nonmonetary Exchanges," and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005 with earlier application permitted. Patient Infosystems does not expect adoption of the provisions of SFAS No. 153 to have a material impact on the consolidated financial statement, results of operations or liquidity of Patient Infosystems.

Stock-Based Compensation- Patient Infosystems accounts for stock-based compensation in accordance with SFAS No. 123, Accounting for Stock-Based Compensation. As permitted by SFAS No. 123, Patient Infosystems continues to measure compensation for such plans using the intrinsic value based method of accounting, prescribed by Accounting Principles Board (APB), Opinion No. 25, Accounting for Stock Issued to Employees. Had compensation cost for Patient Infosystems' stock-based compensation plans been determined based on the fair value at the date of grant for awards consistent with the provisions of SFAS No. 123, Patient Infosystems' net loss and net loss per share would have been increased to the pro forma amounts indicated below:

| | <u>2004</u> | <u>2003</u> |
|--|----------------|-----------------|
| Net loss attributable to common shareholders - as reported | \$ (4,393,047) | \$ (11,049,518) |
| Stock based compensation expense | (1,471,815) | (118,257) |
| Net loss - pro forma | (5,864,862) | (11,167,775) |
| Net loss per share - basic and diluted - as reported | \$ (0.56) | \$ (11.96) |
| Net loss per share - basic and diluted - pro forma | \$ (0.75) | \$ (12.08) |
| Weighted average common shares | 7,815,063 | 924,109 |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model using assumed risk-free interest rates of 3.93% for the year ended December 31, 2004 and 3.79% for the year ended December 31, 2003 and an expected life of 7 years. The assumed dividend yield was zero. Patient Infosystems has used a volatility factor of 1.21 for the year ended December 31, 2004 and 0.98 for the year ended December 31, 2003. For purposes of pro forma disclosure, the estimated fair value of each option is amortized to expense over that option's vesting period.

Consolidated Statements of Cash Flows Supplemental noncash investing and financing activities for the years ended December 31, 2004 and 2003 are as follows:

| | 2004 | 2003 |
|---|--------------|--------------|
| Common stock activities: | | |
| Borrowings from directors converted into common stock | | |
| | \$ - | \$ 4,482,500 |
| Common stock issued for services | 44,250 | - |
| Warrants issued as acquisition expense | 22,750 | - |
| Warrants issued as expense of sale of common stock | | |
| | 46,625 | - |
| Accrued interest converted into common stock | | |
| | - | 438,099 |
| Common stock issued in acquisition | - | 1,848,000 |
| Common stock issued for acquisition expenses | | |
| | - | 30,898 |
| Warrants issued on debt guarantee | 1,416,499 | - |
| Total of noncash common stock activities | \$ 1,530,124 | \$ 6,799,497 |
| Preferred stock activities: | | |
| Borrowings from directors converted to preferred stock | | |
| | \$ - | \$ 745,000 |
| Borrowings from shareholders converted into preferred stock | | |
| | - | 3,675,000 |
| Accrued interest converted into preferred stock | | |
| | 53,080 | 865,180 |
| Issuance of preferred stock in connection with issuance of debt | | |
| | - | 2,143,120 |
| Warrants issued on debt guarantee | 1,085,375 | - |
| Total noncash preferred stock activities | \$ 1,138,455 | \$ 7,428,300 |
| Dividends declared on Series C & D Convertible Preferred Stock | | |
| | \$ 826,739 | \$ 243,257 |
| Value of beneficial conversion feature on Series D Convertible Preferred Stock recognized as a dividend | | |
| | \$ 78,080 | \$ 7,428,300 |

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SEGMENT INFORMATION

During the year ended December 31, 2004, Patient Infosystems operated in two segments: (i) Patient Infoystems, which includes disease management, demand management, provider improvement as well as case management and utilization review services which were acquired on September 22, 2004 through the acquisition of CMI and (ii) ACS, which includes ancillary benefits management services. Selected financial information on Patient Infosystems' segments for the years ended December 31, 2004 and 2003 and pro forma combined as if the ACS and CMI acquisition had occurred as of January 1 of each year, respectively, are presented as follows:

| | Year ended December 31, | | | |
|---|-------------------------|--------------------|---------------------|---------------------|
| | 2004 | 2004 | 2003 | 2003 |
| | | Pro Forma | | Pro Forma |
| Revenues | | | | |
| Patient Infosystems, Inc. | \$ 7,624,144 | \$ 7,624,144 | \$ 5,687,293 | \$ 5,687,293 |
| CBCA Care Management, Inc. | 2,075,181 | 7,511,190 | - | 6,837,974 |
| Segment total | 9,699,325 | 15,135,334 | 5,687,293 | 12,525,267 |
| American Caresource Holdings, Inc. | 6,037,324 | 6,037,324 | - | 9,164,389 |
| Total revenue | 15,736,649 | 21,172,658 | 5,687,293 | 21,689,656 |
| Cost of sales | | | | |
| Patient Infosystems, Inc. | 5,485,642 | 5,485,642 | 4,162,759 | 4,162,759 |
| CBCA Care Management, Inc. | 1,202,890 | 5,050,745 | - | 4,719,665 |
| Segment total | 6,688,532 | 10,536,387 | 4,162,759 | 8,882,424 |
| American Caresource Holdings, Inc. | 5,840,589 | 5,840,589 | - | 10,289,128 |
| Total cost of sales | 12,529,121 | 16,376,976 | 4,162,759 | 19,171,552 |
| Selling, General and Administrative | | | | |
| Patient Infosystems, Inc. | 2,633,145 | 2,633,145 | 2,151,541 | 2,151,541 |
| CBCA Care Management, Inc. | 177,786 | 1,092,432 | - | 1,168,513 |
| Segment total | 2,810,931 | 3,725,577 | 2,151,541 | 3,320,054 |
| American Caresource Holdings, Inc. | 2,209,778 | 2,209,778 | - | 2,279,094 |
| Total selling, general and administrative | 5,020,709 | 5,935,355 | 2,151,541 | 5,599,148 |
| Other | | | | |
| Patient Infosystems, Inc. | 936,821 | 936,821 | 2,750,954 | 2,319,202 |
| CBCA Care Management, Inc. | (1,889) | 535,411 | - | 716,400 |
| Segment total | 934,932 | 1,472,232 | 2,750,954 | 3,035,602 |
| American Caresource Holdings, Inc. | 818,195 | 818,195 | - | 171,331 |
| Total other | 1,753,127 | 2,290,427 | 2,750,954 | 3,206,933 |
| Net loss | | | | |
| Patient Infosystems, Inc. | (1,431,464) | (1,431,464) | (3,377,961) | (2,946,209) |
| CBCA Care Management, Inc. | 696,394 | 832,602 | - | 233,396 |
| Segment total | (735,070) | (598,862) | (3,377,961) | (2,712,813) |
| American Caresource Holdings, Inc. | (2,831,238) | (2,831,238) | - | (3,575,164) |
| Total net loss | (3,566,308) | (3,430,100) | (3,377,961) | (6,287,977) |
| Dividends | (826,738) | (826,738) | (7,671,557) | (8,265,390) |
| Net loss attributable to common shareholders | (4,393,046) | (4,256,838) | (11,049,518) | (14,553,367) |
| Net loss per share basic and diluted | \$ (0.56) | \$ (0.54) | \$ (11.96) | \$ (2.93) |
| Weighted average common shares | 7,815,063 | 7,815,063 | 924,109 | 4,960,339 |

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3.

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PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

| | 2004 | 2003 |
|--------------------------------|--------------|-------------|
| Computer software | \$ 1,265,931 | \$ 686,792 |
| Computer equipment | 1,348,102 | 1,514,547 |
| Telephone equipment | 433,959 | 365,204 |
| Leasehold improvements | 110,901 | 64,897 |
| Office furniture and equipment | 375,866 | 395,720 |
| | 3,534,759 | 3,027,160 |
| Less accumulated depreciation | 2,657,546 | 2,721,609 |
| Property and equipment, net | \$ 877,213 | \$ 305,551 |

3. Debt

Line of Credit - At December 31, 2004 and 2003, Patient Infosystems has borrowings outstanding totaling \$7,200,000 and \$3,000,000, respectively, under lines of credit, which is the maximum amount available under those lines of credit. The amount borrowed is due and payable on July 31, 2006. Interest is due and payable at maturity at a floating rate based upon LIBOR plus 1.75% (effective LIBOR rate for outstanding notes as of December 31, 2004 was between 2.125% and 3.5%). There is a commitment fee of 0.25% per annum on the average daily unused amount of the line of credit to be paid quarterly in arrears. The \$7,000,000 of the line of credit is secured by substantially all of Patient Infosystems' assets and is guaranteed by Dr. Schaffer and Mr. Pappajohn, directors of Patient Infosystems. In consideration for their guarantees, Patient Infosystems granted to Dr. Schaffer and Mr. Pappajohn warrants to purchase an aggregate of 47,500 shares of Series D Convertible Preferred Stock, convertible into 475,000 shares of Patient Infosystems' common stock for \$10.00 per preferred share and 1,000,000 shares of Patient Infosystems' common stock for \$1.68 per share. \$812,630 of expense was recorded during the year ended December 31, 2004 related to these warrants.

On December 1, 2004, ACS entered into a Credit Agreement with Wells Fargo Bank Iowa, N.A., which created a secured credit facility of \$300,000 until July 31, 2006. Interest is due and payable at maturity at 5.25%. Mr. Pappajohn, a director of the both Patient Infosystems and ACS, guaranteed this credit facility. There was no compensation to Mr. Pappajohn related to this guarantee.

On February 2, 2005, ACS entered into the First Addendum to the Credit Agreement with Wells Fargo Bank Iowa, N.A., which increased the amount of that credit facility to \$3,000,000. Dr. Schaffer and Mr. Pappajohn, directors of the both Patient Infosystems and ACS, guaranteed this extension. Also on February 2, 2005, Patient Infosystems entered into the Fifth Addendum to the Second Amended and Restated Credit Agreement with Wells Fargo Bank Iowa, N.A., which decreased the amount of this credit facility to \$6,000,000. ACS repaid \$1,000,000 of debt to Patient Infosystems debt using its credit facility, which Patient Infosystems used to retire \$1,000,000 of its credit facility. In consideration of the guarantees, ACS is obligated to issue warrants to purchase 974,950 shares of ACS common stock at the fair market value per share to be established by the ACS Board of Directors based upon an independent appraisal. (see note 9).

Borrowings from directors At December 31, 2004 there were no borrowings from any directors of Patient Infosystems. During the year ended December 31, 2003, Patient Infosystems had borrowed \$150,000 from Mr. Pappajohn and Dr. Schaffer.

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On December 31, 2003, Patient Infosystems converted \$4,482,500 in debt and \$438,099 of accrued interest owed to Mr. Pappajohn and Dr. Schaffer into common stock by issuing 2,928,986 shares of Patient Infosystems' common stock using a value of \$1.68 per common share. Additionally on December 31, 2003, Mr. Pappajohn agreed to convert his remaining debt of \$745,000 and accrued interest of \$711,110 into 145,611 shares of Patient Infosystems' Series D Convertible Preferred Stock at a price of \$10.00 per preferred share. In January 2004, Mr. Schaffer converted his remaining accrued interest of \$53,180 into 5,318 shares of Patient Infosystems' Series D Convertible Preferred Stock at a price of \$10.00 per share. See Note 6.

Long-Term Debt - Long-term debt, including the lines of credit:

| | As of December 31, | |
|---|--------------------|-----------|
| | 2004 | 2003 |
| Unsecured non-interest bearing note to a stockholder, payable in monthly installments of \$10,127, maturing in December 2003 | \$ - | \$ 40,507 |
| Unsecured non-interest bearing obligation to a stockholder, payable in monthly installments of \$5,000, maturing in April 2004 | - | 15,732 |
| Unsecured loan at index rate plus 2.5% (6.5%) to a stockholder, due on demand | - | 30,478 |
| 19% obligation assumed and due an individual in connection with the purchase of certain assets, payable in monthly installments of \$2,000, maturing in December 2003 | - | 11,577 |
| 5% unsecured note payable to a client, with principal and interest maturing in March 2004 | - | 165,000 |
| Other | - | 7,610 |
| Secured lines of credit at Wells Fargo Bank, maturing July 2006 | 7,200,000 | - |
| Capital lease obligations (see note 8) | 40,680 | 63,508 |
| Total debt | 7,240,680 | 334,412 |
| Less current portion | (21,355) | (294,117) |
| Total long term debt | \$ 7,219,325 | \$ 40,295 |
| Schedule of payments over the next 5 years: <i>Year ended December 31,</i> | Scheduled payments | |
| 2005 | \$ 21,355 | |
| 2006 | 7,212,542 | |
| 2007 | 6,783 | |
| Total | \$ 7,240,680 | |

4.

INCOME TAXES

There was no income tax expense for the years ended December 31, 2004 and 2003.

Income tax expense for the years ended December 31 differed from the U.S. federal income tax rate of 34% as a result of the following:

| | 2004 | 2003 |
|---|----------------|----------------|
| Computed "expected" tax benefit | \$ (1,212,545) | \$ (1,148,507) |
| Change in the valuation allowance for deferred tax assets | 1,264,000 | 487,000 |
| Amortization not deductible | - | 728,660 |
| State and local income taxes at statutory rates, net of federal income tax benefit | (77,400) | (73,350) |
| Other, net | 25,945 | 6,197 |
| Total income tax expense | \$ - | \$ - |

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities at December 31, are presented below.

| Deferred income tax assets: | 2004 | 2003 |
|--|--------------|--------------|
| Accounts receivable, principally due to allowance for doubtful accounts | \$ 26,000 | \$ 21,000 |
| Deferred revenue | 108,000 | 135,000 |
| Compensation | 209,000 | 53,000 |
| Net operating loss carryforwards | 14,162,000 | 13,053,000 |
| Tax credit carryforwards | 75,000 | 75,000 |
| Amortization of intangibles | 154,000 | 153,000 |
| Goodwill-ACS | 156,000 | - |
| Other | 16,000 | 36,000 |
| Total gross deferred income tax assets | 14,906,000 | 13,526,000 |
| Less valuation allowance | (14,725,000) | (13,461,000) |
| Net deferred income tax assets | 181,000 | 65,000 |
| Deferred income tax liabilities: | | |
| Property and equipment, principally due to differences in depreciation and amortization | (50,000) | (9,000) |
| Goodwill-CMI | (46,000) | - |
| Other | (85,000) | (56,000) |
| Total gross deferred income tax liability | (181,000) | (65,000) |

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| | | |
|---------------------------|---|---|
| Net deferred income taxes | - | - |
|---------------------------|---|---|

Management of Patient Infosystems has evaluated the available evidence about future taxable income and other possible sources of realization of deferred tax assets. The valuation allowance reduces

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deferred tax assets to zero, which represents management's best estimate of the amount of such deferred tax assets that more likely than not will be realized.

At December 31, 2004 Patient Infosystems has net operating loss carryforwards of approximately \$35,753,000, which are available to offset future taxable income, if any, which begin to expire in 2010. Patient Infosystems also has tax credit carryforwards for federal income tax purposes of approximately \$75,000, which are available to reduce future federal income taxes, if any, which begin to expire in 2010. These loss and tax credit carryforwards may be subject to limitation by certain sections of the Internal Revenue Code relating to ownership changes.

5. PREFERRED STOCK

On March 31, 2000, Patient Infosystems completed a private placement of 100,000 shares of newly issued Series C 9% Cumulative Convertible Preferred Stock ("Series C Preferred Stock"), raising \$1,000,000 in total proceeds. These shares can be converted at any time by the holder into common stock at a rate of 8 shares of common stock to 1 share of Series C Preferred Stock. In 2003, this rate changed to 10 shares of common stock to 1 share of Series C Preferred Stock. Each share of Series C Preferred Stock has voting rights equivalent to 10 shares of common stock. During 2004, 25,000 shares of Series C Preferred Stock were converted into 250,000 shares of Patient Infosystems' common stock at the request of the holders. As of December 31, 2004, Patient Infosystems has accrued \$408,556 in dividends since inception, which is payable to the Series C stockholders.

During 2003 Patient Infosystems issued a total of 301,582 shares of Series D 9% Cumulative Convertible Preferred Stock ("Series D Preferred Stock") in connection with certain borrowings during 2003. In accordance with APB Opinion No. 14, a portion of the cash received totaling \$2,143,120 was allocated to the preferred stock resulting in a debt discount in the same amount, which was fully amortized by December 31, 2003. Additionally, a beneficial conversion feature has arisen since the value recorded for the preferred stock, which is convertible into common stock, is less than the fair market value of the common stock totaling \$5,177,458. While the resulting beneficial conversion feature totals \$3,034,338, Patient Infosystems can only record a beneficial conversion equal to the value of the preferred stock recorded, \$2,143,120. Such amount is reflected in the net loss attributable to the common stockholders for the year ended December 31, 2003 because the preferred stock is immediately convertible into Patient Infosystems' common stock. As of December 31, 2004, Patient Infosystems has accrued \$908,939 in dividends since inception, which is payable to the Series D stockholders.

On December 31, 2003, \$5,285,180 of debt and accrued interest was converted into 528,518 shares of Series D Preferred Stock at a price of \$10.00 per share. Because the effective purchase price per common share was \$1.00 per share while the fair market value on December 31, 2003 was \$2.40 per share, there is a beneficial conversion feature of these Series D Convertible Preferred shares totaling \$7,399,252. While the resulting beneficial conversion feature totals \$7,399,252, Patient Infosystems can only record a beneficial conversion equal to the value of the preferred stock recorded, \$5,285,180. Such amount is reflected in the net loss attributable to the common stockholders for the year ended December 31, 2003 because the preferred stock is immediately convertible into Patient Infosystems' common stock.

In January 2004, Patient Infosystems sold 4,700 shares of Series D Preferred Stock for \$25,000 under substantially the same terms as the lenders during 2003 who converted their notes and accrued interest into Series D Preferred Stock at December 31, 2003. Additionally, Dr. Schaffer, a director of Patient Infosystems, converted \$52,180 of accrued interest into 5,318 shares of Series D Preferred Stock.

The holders of Series C Preferred Stock and Series D Preferred Stock (collectively the "Preferred Stock") are entitled to ten votes for each share held of record on all matters submitted to a vote of stockholders. Holders of Preferred Stock are entitled to receive cumulative 9% dividends on an annual basis and ratably such dividends as may be declared by the Board of Directors of the Company out of funds legally available therefore. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, then, prior, and in preference to any distribution of any assets to the holders of Common Stock, the holders of Preferred Stock will be entitled to be paid in full in an amount equal to (i) a per share price for each share of Preferred Stock outstanding plus (ii) an amount

equal to a cumulative, unpaid dividend at a 9% rate per annum plus (iii) an amount equal to all declared but unpaid dividends on each such share accrued up to such date of distribution.

One share of the Preferred Stock may be converted at any time, at the holder's option, into ten shares of Common Stock. Holders of Preferred Stock have no preemptive rights. The conversion rate will be adjusted if the Company pays a dividend on its common stock or subdivides or combines its outstanding common stock. The conversion rate will also be adjusted if the Company issues or sells common stock or securities convertible into common stock at a price less than the then effective conversion rate, in which case the conversion rate will be adjusted to an amount equal to the effective price per share of the securities sold in the transaction giving rise to the adjustment.

Holders of a majority in voting power of the Series D Preferred Stock have the right to elect two members of the Board of Directors of the Company.

6. STOCK OPTIONS AND WARRANTS

Patient Infosystems has an Employee Stock Option Plan (the "Stock Option Plan") for the benefit of certain employees, non-employee directors, and key advisors. On December 23, 2004, the stockholders approved an amendment to the Stock Option Plan which (i) expanded the class of eligible participants to include nominees to the Board of Directors of Patient Infosystems and consultants engaged by Patient Infosystems and (ii) increased from 36,000 to 50,000 the number of shares of Common Stock underlying the one-time grant of a Non-Qualified Option to which non-employee directors or non-employee nominees of the Board of Directors may be entitled. On December 31, 2003, the stockholders approved an amendment to the Stock Option Plan that increased its authorized shares from 1,680,000 shares on a pre-split basis to 3,500,000 shares after giving effect to the 1 for 12 reverse stock split and increase in Patient Infosystems' overall authorized capital. On May 2, 2000, Patient Infosystems filed a Form S-8 registering 1,680,000 of the Stock Option Plan shares and on October 8, 2004 Patient Infosystems filed an amended Form S-8 which register the full 3,500,000 shares now authorized. Stock options granted under the Stock Option Plan may be of two types: (1) incentive stock options and (2) nonqualified stock options. The option price of such grants shall be determined by a Committee of the Board of Directors (the "Committee"), but shall not be less than the estimated fair market value of the common stock at the date the option is granted. The Committee shall fix the terms of the grants with no option term lasting longer than ten years. The ability to exercise such options shall be determined by the Committee when the options are granted. Generally, outstanding options vest at the rate of 20% per year.

A summary of stock option activity follows:

| | Outstanding Options | Weighted-Average Exercise Price |
|--|--------------------------------|--|
| Options outstanding at December 31, 2002 | 92,818 | \$ 9.12 |
| Options granted during the year ended December 31, 2003 | 8,333 | \$ 2.40 |
| Options forfeited by holders during the year ended December 31, 2003 | (58) | \$ 1.08 |
| Options exercised during the year ended December 31, 2002 | (33) | \$ 1.08 |
| Options outstanding at December 31, 2003 | 101,160 | \$ 9.39 |
| Options granted during the year ended December 31, 2004 | 1,755,000 | \$ 2.33 |
| Options forfeited by holders during the year ended December 31, 2004 | (23,433) | \$ 5.41 |
| Options exercised during the year ended December 31, 2004 | (83) | \$ 1.08 |
| Options outstanding at December 31, 2004 | 1,832,644 | \$ 2.68 |
| Options exercisable at December 31, 2004 | 541,744 | \$ 3.46 |
| Options available for grant at December 31, 2004 | 1,645,350 | |

The following table summarizes information concerning outstanding and exercisable options at December 31, 2004:

| Range of Exercise Price | Options Outstanding | | | Options Exercisable | |
|----------------------------|-----------------------|---|--|-----------------------|--|
| | Number Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| \$1.08 - \$3.99 | 1,787,064 | 6.61 | \$ 2.33 | 496,164 | \$ 2.27 |
| \$4.00 - \$9.99 | 18,500 | 2.33 | \$ 6.76 | 18,500 | \$ 6.76 |
| \$10.00 - \$33.00 | 27,080 | 3.93 | \$ 22.92 | 27,080 | \$ 22.92 |
| | 1,832,644 | | | 541,744 | |

Patient Infosystems has warrants outstanding for the purchase of 1,188,450 shares of common stock and 47,500 shares of Series D Preferred Stock. Patient Infosystems values warrants using the Black Scholes method and a 5 year life. The warrants issued by Patient Infosystems are as follows:

| | Warrants outstanding as of December 31, | | | | | |
|----------------------|--|---------------------------------------|-------------------|-------------|---------------------------------------|-------------------|
| | 2004 | | | 2003 | | |
| | shares | weighted average exercise price | fair market value | shares | weighted average exercise price | fair market value |
| Warrants outstanding | | | | | | |
| Common Stock | 1,188,450 | \$1.75 | \$ 1,897,130 | - | - | \$ - |
| Series D Preferred | 47,500 | \$10.00 | 1,085,375 | - | - | - |
| Warrants Exercisable | | | | | | |
| Common Stock | 1,147,200 | \$1.71 | 1,798,142 | - | - | - |
| Series D Preferred | 47,500 | \$10.00 | 1,085,375 | - | - | - |

7. COMMITMENTS

Patient Infosystems has leases for an automobile, certain equipment and office space under non-cancelable lease agreements, which expire at various dates through October 2009.

Rent expense for office space for the years ended December 31, 2004 and 2003 was \$524,189 and \$139,256, respectively.

At December 31, 2004 minimum annual lease payments for operating and capital leases are as follows:

| Years ending December 31, | Leases | |
|--|-----------|-------------|
| | Capital | Operating |
| 2005 | \$ 23,511 | \$ 640,038 |
| 2006 | 12,748 | 447,321 |
| 2007 | 6,783 | 437,429 |
| 2008 | - | 328,005 |
| 2009 | - | 191,079 |
| less amount that is interest | (2,363) | - |
| Net present value of minimum lease payments | \$ 40,680 | \$2,043,871 |

8. Subsequent Event

Distribution of American Caresource Holdings, Inc.: On February 14, 2005, ACS. filed with the Securities and Exchange Commission a prospectus that relates to the distribution by dividend to all the shareholders of Patient Infosystems of up to 10,000,000 shares of common stock of ACS. Patient Infosystems is not selling any shares of ACS common stock in this offering and therefore will not receive any proceeds from this offering. 1,000,000 shares will be retained by Patient Infosystems.

ACS is currently a wholly-owned subsidiary of Patient Infosystems. After the distribution, ACS will be an independent public company.

Under the proposed distribution, holders of Patient Infosystems common stock would receive one share of ACS common stock for every two shares of Patient Infosystems common stock that they hold. Holders of fewer than two shares of Patient Infosystems common stock will receive one share of ACS common stock. Holders of patient Infosystems Series C preferred stock or Series D preferred stock will receive one share of ACS common stock for every two shares of Patient Infosystems common stock which are issuable upon the conversion of the preferred stock they hold.

Once the proposed distribution is effective, Patient Infosystems will operate in only one segment. That segment will consolidate the results of operations of Patient Infosystems, Inc. and CBCA Care Management, Inc. The pro forma results of operations of Patient Infosystems is as follows:

Patient Infosystems segment statement of operations for the years ended December 31, which includes pro forma information as if the acquisitions had occurred on January 1, 2003 is shown below:

| | 2004 | 2003 | 2004 pro forma | 2003 pro forma |
|-------------------------------------|--------------|----------------|-------------------|-------------------|
| Revenue | \$ 9,699,325 | \$ 5,687,293 | \$ 15,135,334 | \$ 12,525,267 |
| Cost of goods | 6,688,532 | 4,162,759 | 10,536,387 | 8,882,424 |
| Selling, general and administrative | 2,810,931 | 2,151,541 | 3,725,577 | 3,320,054 |
| Operational profit (loss) | 199,862 | (627,007) | 873,370 | 322,789 |
| Other | 934,932 | 2,750,954 | 1,472,232 | 3,035,602 |
| Net loss | \$ (735,070) | \$ (3,377,961) | \$ (598,862) | \$ (2,712,813) |

9. QUARTERLY RESULTS (UNAUDITED)

The following is a summary of the unaudited interim results of operations by quarter:

| | First | Second | Third | Fourth |
|--|--------------|--------------|--------------|--------------|
| Year ended December 31, 2004: | | | | |
| Revenues | \$ 4,020,937 | \$ 3,072,922 | \$ 3,373,820 | \$ 5,268,970 |
| Gross margin | 850,232 | 466,989 | 572,058 | 1,318,249 |
| Net loss | (771,699) | (710,674) | (658,315) | (1,425,620) |
| Net loss attributable to common shareholders | (1,058,913) | (916,576) | (864,217) | (1,553,340) |
| Net loss per common share | (0.20) | (0.14) | (0.09) | (0.16) |
| Year ended December 31, 2003: | | | | |
| Revenues | \$ 947,679 | \$ 1,580,037 | \$ 1,429,692 | \$ 1,729,885 |

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| | | | | |
|--|-----------|-------------|-------------|-------------|
| Gross margin | 186,077 | 395,182 | 321,916 | 621,359 |
| Net loss | (505,206) | (1,006,198) | (1,190,639) | (675,918) |
| Net loss attributable to common shareholders | (527,706) | (2,496,016) | (1,858,563) | (6,167,233) |
| Net loss per common share | (0.58) | (2.73) | (2.04) | (6.45) |

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