

KRAFT FOODS INC
Form 424B2
November 10, 2004

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Prospectus Supplement dated November 8, 2004
(to Prospectus dated May 7, 2004)

Filed Pursuant to Rule 424(b)(2)
Registration Nos. 333-113620 and 333-86478

Kraft Foods Inc.

\$750,000,000 4 1/8% Notes due 2009

Interest on the notes is payable semiannually on May 12 and November 12 of each year, beginning May 12, 2005. The notes will be issued only in denominations of \$1,000 and integral multiples of \$1,000.

The notes will mature on November 12, 2009. We may not redeem any of the notes prior to maturity.

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

	Public Offering Price	Underwriting Discount	Proceeds to Kraft (before expenses)
Per Note	99.513%	0.600%	98.913%
Total	\$746,347,500	\$4,500,000	\$741,847,500

The public offering price set forth above does not include accrued interest. Interest will accrue from November 12, 2004.

The underwriters expect to deliver the notes to purchasers in book-entry form only through The Depository Trust Company, on or about November 12, 2004.

Joint Book-Runners

JPMorgan

Lehman Brothers

**BNP PARIBAS
HSBC
ABN AMRO INCORPORATED
Dresdner Kleinwort Wasserstein
SG Corporate & Investment Banking
UBS Investment Bank**

Banco Bilbao Vizcaya Argentaria

Loop Capital Markets, LLC

The Williams Capital Group, L.P.

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You should rely only on the information contained or incorporated by reference in this prospectus supplement and the attached prospectus. No one has been authorized to provide you with different information. If this prospectus supplement is inconsistent with the attached prospectus, you should rely on this prospectus supplement. If anyone provides you with different or inconsistent information you should not rely on it. We are not making an offer of these securities in any jurisdiction where the offer is not permitted. Neither the delivery of this prospectus supplement or the attached prospectus, nor any sale made hereunder and thereunder, shall under any circumstances create any implication that there has been no change in the affairs of Kraft Foods Inc. since the date of this prospectus supplement or the attached prospectus, or that the information contained or incorporated by reference herein or therein is correct as of any time subsequent to the date of such information.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement contains the terms of this offering of notes. This prospectus supplement, or the information incorporated by reference in the attached prospectus, may add, update or change information in the attached prospectus. If information in this prospectus supplement, or the information incorporated by reference in the attached prospectus, is inconsistent with the attached prospectus, this prospectus supplement, or the information incorporated by reference in the attached prospectus, will apply and will supersede that information in the attached prospectus.

It is important for you to read and consider all information contained in this prospectus supplement and the attached prospectus in making your investment decision. You should also read and consider the information in the documents we have referred you to in *Where You Can Find More Information* in the attached prospectus, including our annual report on Form 10-K for the year ended December 31, 2003, our quarterly reports on Form 10-Q for the quarters ended March 31, 2004, June 30, 2004 and September 30, 2004, and our current report on Form 8-K dated January 28, 2004, which have been filed with the SEC.

Trademarks and servicemarks in the attached prospectus appear in bold italic type and are the property of or licensed by our subsidiaries.

Kraft Foods Inc. is a holding company incorporated in Virginia on December 7, 2000. Its principal subsidiary is Kraft Foods Global, Inc. (formerly Kraft Foods North America, Inc.). Kraft Foods Inc. manages and reports operating results through two units, Kraft North America Commercial and Kraft International Commercial. In this prospectus supplement, we use the terms *Kraft*, *we*, *our* and *us* when we do not need to distinguish among these entities or units or when any distinction is clear from the context. Otherwise, we use the terms *Kraft Foods Inc.*, *Kraft North America Commercial* and *Kraft International Commercial*. The term *Altria Group* refers to our principal shareholder, Altria Group, Inc.

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SUMMARY OF THE OFFERING

Issuer	Kraft Foods Inc.
Principal Executive Offices	Three Lakes Drive, Northfield, Illinois 60093; telephone: (847) 646-2000.
Securities Offered	\$750,000,000 total principal amount of 4 1/8% notes due 2009, maturing November 12, 2009.
Interest Rates	The notes will bear interest from November 12, 2004 at the rate of 4 1/8% per annum.
Interest Payment Dates	May 12 and November 12 of each year, beginning on May 12, 2005.
Ranking	The notes will be our senior unsecured obligations and will rank equally in right of payment with all of our existing and future senior unsecured indebtedness.
Covenants	We will issue the notes under an indenture containing covenants that restrict our ability, with significant exceptions, to: incur debt secured by liens; and engage in sale/leaseback transactions.
Redemption	The notes are not redeemable prior to maturity.
Use of Proceeds	We intend to use the net proceeds (before expenses) of \$741,847,500 for general corporate purposes.
Clearance and Settlement	The notes will be cleared through The Depository Trust Company.
Governing Law	State of New York.

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THE COMPANY

General

We are the largest branded food and beverage company headquartered in the United States and the second largest in the world, in each case based on 2003 revenue. We have a superior brand portfolio created and supported through dynamic product innovation, worldclass marketing, experienced management, global scale and strategic acquisitions. Our brands are sold in more than 150 countries and, according to A.C. Nielsen, are enjoyed in over 99% of the households in the United States. Consumers of all ages around the world enjoy our brands, whether at home or away from home, across the entire spectrum of food and beverage occasions: breakfast, lunch, dinner and snacks.

We manage and report operating results through two units, Kraft North America Commercial and Kraft International Commercial. Reportable segments for Kraft North America Commercial are organized and managed principally by product category. Kraft International Commercial's operations are organized and managed by geographic location.

Relationship with Altria Group

At September 30, 2004, Altria Group owned 85.1% of the outstanding shares of our common stock through its ownership of 52.1% of our outstanding Class A common stock and 100% of our outstanding Class B common stock. Our Class A common stock has one vote per share while our Class B common stock has ten votes per share. As a result, at September 30, 2004, Altria Group controlled 97.9% of the combined voting power of all of our outstanding common stock. For as long as Altria Group continues to own shares of common stock representing more than 50% of the combined voting power of our common stock, it will be able to direct the election of all of the members of our board of directors and determine the outcome of all matters submitted to a vote of our shareholders, including matters involving mergers or other business combinations, the acquisition or disposition of assets, the incurrence of indebtedness, the issuance of any additional shares of common stock or other equity securities and the payment of dividends on common stock.

We have agreed with Altria Group that so long as it holds more than 50% of our outstanding common stock, our board of directors will have three members designated by Altria Group and four members who are not otherwise affiliated with us or with Altria Group. Two other members of our nine-person board of directors are executive officers of Kraft.

Various legal actions, proceedings and claims relating to tobacco products are pending or may be instituted against operating subsidiaries of Altria Group that are engaged in the manufacture and sale of cigarettes and also against Altria Group. If plaintiffs were successful in holding Altria Group responsible, shares of our Class A or Class B common stock that are owned by Altria Group would be among the assets of Altria Group available to satisfy these liabilities. Because Kraft Foods Inc. and its subsidiaries are separate corporations that have not engaged in the business of manufacturing and selling cigarettes, we believe that the risk that our assets could be attached to satisfy these liabilities is remote.

Table of Contents**RATIO OF EARNINGS TO FIXED CHARGES**

The following table sets forth our historical ratios of earnings available for fixed charges to fixed charges for the periods indicated:

	Nine Months Ended September 30, 2004	Year Ended December 31,				
	2004	2003	2002	2001	2000	1999
Ratios of earnings available for fixed charges to fixed charges	5.9	7.4	6.2	3.2	5.8	5.6

Earnings available for fixed charges represent earnings before income taxes, minority interest and cumulative effect of accounting change(s) and fixed charges excluding capitalized interest, net of amortization, reduced by undistributed earnings of our less than 50% owned affiliates. Fixed charges represent interest expense, amortization of debt discount and expenses, capitalized interest, plus that portion of rental expense deemed to be the equivalent of interest.

Table of Contents**CAPITALIZATION**

The following table sets forth our capitalization on a consolidated basis as of September 30, 2004. We have presented our capitalization:

on an actual basis; and

on an as adjusted basis to reflect the issuance of notes offered hereby and the use of the net proceeds therefrom (before expenses) to refinance short-term borrowings, which have been reclassified as long-term.

You should read the following table along with our financial statements and the accompanying notes to those statements, together with management's discussion and analysis of financial condition and results of operations, that we have incorporated by reference in the attached prospectus, and our summary historical financial data included in this prospectus supplement.

	As of September 30, 2004	
	Actual	As Adjusted
	(in millions, except share data)	
Short-term borrowings, including current maturities(1)	\$ 1,659	\$ 1,659
Short-term obligations payable to Altria Group	221	221
4 1/8% Notes due 2009		750
Other long-term debt(1)	10,972	10,230
Total debt	12,852	12,860
Shareholders' equity:		
Preferred stock, no par value, 500,000,000 shares authorized; none issued and outstanding		
Class A common stock, no par value, 3,000,000,000 shares authorized; 555,000,000 shares issued		
Class B common stock, no par value, 2,000,000,000 shares authorized; 1,180,000,000 shares issued and outstanding		
Additional paid-in capital	23,764	23,764
Earnings reinvested in the business	7,993	7,993
Accumulated other comprehensive losses (primarily currency translation adjustments)	(1,780)	(1,780)
	29,977	29,977
Less cost of repurchased stock (24,109,410 Class A common shares)	(757)	(757)
Total shareholders' equity	29,220	29,220
Total capitalization	\$42,072	\$42,080

- (1) Certain short-term borrowings have been reclassified as long-term based on our ability and intention to refinance certain of these borrowings on a long-term basis. Long-term rates and maturities for such refinancings will vary depending on market conditions at the time of issuance.

Table of Contents**SUMMARY HISTORICAL FINANCIAL DATA**

The following table presents our summary historical financial data and has been derived from and should be read along with our financial statements and the accompanying notes to those statements and management's discussion and analysis of financial condition and results of operations, that we have incorporated by reference in the attached prospectus. The financial data for the nine months ended September 30, 2003 and 2004 include all adjustments which we consider necessary for a fair statement of our results for these periods. All such adjustments were of a normal recurring nature.

	Year Ended December 31,		Nine Months Ended September 30,	
	2002	2003	2003	2004
(in millions, except per share data)				
Statement of Earnings Data:				
Net revenues	\$29,723	\$31,010	\$22,680	\$23,729
Cost of sales	17,720	18,828	13,603	14,848
Gross profit	12,003	12,182	9,077	8,881
Marketing, administration and research costs	5,709	6,200	4,561	4,899
Asset impairment and exit costs	142	6	6	482
(Gains) losses on sales of businesses	(80)	(31)	(23)	8
Integration costs	111	(13)		
Amortization of intangibles	7	9	7	8
Operating income	6,114	6,011	4,526	3,484
Interest and other debt expense, net	847	665	502	487
Earnings before income taxes and minority interest	5,267	5,346	4,024	2,997
Provision for income taxes	1,869	1,866	1,413	956
Earnings before minority interest	3,398	3,480	2,611	2,041
Minority interest in earnings, net	4	4	4	4
Net earnings	\$ 3,394	\$ 3,476	\$ 2,607	\$ 2,037
Per share data:				
Basic earnings per share	\$ 1.96	\$ 2.01	\$ 1.51	\$ 1.19
Diluted earnings per share	\$ 1.96	\$ 2.01	\$ 1.51	\$ 1.19
Weighted average shares:				
Basic	1,734	1,727	1,728	1,712
Diluted	1,736	1,728	1,729	1,716
Balance Sheet Data:				
Cash and cash equivalents	\$ 215	\$ 514	\$ 496	\$ 202
Goodwill	24,911	25,402	25,104	25,766
Other intangible assets, net	11,509	11,477	11,496	11,116
Total assets	57,100	59,285	58,226	59,290
Short-term borrowings, including current maturities(1)	572	1,328	1,974	1,659
Short-term obligations payable to Altria Group	895(1)	543	181	221
Long-term obligations payable to Altria Group	2,560(1)			
Other long-term debt(1)	10,416	11,591	11,639	10,972
Total liabilities	31,268	30,755	30,483	30,070

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Shareholders equity	25,832	28,530	27,743	29,220
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- (1) Certain short-term borrowings and short-term obligations payable to Altria Group have been reclassified as long-term based on our ability and intention to refinance certain of these borrowings on a long-term basis. Long-term rates and maturities for such refinancings will vary depending on market conditions at the time of issuance.

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DESCRIPTION OF NOTES

The following description of the particular terms of the notes supplements the description of the general terms and provisions of the debt securities set forth under **Description of Debt Securities** in the attached prospectus. The attached prospectus contains a detailed summary of additional provisions of the notes and of the indenture, dated as of October 17, 2001, between Kraft Foods Inc. and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee, under which the notes will be issued. The following description replaces the description of the debt securities in the attached prospectus, to the extent of any inconsistency. Terms used in this prospectus supplement that are otherwise not defined will have the meanings given to them in the attached prospectus.

General

The notes are a series of debt securities described in the attached prospectus, and will be senior debt securities, initially issued in the aggregate principal amount of \$750,000,000, and will mature on November 12, 2009.

The notes will bear interest at the rate of 4 1/8% per annum from November 12, 2004, payable semiannually in arrears on May 12 and November 12, of each year, commencing May 12, 2005, to the persons in whose names the notes are registered at the close of business on the preceding April 27 or October 28, each a record date, as the case may be. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.

In some circumstances, we may elect to discharge our obligations on the notes through full defeasance or covenant defeasance. See **Description of Debt Securities Defeasance** in the attached prospectus for more information about how we may do this.

We may, without the consent of the holders of the notes, issue additional notes having the same ranking and the same interest rate, maturity and other terms as the notes (except for the issue date, issue price, and, in some cases, the first payment of interest or interest accruing prior to the issue date of such additional notes). Any additional notes having such similar terms, together with the applicable notes, will constitute a single series of notes under the indenture. No additional notes may be issued if an event of default has occurred with respect to the applicable series of notes.

The notes will not be entitled to any sinking fund and will not be redeemable prior to maturity.

Book-Entry Notes

The notes will be offered and sold in principal amounts of \$1,000 and integral multiples of \$1,000. We will issue the notes in the form of one or more permanent global notes in fully registered, book-entry form, which we refer to as the **global notes**. Each such global note will be deposited with, or on behalf of, The Depository Trust Company (**DTC**) or any successor thereto, as depositary (the **Depository**), and registered in the name of Cede & Co. (DTC's partnership nominee). Unless and until it is exchanged in whole or in part for notes in definitive form, no global note may be transferred except as a whole by the Depository to a nominee of such Depository. Investors may elect to hold interests in the global notes through the Depository, if they are participants in such system, or through organizations that are participants in such system.

DTC advises that it is a limited-purpose trust company organized under the New York Banking Law, a **banking organization** within the meaning of the New York Banking Law, a member of the Federal Reserve System, a **clearing corporation** within the meaning of the New York Uniform Commercial Code, and a **clearing agency** registered pursuant to the provision of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants (**Direct Participants**) deposit with DTC. DTC also facilitates settlement of securities transactions among its Direct Participants, such as transfers and pledges in deposited securities through electronic computerized book-entry changes in accounts of the Direct Participants, thereby eliminating the need for physical movement of securities certificates.

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Direct Participants in DTC include securities brokers and dealers and banks. DTC is owned by members of the financial industry. Access to DTC's book-entry system is also available to others, such as securities brokers and dealers and banks that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (Indirect Participants). The rules applicable to DTC and its Direct and Indirect Participants are on file with the SEC.

Purchases of the notes under DTC's book-entry system must be made by or through Direct Participants, which will receive a credit for the notes on the records of DTC. The ownership interest of each actual purchaser of the notes, which we refer to as the beneficial owner, is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings from the Direct or Indirect Participant through which the beneficial owner entered into the transaction. Transfers of ownership interests in the global notes will be effected only through entries made on the books of Direct and Indirect Participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in the global notes, except in very limited circumstances as described in the attached prospectus. The laws of some states require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and such laws may impair the ability to own, transfer or pledge beneficial interests in the global notes.

To facilitate subsequent transfers, all global notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the global notes with DTC and their registration in the name of Cede & Co. or such other nominee effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such notes are credited, which may or may not be the beneficial owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

So long as DTC or its nominee is the registered owner and holder of the global notes, DTC or its nominee, as the case may be, will be considered the sole owner or holder of the notes represented by the global notes for all purposes under the indenture. Except in very limited circumstances as described in the attached prospectus, beneficial owners of interests in the global notes will not be entitled to have book-entry notes represented by the notes registered in their names, will not receive or be entitled to receive physical delivery of notes in definitive form and will not be considered the owners or holders thereof under the indenture. Accordingly, each beneficial owner must rely on the procedures of DTC and, if the person is not a Direct or Indirect Participant, on the procedures of the Direct or Indirect Participants through which such person owns its interest, to exercise any rights of a holder under the indenture. We understand that under existing industry practices, in the event that we request any action of holders or that an owner of a beneficial interest in the notes desires to give or take any action which a holder is entitled to give or take under the indenture, DTC would authorize the Direct Participants holding the relevant beneficial interests to give or take the action, and those Direct or any Indirect Participants would authorize beneficial owners owning through those Direct or Indirect Participants to give or to take the action or would otherwise act upon the instructions of beneficial owners. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Payments of principal of and interest on the notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. We will send all required reports and notices solely to DTC as long as DTC is the registered holder of the global notes. Neither we, the trustee, nor any other agent of ours or agent of the trustee will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in global notes or for maintaining, supervising or reviewing any records relating to the beneficial ownership interests. DTC's practice is to credit the accounts of the Direct Participants upon DTC's receipt of funds and

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corresponding detail information from us or our agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct or Indirect Participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name and will be the responsibility of the Direct or Indirect Participants subject to any statutory or regulatory requirements as may be in effect from time to time.

Clearance and Settlement Procedures

Initial settlement for the notes will be made in immediately available funds. Secondary market trading between the Direct or Indirect Participants will occur in the ordinary way in accordance with the Depository's rules and will be settled in immediately available funds using DTC's Same-Day Funds Settlement System.

Notices

Notices to holders of the notes will be sent by mail or email to the registered holders.

Table of Contents**UNDERWRITING**

Subject to the terms and conditions set forth in the terms agreement dated the date of this prospectus supplement which incorporates by reference the underwriting agreement dated as of September 1, 2001, each of the underwriters named below, for whom J.P. Morgan Securities Inc. and Lehman Brothers Inc. are acting as representatives, has severally agreed to purchase, and we have agreed to sell to each underwriter, the principal amount of notes set forth opposite the name of each underwriter below.

Underwriters	Principal Amount of Notes
J.P. Morgan Securities Inc.	\$ 210,000,000
Lehman Brothers Inc.	210,000,000
BNP Paribas Securities Corp.	75,000,000
HSBC Securities (USA) Inc.	75,000,000
ABN AMRO Incorporated	37,500,000
Dresdner Kleinwort Wasserstein Securities LLC	37,500,000
SG Americas Securities, LLC	37,500,000
UBS Securities LLC	37,500,000
Banco Bilbao Vizcaya Argentaria S.A.	22,500,000
Loop Capital Markets, LLC	3,750,000
The Williams Capital Group, L.P.	3,750,000
Total	\$ 750,000,000

The underwriting agreement provides that the obligations of the underwriters to purchase the notes included in this offering are subject to approval of certain legal matters by counsel and to certain other conditions. The underwriters are obligated to purchase all the notes if they purchase any of the notes.

We have been advised by the underwriters that the underwriters propose initially to offer the notes to the public at the public offering price set forth on the cover page of this prospectus supplement and may offer some of the notes to certain dealers at the public offering price less concessions not in excess of 0.350% of the principal amount per note. The underwriters may allow, and these dealers may reallow, concessions not in excess of 0.225% of the principal amount per note on sales of the notes to certain other dealers. After the initial offering of the notes to the public, the representatives may change the public offering price and concessions.

The following table shows the underwriting discount that we are to pay to the underwriters in connection with this offering.

	Paid by Kraft
Per Note	0.600%
Total	\$4,500,000

In connection with the offering of the notes, J.P. Morgan Securities Inc. and Lehman Brothers Inc. or their respective affiliates may purchase and sell the notes in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the stabilizing underwriter of a greater number of notes than it is required to purchase in the offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the notes while the offering is in progress.

Any of these activities may cause the price of the notes to be higher than the price that otherwise would exist in the open market in the absence of such transactions. These transactions may be effected in the over-the-counter market or otherwise and, if commenced, may be discontinued at any time. Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of

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any effect that the transactions described above may have on the price of the notes. In addition, neither we nor any of the underwriters make any representation that any of the underwriters will engage in such transactions, or that such transactions, once begun, will not be discontinued without notice.

We estimate that our total expenses of this offering, excluding the underwriting discount, will be approximately \$350,000. The underwriters have agreed to pay certain expenses in connection with the offering.

The underwriters and their affiliates have performed certain investment banking, advisory or general financing and banking services for us and our affiliates from time to time for which they have received customary fees and expenses. The underwriters and their affiliates may, from time to time, engage in transactions with and perform services for us and our affiliates in the ordinary course of their business. Certain of the underwriters and their affiliates have in the past and may in the future act as lenders in connection with our credit facilities. These companies receive standard fees for their services.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

The notes are new issues of securities with no established trading market. We have been advised by the underwriters that they intend to make a market in the notes, but they are not obligated to do so and may discontinue such market-making at any time without notice. We can give no assurances as to the liquidity of a trading market for the notes.

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PROSPECTUS

Kraft Foods Inc.

Debt Securities and Warrants to Purchase Debt Securities

We may offer to sell up to U.S.\$4,250,000,000 of our debt securities or warrants to purchase the debt securities in one or more offerings. In this prospectus, we describe generally the terms of these securities. We will describe the specific terms of the debt securities and debt warrants that we offer in a supplement to this prospectus at the time of each offering. If any offering involves underwriters, dealers or agents, we will describe our arrangements with them in the prospectus supplement that relates to that offering. You should read this prospectus and the applicable supplement carefully before you invest.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.

The date of this prospectus is May 7, 2004

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