TELEPHONE & DATA SYSTEMS INC /DE/
Form 10-Q
August 25, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2006 OR

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

For the transition period from to

Commission File Number 001-14157

TELEPHONE AND DATA SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**36-2669023**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

30 North LaSalle Street, Chicago, Illinois 60602

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: **(312) 630-1900**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes o No x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at June 30, 2006
Common Shares, $.01 par value	51,431,735 Shares
Special Common Shares, $.01 par value	57,782,076 Shares
Series A Common Shares, $.01 par value	6,446,079 Shares

Telephone and Data Systems, Inc. and Subsidiaries

Quarterly Report on Form 10-Q

For the Period Ended March 31, 2006

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Part I. Financial Information

Item 1. Financial Statements

Telephone and Data Systems, Inc. and Subsidiaries

Consolidated Statements of Operations

Unaudited

	Three Months Ended March 31, 2006	2005
	(Dollars in thousands, except per share amounts)	
Operating Revenues	$ 1,060,312	$ 935,787
Operating Expenses		
Cost of services and products (exclusive of depreciation, amortization and accretion expense shown below)	375,139	338,624
Selling, general and administrative expense	393,421	348,571
Depreciation, amortization and accretion expense	182,667	169,748
Total Operating Expenses	951,227	856,943
Operating Income	109,085	78,844
Investment and Other Income (Expense)		
Investment income	19,805	14,754
Interest and dividend income	16,237	8,286
Interest expense	(58,532)	(51,856)
Gain on investments		500
Other expense	(502)	(4,321)
Total Investment and Other Income (Expense)	(22,992)	(32,637)
Income Before Income Taxes and Minority Interest	86,093	46,207
Income tax expense	35,968	17,395
Income Before Minority Interest	50,125	28,812
Minority share of income	(10,250)	(5,763)
Net Income	39,875	23,049
Preferred dividend requirement	(51)	(50)
Net Income Available To Common	$ 39,824	$ 22,999
Basic Weighted Average Shares Outstanding (000s)	115,741	114,999
Basic Earnings Per Share (Note 5)	$ 0.34	$ 0.20
Diluted Weighted Average Shares Outstanding (000s)	116,327	115,646
Diluted Earnings Per Share (Note 5)	$ 0.34	$ 0.20
Dividends Per Share	$ 0.0925	$ 0.0875

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

Telephone and Data Systems, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Unaudited

	Three Months Ended March 31, 2006	2005
	(Dollars in thousands)	
Cash Flows from Operating Activities		
Net income	$ 39,875	$ 23,049
Add (Deduct) adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, amortization and accretion	182,667	169,748
Bad debts expense	9,075	8,135
Deferred income taxes	(11,602)	960
Investment income	(19,805)	(14,754)
Distributions from unconsolidated entities	5,676	1,520
Minority share of income	10,250	5,763
Gain on investments		(500)
Stock based compensation expense	7,023	1,171
Noncash interest expense	5,480	5,029
Other noncash expense	1,079	2,514
Changes in assets and liabilities		
Change in accounts receivable	9,065	9,620
Change in materials and supplies	7,546	7,482
Change in accounts payable	(53,405)	(64,793)
Change in customer deposits and deferred revenues	4,349	3,844
Change in accrued taxes	47,703	21,868
Change in accrued interest	4,567	3,971
Change in other assets and liabilities	(28,967)	(34,468)
	220,576	150,159
Cash Flows from Investing Activities		
Additions to property, plant and equipment	(146,362)	(134,787)
Acquisitions, divestitures and exchanges		(120,924)
Other investing activities	(1,467)	(564)
	(147,829)	(256,275)
Cash Flows from Financing Activities		
Issuance of notes payable	55,000	165,000
Issuance of long-term debt	560	112,588
Repayment of notes payable	(105,000)	(60,000)
Repayment of long-term debt	(748)	(110,510)
Repayment of medium-term notes	(35,000)	(17,200)
TDS common share issued for benefit plans	3,080	6,684
U.S. Cellular common shares issued for benefit plans	3,858	6,836
Capital (distributions) to minority partners	(4,146)	
Dividends paid	(10,749)	(10,122)
Other financing activities	1,207	131
	(91,938)	93,407
Net Increase (Decrease) in Cash and Cash Equivalents	(19,191)	(12,709)
Cash and Cash Equivalents -		
Beginning of period	1,095,791	1,171,105
End of period	$ 1,076,600	$ 1,158,396

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

Telephone and Data Systems, Inc. and Subsidiaries

Consolidated Balance Sheets

Assets

Unaudited

	March 31, 2006	December 31, 2005
	(Dollars in thousands)	
Current Assets		
Cash and cash equivalents	$ 1,076,600	$ 1,095,791
Accounts receivable		
Due from customers, less allowance of $11,805 and $15,200, respectively	332,811	336,005
Other, principally connecting companies, less allowance of $6,806 and $5,620, respectively	145,437	160,577
Materials and supplies, at average cost	96,359	103,211
Prepaid expenses	47,889	40,704
Deferred income tax asset	13,434	13,438
Other current assets	31,723	29,243
	1,744,253	1,778,969
Investments		
Marketable equity securities	2,559,507	2,531,690
Licenses	1,364,836	1,365,063
Goodwill	870,110	869,792
Customer lists, net of accumulated amortization of $45,979 and $42,947, respectively	46,286	49,318
Investments in unconsolidated entities	231,196	215,424
Other investments, less valuation allowance of $55,144 in both periods	12,044	12,274
	5,083,979	5,043,561
Property, Plant and Equipment		
In service and under construction	7,262,283	7,140,447
Less accumulated depreciation	3,768,618	3,614,242
	3,493,665	3,526,205
Other Assets and Deferred Charges	55,259	55,830
	$ 10,377,156	$ 10,404,565

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

Telephone and Data Systems, Inc. and Subsidiaries

Consolidated Balance Sheets

Liabilities and Stockholders Equity

Unaudited

	March 31, 2006 (Dollars in thousands)	December 31, 2005
Current Liabilities		
Current portion of long-term debt	$ 203,124	$ 237,948
Notes payable	85,000	135,000
Accounts payable	303,869	357,273
Customer deposits and deferred revenues	125,577	121,228
Accrued interest	33,513	28,946
Accrued taxes	85,875	47,180
Accrued compensation	45,866	67,443
Other current liabilities	71,130	61,086
	953,954	1,056,104
Deferred Liabilities and Credits		
Net deferred income tax liability	1,378,914	1,383,031
Derivative liability	454,049	449,192
Asset retirement obligation	167,645	163,093
Other deferred liabilities and credits	112,328	104,984
	2,112,936	2,100,300
Long-Term Debt		
Long-term debt, excluding current portion	1,633,268	1,633,519
Forward contracts	1,711,813	1,707,282
	3,345,081	3,340,801
Commitment and Contingencies		
Minority Interest in Subsidiaries	561,711	552,884
Preferred Shares	3,863	3,863
Common Stockholders Equity		
Common Shares, par value $.01 per share; authorized 100,000,000 shares; issued 56,502,000 and 56,481,000 shares, respectively	565	565
Special Common Shares, par value $.01 per share; authorized 165,000,000 shares, issued 62,887,000 and 62,868,000 shares, respectively	629	629
Series A Common Shares, par value $.01 per share; authorized 25,000,000 shares; issued and outstanding 6,446,000 and 6,440,000 shares; respectively	64	64
Capital in excess of par value	1,830,780	1,826,420
Treasury Shares, at cost:		
Common Shares, 5,071,000 and 5,105,000 shares, respectively	(207,524)	(208,156)
Special Common Shares 5,105,000 and 5,128,000 shares, respectively	(209,421)	(210,600)
Accumulated other comprehensive income	322,710	309,009
Retained earnings	1,661,808	1,632,682
	3,399,611	3,350,613
	$ 10,377,156	$ 10,404,565

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

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accounting policies of Telephone and Data Systems, Inc. (TDS) conform to accounting principles generally accepted in the United States of America (U.S. GAAP). The consolidated financial statements include the accounts of TDS and its majority-owned subsidiaries, including TDS s 81.2%-owned wireless telephone subsidiary, United States Cellular Corporation (U.S. Cellular), TDS s 100%-owned wireline telephone subsidiary, TDS Telecommunications Corporation (TDS Telecom) and TDS s 80%-owned printing and distribution company, Suttle Straus, Inc. In addition, the consolidated financial statements include all entities in which TDS has a variable interest that requires TDS to absorb a majority of the entity s expected gains or losses, or both. All material intercompany accounts and transactions have been eliminated.

The consolidated financial statements included herein have been prepared by TDS, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. However, TDS believes that the disclosures included herein are adequate to make the information presented not misleading. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in TDS s Annual Report on Form 10-K for the year ended December 31, 2005 (Form 10-K).

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring items unless otherwise disclosed) necessary to present fairly the financial position as of March 31, 2006, and the results of operations for the three months ended March 31, 2006 and 2005 and the cash flows for the three months ended March 31, 2006 and 2005. The results of operations for the three months ended March 31, 2006, are not necessarily indicative of the results to be expected for the full year.

2. Summary of Significant Accounting Policies

Change in Accounting Principle Stock-Based Compensation

TDS has established long-term incentive plans, employee stock purchase plans, and dividend reinvestment plans, which are described more fully in Note 3 Stock-Based Compensation. Prior to January 1, 2006, TDS accounted for those plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), and related interpretations, as permitted by Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation . Total stock-based employee compensation cost recognized in the Consolidated Statements of Operations under APB 25 was $1.2 million for the three months ended March 31, 2005, primarily for restricted stock unit and deferred compensation stock unit awards. No compensation cost was recognized in the Consolidated Statements of Operations under APB 25 for stock option awards for the three months ended March 31, 2005, because all outstanding options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. The employee stock purchase plans and dividend reinvestment plans qualified as non-compensatory plans under APB 25; therefore, no compensation cost was recognized for these plans during the three months ended March 31, 2005.

Effective January 1, 2006, TDS adopted the fair value recognition provisions of SFAS No. 123(R), Share-Based Payment (SFAS 123(R)), using the modified prospective transition method. In addition, TDS applied the provisions of Staff Accounting Bulletin No. 107 (SAB 107), issued by the Securities and Exchange Commission in March 2005 in its adoption of SFAS 123(R). Under the modified prospective transition method, compensation cost recognized during the three months ended March 31, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated.

Under SFAS 123(R), the long-term incentive plans are considered compensatory plans; therefore, recognition of compensation costs for grants made under these plans is required.

Under SFAS 123(R), the employee stock purchase plans are considered compensatory plans; therefore, recognition of compensation costs for grants made under these plans is required. However, due to restrictions on activity under these plans that were in place during the three months ended March 31, 2006, no compensation expense was recognized during this period.

Under SFAS 123(R), the dividend reinvestment plans are not considered compensatory plans, therefore recognition of compensation costs for grants made under these plans is not required.

Upon adoption of SFAS 123(R), TDS elected to continue to value its share-based payment transactions using a Black-Scholes valuation model, which was previously used by TDS for purposes of preparing the pro forma disclosures under SFAS 123. Under the provisions of SFAS 123(R), stock-based compensation cost recognized during the period is based on the portion of the share-based payment awards that is ultimately expected to vest. Accordingly, stock-based compensation cost recognized in the first quarter of 2006 has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Pre-vesting forfeitures were estimated based on historical experience related to similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. TDS believes that its historical experience is the best estimate of future expected life. In TDS s pro forma information required under SFAS 123, TDS also reduced stock-based compensation cost for estimated forfeitures. The expected life assumption was determined based on TDS s historical experience. For purposes of both SFAS 123 and SFAS 123(R), the expected volatility assumption was based on the historical volatility of TDS s common stock. The dividend yield was included in the assumptions. The risk-free interest rate assumption was determined using the implied yield currently available for zero-coupon U.S. government issues with a remaining term equal to the expected life of the stock options.

Compensation cost for stock option awards granted after January 1, 2006 will be recognized over the respective requisite service period of the awards, which is generally the vesting period, on a straight-line basis over the requisite service period for each separately vesting portion of the awards as if the awards were, in-substance, multiple awards (graded vesting attribution method), which is the same attribution method that was used by TDS for purposes of its pro forma disclosures under SFAS 123.

Certain employees were eligible for retirement at the time that compensatory stock options were granted. Under the terms of the TDS option agreements, options granted to these individuals do not vest upon retirement. Under the terms of the U.S. Cellular option agreements, options granted to these individuals will fully vest upon their retirement if they have reached the age of 65. Similarly, under the terms of TDS s restricted stock unit agreements, restricted stock units vest upon retirement if the employee has reached the age of 66. Under the terms of U.S. Cellular s restricted stock unit agreements, restricted stock units vest upon retirement if the employee has reached the age of 65. Prior to the adoption of SFAS 123(R), TDS used the nominal vesting method to recognize the pro forma stock-based compensation cost related to options and restricted stock units awarded to retirement eligible employees. This method does not take into account the effect of early vesting due to the retirement of eligible employees. Upon adoption of SFAS 123(R), TDS adopted the non-substantive vesting method , which requires the recognition of the entire expense related to options granted to retirement-eligible employees. If the non-substantive vesting method had been applied in prior periods, the effect on previously disclosed pro forma stock-based compensation cost would not have been material.

On March 7, 2006, the TDS Compensation Committee approved amendments to stock option award agreements. The amendments modify current and future options to extend the exercise period until 30 days following (i) the lifting of a suspension if options otherwise would expire or be forfeited during the suspension period and (ii) the lifting of a blackout if options otherwise would expire or be forfeited during a blackout period. TDS temporarily suspended issuances of shares under the 2004 Long Term Incentive Plan on March 17, 2006, as required by SEC regulations, because TDS did not file its Form 10-K for the year ended December 31, 2005 in a timely manner. Under SEC regulations, TDS may not issue shares under its existing registration statement on Form S-8 related to the 2004 Long Term Incentive Plan until the date that TDS is current with respect to its Form 10-K for the year ended December 31, 2005 and other periodic SEC filings. As required under the provisions of SFAS 123 (R), TDS evaluated the impact of this plan modification to determine if an adjustment to stock based compensation was required. TDS determined that the impact of such an adjustment would not be material.

Pension Plan

TDS sponsors a qualified noncontributory defined contribution pension plan. The plan provides benefits for the employees of TDS Corporate, TDS Telecom and U.S. Cellular. Under this plan, pension benefits and costs are calculated separately for each participant and are funded currently. Pension costs were $3.5 million and $3.4 million for the three months ended March 31, 2006 and March 31, 2005, respectively.

TDS also sponsors an unfunded non-qualified deferred supplemental executive retirement plan for certain employees which supplements the benefits under the qualified plan to offset the reduction of benefits caused by the limitation on annual employer contributions under the tax laws.

Other Postretirement Benefits

TDS sponsors two contributory defined benefit postretirement plans that cover most employees of TDS Corporate, TDS Telecom and the subsidiaries of TDS Telecom. One plan provides medical benefits and the other plan provides life insurance benefits.

Net periodic benefit costs for the defined benefit postretirement plans include the following components:

	Three Months Ended March 31,	
	2006	**2005**
	(Dollars in thousands)	
Service Cost	$ 544	$ 553
Interest on accumulated benefit obligation	692	659
Expected return on plan assets	(648)	(558)
Amortization of:		
Prior service cost	(208)	(279)
Net loss	292	288
Net postretirement cost	$ 672	$ 663

TDS will contribute $5.3 million to the postretirement plan assets during the second quarter of 2006.

Recent Accounting Pronouncements

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), was issued in July 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109, Accounting for Income Taxes. The interpretation prescribes a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken or expected to be taken in an income tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. TDS is currently reviewing the requirements of FIN 48 and has not yet determined the impact, if any, on its financial position or results of operations.

3. Stock-Based Compensation

As a result of adopting SFAS 123(R) on January 1, 2006, TDS s income before income taxes and net income for the three months ended March 31, 2006, are $3.5 million and $1.7 million lower, respectively, than if it had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share for the three months ended March 31, 2006 are $0.02 and $0.02 lower, respectively, than if TDS had continued to account for share-based compensation under APB 25.

Stock-Based Compensation Expense

For comparison, the following table illustrates the pro forma effect on net income and earnings per share had TDS applied the fair value recognition provisions of SFAS 123(R) to its stock-based employee compensation plans for the three months ended March 31, 2005:

(Dollars in thousands, except per share amounts)

Net income, as reported	$ 23,049
Add: Stock-based compensation expense included in reported net income, net of related tax effects and minority interest	647
Deduct: Stock-based compensation expense determined under fair value based method for all awards, net of related tax effects and minority interest	(2,962)
Pro forma net income	$ 20,734
Earnings per share:	
Basic as reported	$ 0.20
Basic pro forma	$ 0.18
Diluted as reported	$ 0.20
Diluted pro forma	$ 0.18

Prior to the adoption of SFAS 123(R), TDS presented all tax benefits resulting from tax deductions associated with the exercise of stock options by employees as cash flows from operating activities in the Consolidated Statements of Cash Flows. SFAS 123(R) requires that excess tax benefits be classified as cash flows from financing activities in the Consolidated Statement of Cash Flows. For this purpose, the excess tax benefits are tax benefits related to the difference between the total tax deduction associated with the exercise of stock options by employees and the amount of compensation cost recognized for those options. For the three months ended March 31, 2006, excess tax benefits of $0.4 million were included within Other Financing Activities of the Cash Flows from Financing Activities pursuant to this requirement of SFAS 123(R).

The following table summarizes stock-based compensation expense recognized during the three months ended March 31, 2006:

(Amounts in thousands)

Compensation expense recognized for stock option awards	$ 3,512
Compensation expense recognized for restricted stock unit awards	2,751
Compensation expense recognized for deferred compensation matching stock unit awards	760
Compensation expense recognized for awards under employee stock purchase plans	0
Total stock-based compensation, before income taxes	7,023
Income tax benefit	(2,935)
Total stock-based compensation expense, net of income taxes	$ 4,088

At March 31, 2006, unrecognized compensation cost for all stock-based compensation awards was $19.7 million. The unrecognized compensation cost for stock-based compensation awards at March 31, 2006 is expected to be recognized over a weighted average period of 0.8 years.

All stock-based compensation expense recognized during the three months ended March 31, 2006 was recorded in Selling, general and administrative expense.

TDS

The information in this section relates to stock-based compensation plans utilizing the equity instruments of TDS. Participants in these plans are generally employees of TDS Corporate and TDS Telecom, although U.S. Cellular employees are eligible to participate in the TDS Employee Stock Purchase Plan. Information related to plans utilizing the equity instruments of U.S. Cellular are shown in the U.S. Cellular section following the TDS section.

Under the TDS 2004 Long-Term Incentive Plan (and a predecessor plan), TDS may grant fixed and performance-based incentive and non-qualified stock options, restricted stock, restricted stock units, and deferred compensation stock unit awards to key employees. TDS had reserved 4,006,000 Common Shares and 11,893,000 Special Common Shares at March 31, 2006, for equity awards granted and to be granted under this plan. At March 31, 2006, the only types of awards outstanding are fixed non-qualified stock option awards, restricted stock unit awards, and deferred compensation stock unit awards. At March 31, 2006, TDS also had reserved 174,000 Common Shares and 323,000 Special Common Shares for issuance under the Automatic Dividend Reinvestment and Stock Purchase Plan and 49,000 Series A common shares for issuance under the Series A common share Automatic Dividend Reinvestment Plan, and 185,000 Common Shares and 320,000 Special Common Shares under an employee stock purchase plan. The maximum number of TDS Common Shares, TDS Special Common Shares and TDS Series A Common Shares that may be issued to employees under all stock-based compensation plans in effect at March 31, 2006 was 4,365,000, 12,536,000 and 49,000 shares, respectively. TDS currently utilizes treasury stock to satisfy stock option exercises, issuances under its employee stock purchase plan, restricted stock unit awards and deferred compensation stock unit awards.

Stock Options Stock options granted to key employees are exercisable over a specified period not in excess of ten years. Stock options generally vest over periods up to four years from the date of grant. Stock options outstanding at March 31, 2006 expire between 2006 and 2015. However, vested stock options typically expire 30 days after the effective date of an employee s termination of employment for reasons other than retirement. Employees who leave at the age of retirement have 90 days (or one year if they satisfy certain requirements) within which to exercise their vested stock options. The exercise price of the option generally equals the market value of TDS common stock on the date of grant.

TDS estimates the fair value of stock options granted using the Black-Scholes valuation model. The fair value is then recognized as compensation cost on a straight-line basis over the requisite service period, which is generally the vesting period, for each separately vesting portion of the awards as if the awards were, in-substance, multiple awards, which is the same attribution method that was used by TDS for purposes of its pro forma disclosures under SFAS 123. TDS did not grant stock options during the three months ended March 31, 2006 and March 31, 2005.

A summary of TDS stock options (vested and nonvested) at March 31, 2006 and changes during the three months then ended is presented in the table and narrative below:

All TDS options outstanding at March 31, 2006 were granted prior to the distribution of the TDS Special Common Share Dividend in 2005, more fully described in TDS s 2005 Annual Report on Form 10-K. As a result of the Special Common Share Dividend, an employee will receive one Common Share and one Special Common Share per tandem option exercised. Each tandem option is exercisable at its original exercise price.

Weighted