

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(thousands of dollars unless otherwise indicated)

related to the Company's contributions is earned at which time contributions will be credited to the members' accounts. The Preferred stock is redeemable and convertible into the Company's common stock at the option of the ESOP based on the relative fair value of the Preferred stock and common stock at time of conversion. In the event the Preferred stock is redeemed, the Company has the option to pay the redemption amount in cash, common stock or any combination thereof. At December 31, 2004 and 2003, there were no allocated or committed-to-be-released shares of Preferred stock outstanding. The ESOP redeemed 112,838 shares and 65,343 shares of the 2003 issuance of Preferred stock for cash in 2004 and 2003, respectively.

On April 18, 2001, the Company issued 250,000 shares of Preferred stock for \$250,000 to the ESOP. The ESOP financed the acquisition of the Preferred stock by borrowing \$250,000 from the Company at the rate of 8 percent per annum. The Preferred stock was held in an unallocated account by the ESOP until compensation expense related to the Company's contributions was earned at which time contributions were credited to the members' accounts. At December 31, 2002, there were no allocated or committed-to-be-released shares of Preferred stock outstanding. In 2002, the ESOP redeemed 126,499 shares of Preferred stock for cash. The ESOP redeemed the remaining 41,806 shares of the 2001 issuance of Preferred stock for cash in 2003.

NOTE 12—STOCK PLAN

The Company's 2003 Stock Plan permits the granting of stock options, restricted stock and stock appreciation rights to eligible employees. The 2003 Stock Plan was adopted during 2002 to succeed the Company's 1994 Stock Plan that expired February 16, 2003, which succeeded the 1984 Stock Plan that expired February 15, 1994. Although no further grants may be made under the 1994 Stock Plan, all rights granted under the plan remains. The number of shares which may be awarded under the 2003 Stock Plan will not exceed 8,500,000 shares, plus the shares authorized but not granted under the 1994 Stock Plan as of the expiration thereof. No stock appreciation rights have been granted.

Grants of restricted stock, which generally require four years of continuous employment from the date of grant before vesting and receiving the shares without restriction, have been awarded to certain officers and key employees under the 2003 and 1994 Stock Plans. The number of shares to be received without restriction

under the 2003 Stock Plan is based on the Company's achievement of specified financial goals relating to average return on average equity and earnings before interest, taxes, depreciation and amortization. The number of shares to be received without restriction under the 1994 Stock Plan is based on the Company's performance relative to a peer group of companies. No shares of restricted stock vested during 2004 or 2002. During 2003, 199,500 shares of restricted stock vested and were delivered to certain officers and key employees. There were 873,250 shares of restricted stock granted to certain officers and key employees outstanding at December 31, 2004. Unamortized deferred compensation expense with respect to restricted stock granted to eligible employees amounted to \$19,606, \$12,853 and \$3,267 at December 31, 2004, 2003, and 2002, respectively, and is being amortized over the four-year vesting period. Deferred compensation expense aggregated \$11,272, \$5,641 and \$3,097 in 2004, 2003 and 2002, respectively.

The Company's 1997 Stock Plan for Nonemployee Directors provides for the granting of stock options and restricted stock to members of the Board of Directors who are not employees of the Company. There were 400,000 shares authorized as available for grant under the 1997 Stock Plan. The Board of Directors authorizes grants made pursuant to the 1997 Stock Plan. Grants of restricted stock generally vest and are received without restriction to the extent of one-third of the granted shares for each full year of service as a Director following the date of grant. There were 15,000 shares of restricted stock granted to nonemployee Directors during 2004 and all shares were outstanding at December 31, 2004. As of December 31, 2004, there were 201,667 shares available for grant under the 1997 Stock Plan.

A summary of restricted stock granted to certain officers, key employees and nonemployee Directors during 2004, 2003, and 2002 is as follows:

	2004	2003	2002
Shares granted.....	328,250	401,000	13,500
Weighted-average fair value of restricted shares granted during year	\$33.59	\$27.37	\$26.22

Grants of non-qualified and incentive stock options have been awarded to certain officers, key employees and nonemployee Directors under various stock plans at prices not less than fair market value of the shares, as defined by the plans, at the date of grant. The options