

January 18, 2006

SEC Approves Potential Changes to Executive Compensation Disclosure Requirements

Equilar Proxy Season Disclosure Service :

The SEC voted unanimously on Tuesday, January 17, 2006 to approve potential changes to its executive compensation disclosure requirements. Given the increased focus on compensation disclosure, Equilar will be closely tracking disclosure changes this proxy season. This service is in anticipation of companies adopting the new SEC disclosure requirements ahead of their implementation. The goal of this service is to highlight trends in the disclosure of the items mentioned below as well as to identify specific examples to provide practitioners with models for drafting such disclosures. The Proxy Season Disclosure Service will be updated on a regular basis to ensure that you have the most current data on disclosure trends while also having access to timely and practical examples.

For more information regarding Equilar's new Proxy Season Disclosure Service, please contact:

Tim Ranzetta
tranzetta@equilar.com
(650) 286-4511

An Overview of Potential Changes:

As currently stated, the new SEC disclosure requirements would significantly alter both the nature and format of executive and director compensation disclosure in annual proxy and Form 8-K filings. The SEC indicated that the goal of the new regulations will be improved and comprehensive disclosure of executive compensation, related party transactions, director independence and corporate governance information in "plain-English."

Significant modifications include the replacement of the Compensation Committee Report with a Compensation Discussion and Analysis Section (CD&A), improved tabular disclosure of equity awards and equity holdings, especially performance-based and restricted awards, and extensive disclosure requirements regarding post-employment arrangements, including retirement benefits and post-termination payments. Furthermore, the new disclosure requirements seem to draw a firm line between actual annual compensation and potential future compensation by clearly demarcating separate sections for various compensation elements.

Please review the next few pages to learn more about some of the key proposals regarding executive and director compensation disclosure:

- The Compensation Committee Report will be replaced by the new CD&A section. The new CD&A section will be "filed" by the Company within the proxy statement, rather than "furnished" by the Compensation Committee as an add-on to the proxy statement. The CD&A will provide the company with an opportunity to explain its compensation program objectives, describe the decision-making process behind the awarding of compensation, list out the type and use of the various elements in its executive compensation program, and elaborate on how specific compensation levels are determined and how these levels relate to the overall objectives of the company. The commission made it clear that they would have the enforcement capability to ensure that future compensation disclosure is appropriate and complete, highlighting the progress made in the Management Discussion & Analysis as an example of their expectations.
- The Summary Compensation table will be reorganized to include the following columns:
 - Total Annual Compensation figure (sum of all columns listed below - "The Number")
 - Salary
 - Bonus
 - Value of Stock-Based Awards (includes the grant date present value of stock options)
 - Long-Term Incentive Cash Payouts
 - Other Compensation (represents the consolidation of the "All Other Compensation" and "Other Annual Compensation" columns and includes annual increase in projected pension benefit)

As noted above, the "Total Annual Compensation" column will represent the sum of all other columns in the new Summary Compensation Table, and it is expected that the "Stock-Based Awards" column will include the grant date value of stock option awards and restricted stock awards.

The "Other Compensation" column will include all perquisites and other personal benefits with a value over \$10,000 (the current threshold is \$50,000), tax gross-ups, company contributions and earnings on deferred compensation plans and the aggregate increase in pension plan actuarial value during the fiscal year.

- The Summary Compensation table will be supplemented by two supporting tables.
 - The "Grants of Performance-Based Awards" table will include stock and non-stock based performance awards granted in the most recent fiscal year.
 - The "Grants of All Other Equity Awards" table will include all non-performance-based equity awards granted in the most recent fiscal year.

Both tables should be supported by narrative disclosure discussing all material vesting terms of the equity awards.

- A second set of tables will focus on outstanding equity interests received as compensation that are potential sources of future gains as well as actual gains realized in the last fiscal year.
 - The "Outstanding Equity Awards" table will include the value at fiscal year end of unexercised option awards and restricted stock holdings. This section would include a detailed inventory of equity awards including details on option grant dates, strike prices and vesting terms.
 - The "Option Exercises and Stock Vested" table will include information on the value realized from restricted stock vesting as well as gains from option exercises. Interestingly,

the table would include the original grant date present value for the options that were exercised.

- The new disclosure regime is also designed to enhance the disclosure of retirement plans and post-employment compensation and benefits. This section will include the following:
 - The "Retirement Plan Potential Annual Payments and Benefits" table will disclose amounts under defined benefit plans payable as of the last fiscal year for each Named Executive Officer as of fiscal year end.
 - The "Non-Qualified Defined Contribution and Deferred Compensation Plans" table will include information on company contributions, executive contributions, aggregate earnings and withdrawals and total balance at fiscal year end.
 - Description of any arrangements that provides for payments or benefits in connection with any termination of a Named Executive Officer (NEO), including a change in responsibilities or a change in control of the company. Quantification of estimated payments and benefits will be disclosed for each of these.

- Director compensation data will be disclosed in tabular format. To date, numerous companies have utilized tabular disclosure to supplement the traditional paragraph disclosure of director fees. While paragraph disclosure of director fees typically focuses on the value of each fee type, tabular disclosure commonly examines compensation on an individual director basis. The format and use of the new director compensation table was not discussed in detail.

- Lastly, the SEC indicated that the definition of an NEO will change if the new regulations are approved. NEOs will now include the CEO, senior financial executive and the next three most highly compensated executive officers. In addition to these NEOs, as many as three other highly compensated individuals who are not officers of the company might be included in the Summary Compensation table if their compensation levels exceed those of the NEOs. These executives would not be named; however, their job description and total compensation would be disclosed.

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