

SEC Proposes Changes to Executive Compensation Disclosures Requirements

February 15, 2006 Brownbag Briefing Scheduled
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February 6, 2006

On Friday, January 27, 2006, the Securities and Exchange Commission (SEC) published proposed changes to its existing disclosure requirements for executive and director compensation, related party transactions, director independence and other corporate governance matters, and security ownership of officers and directors for public companies. This Alert discusses highlights of some of the changes that the SEC proposes to implement through these newly proposed regulations.

Glast, Phillips & Murray, P.C. attorneys Stanton P. Eigenbrodt, P.C. and Cynthia Marcotte Stamer, P.C. will conduct a 1-1/2 hour briefing on these proposed regulations and other related developments on February 15, 2006. The briefing is scheduled to begin promptly at 12:00 p.m. Central Time, 1:00 p.m. Eastern, 11:00 a.m. Mountain Time, and 10:00 a.m. Pacific Time. To register for the program, complete and return the accompanying registration form.

Executive and Director Compensation

If adopted in their current form, the proposed regulations would make the following changes to the SEC's rules affecting executive and director compensation:

- Refine the currently required tabular disclosure and combine it with improved narrative disclosure to elicit clearer and more complete disclosure of compensation of the principal executive officer, principal financial officer, the three other highest paid executive officers and the directors.
- Require a new company disclosure in the form of a Compensation Discussion and Analysis addressing the objectives and implementation of executive compensation programs. This would replace the compensation committee report in a public company's proxy statement.
- Following this new section, require an executive compensation disclosure organized into three broad categories: compensation over the last three years; holdings of outstanding equity-related interests received as compensation that are the source of future gains; and retirement plans and other post-employment payments and benefits.
- Require a reorganized Summary Compensation Table, which would serve as the principal vehicle for showing three-year compensation including the following additional information.
 - Require a new column reporting total compensation.
 - Require a dollar value be shown for all stock-based awards, including stock and stock options, measured at grant date fair value, computed pursuant to Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, to provide a more complete picture of compensation and facilitate reporting total compensation.
 - Specify that the "All Other Compensation" column would include the aggregate increase in actuarial value of pension plans accrued during the year and all earnings on deferred compensation that is not tax-qualified.
 - Reduce the threshold for disclosing prerequisites to \$10,000 and interpretive guidance is provided for determining what qualifies as prerequisite. .
- Add two supplemental tables reporting Grants of Performance-Based Awards and Grants of All Other Equity Awards.
- Require disclosure of outstanding equity interests including:
 - the Outstanding Equity Awards at Fiscal Year-End Table, which would show outstanding awards representing potential amounts that may be received in the future; and
 - the Option Exercises and Stock Vested Table, which would show amounts realized on equity compensation during the last year.
- Require a retirement plan and post-employment disclosure that includes disclosures of:
 - annual benefits payable to each named executive officer in the Retirement Plan Potential Annual Payments and Benefits Table,
 - year-end balance, executive contributions, company contributions, earnings and withdrawals for the year in a Nonqualified Defined Contribution and Other Deferred Compensation Plans Table; and
 - payments and benefits (including perquisites) payable on termination or change in control, including quantification of these potential payments and benefits.
- Require a Director Compensation Table, similar to the Summary Compensation Table, and related narrative showing

director compensation for the last year.

Related Person Transactions, Director Independence and Other Corporate Governance Matters

The SEC also proposes to revise and expand the disclosure provisions regarding related person transactions. Principal changes would include a disclosure requirement regarding policies and procedures for approving related party transactions, a slight expansion of the categories of related persons and a change in the threshold for disclosure from \$60,000 to \$120,000. The requirement to disclose these transactions would also be made more principles-based, and would require disclosure if the company is a participant in a transaction in which a related person has a direct or indirect material interest.

Also, a proposed new item (Item 407 of Regulations S-K and S-B) would require disclosure of whether each director and director nominee is independent; a description of any relationships not otherwise disclosed that were considered when determining whether each director and director nominee is independent; and disclosure of any audit, nominating and compensation committee members who are not independent.

Proposed Item 407 also would consolidate corporate governance related disclosure requirements currently set forth in a number of places in the proxy rules and Regulations S-K or S-B. This would include disclosure regarding board meetings and committees, and specific disclosure about nominating and audit committees. Proposed Item 407 would also require similar disclosure regarding compensation committees and a narrative description of their procedures for determining executive and director compensation.

Security Ownership of Officers and Directors

The proposed regulations would require public companies to disclose the number of shares pledged by management.

Form 8-K

The proposed regulations would modify the disclosure requirements in Form 8-K to capture some employment arrangements and material amendments thereto only for named executive officers, as opposed to the current broader requirements. The proposals would also consolidate all Form 8-K disclosure regarding employment arrangements under a single item.

Plain English Disclosure

The proposals would require companies to prepare most of this information using plain English principles in organization, language and design.

If you would like us to forward you a copy of the proposed regulations, want assistance evaluating the effects of these proposed changes on your company or help preparing comments on the proposed regulations, or have other questions about the implications of Sarbanes-Oxley on practices and liabilities, please contact: Cynthia Marcotte Stamer, P.C., Member, Glast, Phillips & Murray, P.C., 2200 One Galleria Tower, 13355 Noel Road, LB 48, Dallas, Texas 75240. Telephone (972) 419-7188. E-mail cstamer@gpm-law.com.

For other helpful resources or additional information about Ms. Stamer or Mr. Eigenbrodt and/or Glast, Phillips & Murray, P.C., see gpm-law.com, and for Ms. Stamer see CynthiaStamer.com or contact Mr. Eigenbrodt or Ms. Stamer. If you would like to receive future Alerts or announcements about other developments, publications or programs, please be sure that we have your current contact information – including your preferred e-mail – by providing that information to us via telephone, fax or e-mail using the above contact information.

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L.B. 48, Dallas, Texas, 75240, Attention: Cynthia Marcotte Stamer, P.C

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PROGRAM REGISTRATION FORM
PROPOSED

SEC To Propose Changes to Sox Disclosures About Executive Compensation and Related Matters

February 15, 2006

1:00 p.m. Eastern - 12:00 p.m. Central - 11:00 a.m. Mountain- 10:00 a.m. Pacific

The briefing will be conducted live in the Dallas Offices of Glast, Phillips & Murray, P.C. with registration beginning at 11:30 a.m. Central Time and the briefing commencing promptly at 12:00 Noon. Parties unable to attend the live briefing can elect to participate via telephone. Program handouts will be distributed to pre-paid, preregistered telephone participants via e-mail in advance of the program. To register, please complete and return this program registration form with check or money order in the amount of \$50 no later than 3:00 p.m. Central Time on February 13, 2006. Make checks or money orders payable to: Glast, Phillips & Murray, P.C., 2200 One Galleria Tower, Suite 2200, 13355 Noel Road, L.B. 48, Dallas, Texas, 75240, Attention: Angela Haack. For additional information, contact Ms. Haack at ahaack@gpm-law.com or telephone 972-419-8388.

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the live presentation or via telephone

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I would be interested in participating in future briefings about or obtaining the following other information:

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