

July 27, 2006

## SEC Adopts Changes to Disclosure Requirements Concerning Executive Compensation and Related Matters

On July 26, 2006, the SEC adopted changes to the rules requiring disclosure of executive and director compensation, related person transactions, director independence and other corporate governance matters, and security ownership of officers and directors. These changes affect disclosure in proxy statements, annual reports and registration statements, as well as the current reporting of compensation arrangements. The new rules will require that most of the disclosure be provided in plain English. The related press release, which describes in some detail the content of the amendments, is available on the SEC's website: <http://www.sec.gov/news/press/2006/2006-123.htm>. Paul, Weiss will circulate a memorandum analyzing the adopted amendments after the SEC's publishes its formal release.

A substantial number of the proposals were adopted in the form proposed. However, certain changes were made in respect of, among other items, stock option grants (relating to disclosure of exercise prices set below the closing market price on date of grant and of dates of grant determined under FAS 123R that differ from the date of corporate action, and discussions in the CD&A of grants tied to release of material nonpublic information and how exercises prices were set if not the closing price on date of grant); determinations of NEOs; disclosure of compensation for additional employees (in effect, a re-proposal) and disclosure of change in control payments. The rule changes in respect of stock option grants, though targeted at highlighting option backdating, are likely to have a broader impact on customary option award plans as they will require enhanced disclosure of practices such as use of average of high and low prices and/or determinations on the date prior to date of grant.

Compliance with the amendments to Form 8-K will be required for triggering events occurring 60 days or more after publication of the new rules in the *Federal Register*. Compliance will be required for issuers (other than investment companies) in respect of:

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- Any Form 10-K and 10-KSB annual reports for fiscal years ending on or after December 15, 2006
- Any new proxy and information statements filed on or after December 15, 2006 that are required to include S-K Items 402 or 404 disclosure for fiscal years ending on or after December 15, 2006
- Any 1933 Act and 1934 Act registration statements filed with the SEC on or after December 31, 2006 that are required to include S-K Items 402 or 404 disclosure for fiscal years ending on or after December 15, 2006

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This memorandum is not intended to provide legal advice with respect to any particular situation and no legal or business decision should be based solely on its content. Questions concerning issues addressed in this memorandum should be directed to any member of the Paul Weiss Securities Group, including:

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