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JONES DAY WHITE PAPER

TABLE OF CONTENTS

Implementation Schedule.....	1
New and Modified Executive and Director Compensation Disclosures Under Item 402 of Regulation S-K.....	2
Revisions to Form 8-K and the Periodic Report Exhibit Requirements.....	7
Modified Beneficial Ownership Disclosure Under Item 403 of Regulation S-K.....	8
Changes to Certain Relationships and Related Transactions Disclosures Under Item 404 of Regulation S-K.....	8
Disclosure of Corporate Governance Matters Under New Item 407 of Regulation S-K.....	9
Plain English Disclosure.....	10
Lawyer Contacts.....	10
Appendix A — 2007 Proxy Statement Disclosure Template.....	11
Exhibit 1 — Disclosure of Perquisites and Other Personal Benefits (“Perks”).....	23
Exhibit 2 — New SEC Executive Pay Disclosure Reporting of Earnings on Stock Awards and Other Compensation.....	24

FINAL EXECUTIVE COMPENSATION AND RELATED PERSON DISCLOSURE RULES

On July 26, 2006, SEC commissioners approved comprehensive new rules relating to disclosure of executive compensation, director compensation, related person transactions, director independence and other corporate governance matters, current reporting regarding compensation arrangements, and beneficial ownership. The final rules were adopted largely as proposed, with modifications to address commenters’ suggestions, which are described further in this white paper. The rules respond to 14 years of developments in executive compensation since the last major SEC overhaul in 1992 and are intended to provide investors with a clearer and more complete picture of compensation to principal executive officers, principal financial officers, the other highest-paid executive officers, and directors. The final rules will be effective for the 2007 annual meeting season.

This memorandum describes noteworthy features of the new requirements. Appendix A provides additional detail about the requirements of new Item 402 of Regulation S-K governing disclosure of executive and director compensation in the form of a template designed to summarize the requirements and assist companies in completing the new tables.

IMPLEMENTATION SCHEDULE

The final rules have an immediate impact on all U.S. public companies because the compliance dates are fast approaching:

- Compliance with the new Form 8-K requirements is required for triggering events that occur on and after November 7, 2006.
- Compliance with the new rules for Form 10-K purposes is required for fiscal years ending on or after December 15, 2006.
- Compliance with the new rules for proxy statement purposes is required for any proxy statement filed on or after December 15, 2006, that is required to include Item 402 and 404 disclosure for fiscal years ending on or after December 15, 2006.
- Compliance with the new rules for Securities Act registration statement purposes and Exchange Act registration statement purposes is required for registration statements (and pre-effective and post-effective amendments, as applicable) filed with the SEC on or after December 15, 2006, that are required to include Item 402 and 404 disclosure for fiscal years ending on or after December 15, 2006.

The final rules will also have an immediate impact on U.S. public companies because compensation decisions made today will have to be disclosed very soon according to the new rules.

NEW AND MODIFIED EXECUTIVE AND DIRECTOR COMPENSATION DISCLOSURES UNDER ITEM 402 OF REGULATION S-K

Compensation Discussion and Analysis Section. A key feature of the final rules, which provide significant modifications to Item 402 of Regulation S-K, is the new Compensation Discussion and Analysis (“CD&A”) section, which requires the compensation committee to provide a narrative overview of the material elements of the company’s compensation goals, objectives, and policies for its named executive officers. The CD&A was designed to function much like the overview to Management’s Discussion and Analysis (“MD&A”) required in periodic SEC financial reports. The CD&A should establish a context for the quantitative compensation disclosure contained in the compensation tables and narratives that follow it, and reflect the facts regarding, and the circumstances and perspective of, the particular company while avoiding boilerplate disclosure.

The final rules describing the new CD&A section include 15 examples of issues that companies should consider addressing in the CD&A. However, all compensation policies of a company must be discussed in the CD&A, even those not covered by any of the examples provided in the final rules.

The final rules provide that the CD&A will be considered soliciting material and will be “filed” with the SEC, thereby subjecting the company and/or the signing officer to the disclosure liability provisions of securities laws. Thus, if the CD&A is included or incorporated by reference in a periodic report, the disclosure will be subject to the certification requirements and disclosure controls and procedures provisions of the Sarbanes-Oxley Act. This means that management will now need to certify the information in the CD&A to the company’s CEO and CFO. However, SEC commentary on the final rules provides that when certifying the CD&A, CEOs and CFOs will not need to certify as to compensation committee deliberations.

Under the final rules, the CD&A does not replace the Compensation Committee Report or the performance graph, as was provided for in the proposed rules. Instead, a revised Compensation Committee Report modeled after the Audit Committee Report will be “furnished” as a replacement to the previous Compensation Committee Report and must be presented along with the CD&A in the Form 10-K or proxy statement. Additionally, the performance graph will be retained, but instead tied to disclosure regarding the company’s equity securities and required in Form 10-Ks and annual reports.

Options Disclosure. Given the recent attention to stock option timing issues, the final rules require companies to provide more information about option compensation. Grants of stock options must be disclosed in the revised Summary Compensation Table at their fair value on the date of grant, and the grant date for such stock options must be disclosed in the new Grants of Plan-Based Awards table. If the exercise price for a stock option grant is less than the closing market price of the underlying security on the grant date, the market price on the grant date must be disclosed in the Grants of Plan-Based Awards table (described below), and the company must disclose the methodology used to select the exercise price. Likewise, if the grant date for a stock option award is different from the date on which a company’s compensation committee or board of directors took action or is

deemed to have taken action, such date must also be disclosed in the Grants of Plan-Based Awards table.

For the first time, companies also will have to disclose in the CD&A section information relating to the timing and pricing of their stock option grants. Such disclosure must include a description of any company program, plan, or practice regarding the selection of stock option grant dates, including those that involve selecting grant dates in connection with the company's release of material non-public information. Companies must also disclose any program, plan, or practice that they use to set stock option award exercise prices based on the stock's price on a date other than the grant date. Other practices, including the use by companies of formulas involving stock price averaging to set exercise prices, must also be disclosed in the CD&A section.

Compensation Tables and Narrative Disclosures. The final rules reorganize the existing compensation tables to allow companies to provide a more comprehensive picture of total compensation and its elements for named executive officers and directors. The final rules provide for new narrative disclosures in connection with most of the tables. This revised tabular and narrative disclosure can be grouped into three broad categories: (1) current compensation paid during the last completed fiscal year and, after a phase-in period, two prior fiscal years; (2) outstanding equity-based compensation; and (3) retirement and other post-employment compensation. The revised compensation tables are intended to allow investors to compare compensation from year to year and company to company. Related narrative disclosure should accompany most of the compensation tables and describe the material factors necessary for a complete understanding of the information disclosed in the tables.

Total Annual Compensation Disclosure in the Summary Compensation Table. The final rules require that companies report in the revised Summary Compensation Table the total annual compensation of their CEOs, CFOs, and three other most highly compensated executive officers (collectively, the "named executive officers"). In addition, as under the previous rules, the same disclosure must also be made for up to two additional individuals who otherwise meet the disclosure requirements for named executive officers except for the fact that the individuals were no longer serving as executive officers at the end of the fiscal year. Although named executive

officers have previously been determined on the basis of total annual salary and bonus for the last fiscal year, identification of the most highly compensated executive officers under the final rules will be based on total compensation for the fiscal year, reduced by the sum of any increase in pension values and above-market or preferential earnings on nonqualified deferred compensation (as reported in the revised Summary Compensation Table).

Companies will not be required to "restate" compensation disclosure for fiscal years for which they were required to apply the previous compensation rules. Instead, information in the Summary Compensation Table and other relevant tables will initially be required only for the most recent fiscal year, with additional years' disclosure phased in under the new rules over a three-year period.

The final rules eliminate companies' ability to exclude an executive officer when determining the named executive officers due to an unusually large amount of cash compensation that was not part of a recurring arrangement and unlikely to continue, but retain an exemption based on cash compensation relating and attributed predominately to overseas assignments.

Total annual compensation figures will appear in the last column on the right side of the Summary Compensation Table and will aggregate the dollar value of all forms of compensation reported in the other columns of the Summary Compensation Table. Other notable items in the revised Summary Compensation Table that will be part of the total annual compensation figure include the following:

- The dollar value of both stock options and stock awards granted for the year based on their grant date fair values, as discussed below.
- The dollar value of all amounts earned during the fiscal year under non-equity incentive plans based on the value of the amount when earned.
- The dollar value of the aggregate increase in actuarial value of all defined benefit plans and actuarial plans (including supplemental plans) accrued during the year, plus above-market or preferential earnings on nonqualified deferred compensation, as discussed below.
- An expanded scope for the "All Other Compensation" column, as discussed below.

The proposed rules provided for companies to report both the total annual compensation for and a description of position held by up to three of their most highly compensated employees who were not executive officers but were paid more than any of the named executive officers. Due to the extensive comments the SEC received on this aspect of the proposed rules, the SEC has not adopted this proposal as part of the final rules. Instead, the SEC is requesting additional comment on whether suggested modifications—which would require disclosure only of compensation to executives who make significant policy decisions; would exclude professional athletes, entertainers, and salespeople; and would apply only to large accelerated filers—would address the commenters' concerns. See *Executive Compensation and Related Person Disclosure*, Release No. 33-8732 (August 11, 2006) [71 FR 53158].

Modifications to the “All Other Compensation” Column in the Summary Compensation Table. In addition to requiring a new column for total compensation, the final rules move into the “All Other Compensation” column the items previously reported in the column entitled “Other Annual Compensation.” This change serves to eliminate some of the current confusion between “annual” and “long-term” compensation. For example, under the previous rules, there has been uncertainty about where the cost of life insurance, other than certain split-dollar arrangements, should be reported in the Summary Compensation Table. Because there is now only one column covering compensation not specifically addressed in the other columns, the final rules clarify that all benefits not specifically provided for, such as life insurance costs, should be included in the “catch-all” column “All Other Compensation.” Under the final rules, the following items are included in the “All Other Compensation” column:

- Perquisites and other personal benefits (other than where aggregate perquisites and other personal benefits are less than \$10,000, as discussed below).
- Tax gross-ups.
- Amounts paid or accrued under a plan or arrangement in connection with a termination of employment or change in control.
- The dollar value of company-paid insurance premiums for life insurance for the benefit of a named executive officer.
- Contributions made by the company to defined contribution plans.

- Certain compensation costs of company securities purchased from the company at a discount from the market price of the security (if the discount is not generally available to all security holders or salaried employees).
- Dollar value of dividends or earnings on stock or option awards that were not factored into the grant date fair value disclosed in the Stock Awards or Option Awards columns of the Summary Compensation Table, as discussed below (see also Exhibit 2 to Appendix A).

A noteworthy change in the final rules from the proposed rules is that the aggregate increase in actuarial value of all defined benefit plans and actuarial plans (including supplemental plans) accrued during the year, plus above-market or preferential earnings on nonqualified deferred compensation, will be reported in a separate column placed two columns to the left of the total compensation column.

Stock Awards and Option Awards Columns in the Summary Compensation Table. The final rules require disclosure of the monetary value of stock option and stock awards (and similar equity-based awards, such as those of restricted stock, restricted stock units, phantom stock, phantom stock units, common stock equivalent units, and stock appreciation rights) granted to top executives in two distinct columns of the Summary Compensation Table (one for stock awards, the other for stock option awards) based on the grant date fair value of the awards. Unlike the presentation in financial statements, however, the full value of the stock options must be presented in the year of grant, rather than being amortized over the vesting period. The SEC provided in the final rules release that a company can provide appropriate explanatory disclosure in an accompanying narrative section if it believes that the grant date fair value of such awards does not completely reflect the compensation earned, awarded, or paid during the fiscal year.

Perquisites and Other Personal Benefits Disclosure. The item of executive pay that has received perhaps the most attention is executive perquisites and other personal benefits (collectively, “perquisites”). The final rules lower the threshold for disclosure of perquisites to an aggregate of \$10,000 from the current requirement of the lesser of an aggregate amount of \$50,000 or 10 percent of total annual salary and bonus. Under the final rules, if the aggregate value of the perquisites is \$10,000 or greater, perquisites have to be included

in the “All Other Compensation” column and identified by type in a footnote. Furthermore, each perquisite valued at the greater of \$25,000 or 10 percent of the named executive officer’s total perquisites has to be specifically identified by type (indicating the particular nature of the benefit received) and amount in a footnote. Footnote disclosure must also be provided describing the methodology used to compute the aggregate incremental cost of disclosed perquisites. Under the final rules, perquisites for directors have to be disclosed according to the same thresholds used for executive officers. In this area in particular, companies should examine their recordkeeping procedures. The attached Appendix A includes (as Exhibit 1) a diagram showing how the final rules define perquisites and how they must be disclosed in the Summary Compensation Table under the final rules.

After many years of silence, the SEC took the opportunity in the releases promulgating the proposed and final rules to set forth guidance on the items that constitute perquisites. While declining to stipulate a black-letter definition, the final rules provide some guidance and examples. An item of executive pay that confers a “direct or indirect benefit” that has a “personal aspect,” and that is not generally available on a non-discriminatory basis to all employees, is a perquisite *unless* the item is “integrally and directly related to the performance of the executive’s duties.” An item satisfying those perquisite guidelines will be considered a perquisite, whether or not a company provides the item for a business reason or for the company’s convenience. In the proposals, the SEC cautioned against interpreting the concepts of perquisites “artificially narrowly.” To that end, the SEC explains in the final rules release that the “integrally and directly related” exception should be narrowly construed. For example, this exception could cover a “BlackBerry” or a laptop computer, but the exception would not extend to the use of helicopter service for an executive to commute to work from home.

In the final rules, the SEC provides the following examples of items that would qualify as perquisites under the new guidance: club memberships not used exclusively for business entertainment purposes; personal financial or tax advice; personal travel using vehicles owned or leased by the company; personal travel otherwise financed by the company; personal use of other property owned or leased by the company; housing and other living expenses, including relocation assistance and payments for the executive or director to stay at

his or her personal residence; security provided at a personal residence or during personal travel; commuting expenses; and discounts on company products or services not generally available to employees on a nondiscriminatory basis.

The SEC provides in the final rules release that companies and their advisors are best positioned to apply the test described above to the detailed facts of their company’s situation in order to make perquisite disclosure decisions. The final rules also reiterate that the proper measure of the value of perquisites and other personal benefits is the aggregate incremental cost to the company. As with the proposed rules, the final rules provide no further guidance related to valuation of the personal use of aircraft by company personnel and their families. However, footnote disclosure will now need to be provided as to the methodology used by the company to compute the aggregate incremental cost for all perquisites.

Grants of Plan-Based Awards Table. The final rules require that companies include a new Grants of Plan-Based Awards table as a supplement to help explain information in the revised Summary Compensation Table. While the Summary Compensation Table discloses the grant date fair value of stock awards and stock option awards, the Grants of Plan-Based Awards table is designed to disclose additional information about those awards, including the number of shares or units underlying the award, the terms of grants made during the past fiscal year, and estimated future payouts for awards under both equity incentive plans and non-equity incentive plans. Footnotes and related narrative disclosure should accompany this table describing the material terms of the awards (including vesting provisions) and other information and material factors necessary for a complete understanding of the information disclosed in this table. Additionally, as discussed above, additional columns may be required based on the company’s programs, plans, or practices related to option grant timing and pricing.

Outstanding Equity Awards at Fiscal Year-End Table. The final rules require that companies disclose information in tabular format regarding outstanding equity awards, including those of stock appreciation rights, restricted stock, restricted stock units, phantom stock, phantom stock units, and common stock equivalent units, as of the end of the most recent fiscal year. For stock options and similar awards, the specific

tabular disclosure should include the number of securities underlying unexercised instruments that are exercisable, the number of securities underlying unexercised instruments that are unexercisable, the exercise or base price of the award, and the expiration date of the award. Multiple awards may be aggregated where the expiration date and the exercise or base price of the instruments are identical.

For stock and similar awards, the specific tabular disclosure should include the quantity and market values of nonvested stock and equity incentive plan awards. When determining the payout value of equity incentive plan awards based on performance goals, threshold levels should be used unless the prior year's performance has exceeded such threshold (in which case the next higher performance measure—either the target or maximum amount—should be used). If, however, the award provides for only a single estimated payout, that single amount should be used to determine valuation. Additionally, performance-based stock or options awarded under equity incentive plans should be included in this table under the respective columns for equity incentive plans only until relevant performance conditions have been satisfied, at which time the award should then be moved to the appropriate column of this table related to unvested stock or unexercised stock options.

Option Exercises and Stock Vested Table. The final rules also require that companies disclose information in tabular format regarding the amounts received by named executive officers upon their exercise of stock options or similar awards, or the vesting of stock or similar awards, during the most recent fiscal year. Values in this table should be calculated based on actual value received by the named executive.

Pension Benefits Table. Besides providing for the disclosure of the aggregate increase in the actuarial value of pension plans during the year in a separate column of the Summary Compensation table, the final rules also provide for a new Pension Benefits table and related narrative description pursuant to which companies disclose estimates for each named executive officer of individual annual retirement benefits payable at his or her retirement age under qualified and non-qualified plans. The new table replaces the current Pension Plan Table, which does not require figures to be broken down by executive. Disclosure in this table will also include the number of years of service credited to each named executive

officer, and benefits to be disclosed will be computed as of the pension plan measurement date used in connection with the company's financial statement reporting without regard to the form in which benefits may be paid. For purposes of this table, retirement age is the normal retirement age as defined in the pension plan, or if not defined, the earliest time at which a participant may retire under the plan without benefit reduction due to age. Additionally, any pension benefits paid to a named executive officer during the last fiscal year will be disclosed in this table. As with the prior tables, the related narrative disclosure should describe the material factors necessary for a complete understanding of the information disclosed in this table.

Nonqualified Deferred Compensation Table. Information about a named executive officer's nonqualified defined contribution and deferred compensation plans will be disclosed in a separate Nonqualified Deferred Compensation table. This table would report contributions made by the company and the executives to deferral accounts during the year, as well as the total year's earnings and balances of such accounts. Only above-market or preferential earnings on nonqualified deferred compensation were disclosed under the prior rules (and only such amount will normally be disclosed in the Summary Compensation Table under the final rules). Footnotes are required to indicate which amounts in the contributions and earnings columns are reported as compensation for the year in question and which amounts in the aggregate balance column were previously reported in the Summary Compensation Table in prior years. Again, related narrative disclosure should describe the material factors necessary for a complete understanding of the information disclosed in this table. The attached Appendix A includes (as Exhibit 2) a chart summarizing the way in which earnings on stock awards and other compensation are reported in the various tables.

Other Post-Employment Payments Disclosure. Another new disclosure requires companies to specify the estimated payments and benefits each named executive officer is entitled to receive upon triggering events such as a change in control, executive resignation or retirement, a change in executive responsibilities, or termination of the executive's employment. The final rules also require companies to disclose whether such payments would or could be in lump-sum or annual payments, who will make the payments, how the appropriate payment or benefit level will be determined, any material

conditions or obligations applicable to the payments, and any other material factors related to the post-employment compensation agreement or arrangement. The duration of any non-competition and similar agreement made in connection with these payments and any tax gross-up payments must also be disclosed.

Although many uncertainties may exist regarding determining amounts payable under these types of arrangements, companies must provide quantitative disclosure based on a reasonable estimate (or estimated range) of such payments (including any estimated tax gross-up payments) and disclose the material assumptions underlying the estimate (or estimated range). Companies may make payment estimations for complex situations by assuming that the triggering event occurred on the last business day of the last completed fiscal year and that the price per share of the company's securities is the closing market price on that date. Although not required to do so by the final rules, many companies will likely present this information in tabular format.

Director Compensation. Companies will have to disclose all compensation received by directors during the last fiscal year in a new Director Compensation Table similar to the Summary Compensation Table, together with a related narrative. Consistent with the Summary Compensation Table, total compensation will be presented in a column on the far right of this table, and changes in pension value (if any) and above-market and preferential earnings on nonqualified deferred compensation must be presented in a column separate from "All Other Compensation." Under the final rules, the following items are included in the "All Other Compensation" column:

- Perquisites and other personal benefits (other than where aggregate perquisites and other personal benefits are less than \$10,000, as discussed above).
- Tax reimbursements.
- Amounts paid or accrued under a plan or arrangement in connection with a termination of employment or change in control.
- The dollar value of company-paid insurance premiums for life insurance for the benefit of a director.
- Contributions made by the company to defined contribution plans.

- Certain compensation costs of company securities purchased from the company at a discount from the market price of the security (if the discount is not generally available to all security holders or salaried employees).
- Consulting fees.
- Director legacy or charitable awards program awards.
- Dollar value of dividends or earnings on stock or option awards that were not factored into the grant date fair value disclosed in the Stock Awards or Option Awards columns of this table (see Exhibit 2 to Appendix A).

Companies should also disclose by footnote the aggregate number of stock awards and option awards outstanding for each director as of the end of the last fiscal year. Multiple directors may be grouped together for disclosure purposes if all elements and amounts of their compensation are identical. A narrative disclosure should follow this table and describe the material factors necessary for a complete understanding of the information disclosed in the table, including any option timing or dating practices that need to be disclosed as discussed above.

REVISIONS TO FORM 8-K AND THE PERIODIC REPORT EXHIBIT REQUIREMENTS

Revisions to Items 1.01 and 5.02 of Form 8-K. Besides amending Item 402 of Regulation S-K regarding executive and director compensation disclosure, the new rules also contain revisions to current and periodic reporting disclosure requirements related to executive and director compensation. The SEC's intention for these revisions is to restore a more balanced approach to current disclosure about executive compensation while eliciting unquestionably or presumptively material information. In the final rules, the SEC essentially acknowledged that the staff's ad hoc attempt to use Form 8-K to overturn long-standing interpretations of the exhibit disclosure requirements had produced somewhat inconsistent results. The final rules seek to rectify that problem by restructuring current Items 1.01 and 5.02 of Form 8-K. Employment compensation arrangements have been eliminated from the scope of Item 1.01 altogether, and certain employment compensation arrangements instead must be reported under Item 5.02.

Under Item 5.02(e), only brief descriptions of employment compensation arrangements are required, and not disclosure sufficient to satisfy all the requirements under Item 402 of Regulation S-K. The SEC provides in the final rules that a company will not lose its eligibility to use Form S-3 registration statements if the company is late filing a report under new Item 5.02(e) of Form 8-K. Additionally, the final rules extend the safe harbor regarding Section 10(b) and Rule 10b-5 liability to new Item 5.02(e). As a result, a company failing to timely file a Form 8-K under Item 5.02(e) will be eligible for a safe harbor from liability under Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder until the filing due date of the company's next quarterly or annual report. Companies will also be required to disclose on Form 8-K under Item 5.02(f) salary or bonus for the most recent fiscal year, if that information was not available at the latest practicable date and was thus omitted from the most recent Summary Compensation Table, when such amounts become calculable in whole or part, and also disclose updated total compensation figures to reflect the new salary or bonus information.

MODIFIED BENEFICIAL OWNERSHIP DISCLOSURE UNDER ITEM 403 OF REGULATION S-K

Stock Pledges. The new rules also contain modifications to Item 403 of Regulation S-K. For the first time, companies are required to disclose the number of shares of company stock pledged as security by the companies' directors, director nominees, and named executive officers. This new disclosure must be made in a footnote and must also describe beneficial ownership of directors' qualifying shares.

CHANGES TO CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS DISCLOSURES UNDER ITEM 404 OF REGULATION S-K

Related Person Disclosure. *Disclosure of Transactions.* The final rules significantly revise Item 404 of Regulation S-K so as to restate the disclosure requirements for certain relationships and related person transactions. Item 404(a) now sets forth a general statement of the principle for disclosure in addition to some particular disclosure requirements. Specifically, a company must disclose any transaction since the beginning of the last fiscal year, or currently proposed

transaction, in which (i) the company was or is a participant, (ii) the amount involved exceeds \$120,000, and (iii) any related person had or will have a direct or indirect material interest. The SEC now uses the term "participant" in Item 404(a) in order to encompass situations where a company benefits from a transaction but is not technically a "party" to the transaction.

The final rules have eliminated distinctions between indebtedness and other types of related person transactions. The new rules also make clear that the term "transaction" should be broadly interpreted, specifically defining the term to include indebtedness (excluding indebtedness transactions of significant shareholders or their immediate family members) and guarantees of indebtedness, as well as "relationships." The rules also update the definitions for the terms "related person," "immediate family member," and "amount involved," which are used in the modified rules. Additionally, the final rules provide noteworthy guidance as to transactions that are exempt from disclosure under Item 404(a), including:

- Disclosure of compensation to an executive officer where the compensation is otherwise reported under Item 402 of Regulation S-K.
- Disclosure of compensation to an executive officer where (1) the executive officer is not an immediate family member and the compensation would have been reported under Item 402 of Regulation S-K if the executive officer was a named executive officer, and (2) the compensation was approved or recommended for approval by the compensation committee.
- Disclosure of compensation to a director where the compensation is reported under Item 402(k) of Regulation S-K.
- Disclosure of indebtedness involving: purchases of goods and services subject to usual trade terms, ordinary business travel and expense payments, and other transactions in the ordinary course of business.
- Disclosure of a position or relationship with an entity that engages in a transaction with the company that involves an indirect material interest based only on (1) the related person's position with the entity or less than 10 percent equity interest in the entity, or both, or (2) if the entity is a partnership, the related person's position and ownership interest in the partnership.
- Disclosure of transactions involving: rates or charges determined by competitive bids; common or contract carrier

services or public utility services at rates or charges fixed by law or governmental authority; or bank depository, transfer agent, registrar, indenture trustee, or similar services.

- Disclosure of transactions where the interest of the related person is based solely on ownership of a class of equity securities of a company and all holders of that class of equity securities receive the same benefit on a pro rata basis.

Policies and Procedures. The final rules also require companies for the first time to describe their policies and procedures for the review, approval, or ratification of related person transactions that would be reportable under Item 404(a). Disclosure is also required for transactions reportable under Item 404(a) that are not subject to the company's policies and procedures, or for which the policies and procedures have not been followed. Additionally, as mentioned above in connection with the compensation tables, related person transaction disclosure will initially be required only for the most recent fiscal year, with additional years' disclosure phased in under the new rules.

Conforming Amendments for the Definition of “Non-Employee Director” in Rule 16b-3. The final rules include conforming amendments to the definition of “non-employee director” in Rule 16b-3 of the Exchange Act that take into account the changes made to Item 404. The SEC's intent, as stated in the final rules, is to minimize potential disruptions because it is unaware of any problems with the current definition. In some cases, the new expanded principles-based disclosure under new Item 404 may cause some current non-employee directors to become ineligible under Rule 16b-3 of the Exchange Act, even though the disclosure threshold of Item 404 is being raised from \$60,000 to \$120,000. Thus, companies should be sure to retest their compensation committee members to ensure that all such members still qualify as non-employee directors.

DISCLOSURE OF CORPORATE GOVERNANCE MATTERS UNDER NEW ITEM 407 OF REGULATION S-K

Corporate Governance. The final rules create new Item 407, which now consolidates disclosure requirements relating to director independence and corporate governance. Item 407

requires companies to disclose whether and why each director and director nominee is independent, and whether any audit, nominating, and compensation committee members are not independent, using a definition for independence that is in compliance with applicable listing standards (or a chosen listing standard, if none automatically applies). Companies are also required to disclose any exemptions that they rely upon (and the basis for such exemption) and any transactions or relationships not otherwise disclosed under 404(a) that were considered (regardless of materiality or meeting the \$120,000 *de minimis* threshold) when determining whether each director and director nominee is independent. Additionally, companies that have adopted definitions of independence for directors and committee members must disclose whether those definitions are posted on their web sites or have to include the definitions as an appendix to their proxy statements at least once every three years. The audit committee charter is no longer required to be delivered to shareholders as an appendix to the proxy statement if it is posted on the company's web site. Audit committee financial expert information will now be disclosed under Item 407. Finally, additional disclosure regarding the compensation committee's governance structure and authority, including its processes and procedures for the consideration and determination of executive and director compensation (much like the current disclosure relating to audit and nominating committee matters) is required under Item 407 in addition to the CD&A description of the compensation policies and objectives of the company. For example, companies now have to describe:

- The scope of authority of the compensation committee.
- The extent to which the compensation committee may delegate its authority.
- Whether the compensation committee's authority is set forth in a charter or other document.
- Any role of executive officers in determining or recommending the amount or form of executive and director compensation.
- Any role of compensation consultants in determining or recommending the amount or form of executive and director compensation.

Item 407 also contains information required regarding compensation committee interlocks and insider participation and the various proxy disclosure requirements regarding board meetings and committee meetings.

PLAIN ENGLISH DISCLOSURE

“Plain English” Requirement. As part of the SEC’s effort to make executive compensation information more transparent to the public, the final rules provide that companies must use plain English for these new and amended disclosures in their proxy statements and, whether directly or through incorporation by reference, periodic reports. Companies are already required to use plain English in their securities offering documents, and many companies have already taken this step with their proxies voluntarily. For others, the advent of these final rules presents an opportunity to reorganize their proxy statements and to create a more consistent overall approach within the document.

* * * * *

The foregoing is a condensed discussion of some key provisions of the final rules.

LAWYER CONTACTS

For further information, please contact your principal Firm representative or one of the lawyers listed below. General e-mail messages may be sent using our “Contact Us” form, which can be found at www.jonesday.com.

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APPENDIX A

2007 PROXY STATEMENT DISCLOSURE TEMPLATE **(EXECUTIVE AND DIRECTOR COMPENSATION)**

This Template is designed to assist U.S. public companies in drafting Proxy Statements that comply with the new requirements for disclosure of executive and director compensation promulgated by the Securities and Exchange Commission in Release No. 34-54302 (August 11, 2006). The tables have been reprinted from the Release without change. The text is intended to summarize, in a convenient format, the requirements of amended Item 402 of Regulation S-K, together with some of the explanatory material contained elsewhere in the Release. The Template is limited to the requirements of Item 402 and does not address other Proxy Statement disclosure requirements.

Exhibit 1 to the Template presents a diagram showing how perquisites are defined and disclosed. Exhibit 2 presents a table showing how earnings on stock awards and other compensation are reported.

I.	COMPENSATION DISCUSSION AND ANALYSIS (CD&A)	12
II.	INFORMATION REGARDING CURRENT YEAR'S COMPENSATION/GRANTS	13
	A. Summary Compensation Table	13
	B. Grants of Plan-Based Awards Table	15
III.	OUTSTANDING EQUITY AWARDS	16
	A. Outstanding Equity Awards at Fiscal Year-End Table	16
	B. Option Exercises and Stock Vested Table	17
IV.	RETIREMENT AND DEFERRED COMPENSATION PLANS/BENEFITS	18
	A. Pension Benefits Table	18
	B. Nonqualified Deferred Compensation Table	20
V.	SEVERANCE AND CHANGE-IN-CONTROL ARRANGEMENTS	20
VI.	COMPENSATION OF DIRECTORS	21

I. COMPENSATION DISCUSSION AND ANALYSIS (CD&A)

IN GENERAL:

- The purpose of the CD&A is to provide to investors material information that is necessary to an understanding of the compensation policies and decisions regarding the named executive officers (“NEOs”) of the Company.
- The CD&A should include a discussion of the information contained in the tables and otherwise disclosed in the Company’s executive compensation disclosures.
- The CD&A should also cover actions regarding executive compensation that were taken after the Company’s last fiscal year’s end. Actions that should be addressed might include, as examples only, the adoption or implementation of new or modified programs and policies, specific decisions that were made, or steps that were taken that could affect a fair understanding of the NEO’s compensation for the last fiscal year. Moreover, in some situations it may be necessary to discuss prior years in order to give context to the disclosure provided.
- The CD&A should focus on the material principles underlying the Company’s executive compensation policies and decisions and the most important factors relevant to analysis of those policies and decisions.
- Use of boilerplate language should be avoided, as well as repetition of the more detailed information set forth in the tables or other narrative disclosures.
- The Company is not required to disclose target levels with respect to specific quantitative or qualitative performance-related factors considered by the compensation committee or the board of directors. Nor is it required to disclose any other factors considered by the compensation committee or the board of directors; any other factors or criteria involving confidential trade secrets; or confidential commercial or financial information, the disclosure of which would result in competitive harm for the Company. The standard to use when determining whether disclosure would cause competitive harm for the Company is the same standard that would apply when a Company requests confidential treatment of confidential trade secrets or confidential commercial or financial information pursuant to Securities Act Rule 406 and Exchange Act Rule 24b-2. The Company is not required to seek confidential treatment if it determines that the disclosure would cause competitive harm; however, in

that case, the Company must discuss how difficult it will be for the executive or how likely it will be for the Company to achieve the undisclosed target levels or other factors.

SPECIFIC REQUIREMENTS:

- Discuss the compensation awarded to, earned by, or paid to the NEOs. Explain all elements of compensation of the NEOs.
- Describe the following:
 1. The objectives of the Company’s compensation programs.
 2. What the compensation program is designed to reward.
 3. Each element of compensation.
 4. Why the Company chooses to pay each element.
 5. How the Company determines the amount (and, where applicable, the formula) for each element of pay.
 6. How each compensation element and the Company’s decisions regarding that element fit into the Company’s overall compensation objectives and affect decisions regarding other elements.
- Examples of other information that could be disclosed in the CD&A:
 1. The policies for allocating between long-term and currently paid out compensation.
 2. The policies for allocating between cash and non-cash compensation, and among different forms of non-cash compensation.
 3. For long-term compensation, the basis for allocating long-term compensation to each different form of award, such as the relationship of the award to the achievement of the Company’s long-term goals, management’s exposure to downside equity performance risk, and the correlation between cost to the Company and expected benefits to the Company.
 4. How the determination is made as to when awards are granted, including awards of equity-based compensation such as options.
 5. What specific items of corporate performance are taken into account in setting compensation policies and making compensation decisions.
 6. How specific elements of compensation are structured and implemented to reflect these items of the Company’s performance, including whether discretion can be or has been exercised (either to award compen-

sation absent attainment of the relevant performance goal(s) or to reduce or increase the size of any award or payout). Any particular exercise of discretion should be identified, as well as whether it applies to one or more specified NEOs or to all compensation subject to the relevant performance goal(s).

7. How specific forms of compensation are structured and implemented to reflect the NEO's individual performance and/or individual contribution to these items of the Company's performance, including a description of the elements of individual performance and/or contribution that are taken into account.
8. The Company's policies and decisions regarding the adjustment or recovery of awards or payments if the relevant Company performance measures upon which they are based are restated or otherwise adjusted in a manner that would reduce the size of an award or payment.
9. The factors considered in decisions to increase or decrease compensation materially.
10. How compensation or amounts realizable from prior compensation are considered in setting other elements of compensation (*e.g.*, how gains from prior option or stock awards are considered in setting retirement benefits).
11. With respect to any contract, agreement, plan, or arrangement, whether written or unwritten, that provides for payment(s) at, following, or in connection with any termination or change in control, the basis for selecting particular events as triggering payment (*e.g.*, the rationale for providing a single trigger for payment in the event of a change in control).
12. The impact of accounting and tax treatment of a particular form of compensation.
13. The Company's equity or other security ownership requirements or guidelines (specifying amounts and forms of ownership), and any Company policies regarding hedging the economic risk of such ownership.
14. Whether the Company is engaged in any benchmarking of total compensation or any material element of compensation, identifying the benchmark, and if applicable, its components, including component companies.
15. The role of executive officers in determining executive compensation.

II. INFORMATION REGARDING CURRENT YEAR'S COMPENSATION/GRANTS

A. SUMMARY COMPENSATION TABLE

IN GENERAL:

- This table is intended to replace the old version of the Summary Compensation Table ("SCT") as required in the existing rules. The main changes to the new SCT are that it now contains a "Total" column and replaces the current "Number of Shares Underlying Options/SARs" column with the grant date fair value of options and SARs granted during the year. The new SCT also requires the grant date fair value of other stock awards.
- The number reflected in the "Salary," "Bonus," or "All Other Compensation" column, as appropriate, normally includes compensation that is earned but for which payment is deferred. The amount that has been deferred will generally be reflected as a contribution in the deferred compensation presentation (see Nonqualified Deferred Compensation Table, below).
- The Company would not be required to "restate" compensation disclosure for fiscal years for which it previously was required to apply the current rules. Thus, information in the SCT would be required only for the most recent fiscal year, resulting in a phased-in implementation of the SCT amendments over a three-year period.
- The group of executives to be included as NEOs will be:
 1. The principal executive officer ("PEO");
 2. The principal financial officer ("PFO");
 3. The three most highly compensated executive officers other than the PEO and PFO with total compensation (not just salary and bonus, but excluding changes in pension value and earnings on deferred compensation reported in column (h) of the SCT) in excess of \$100,000; and
 4. Up to two additional individuals who would have qualified as NEOs but for the fact that they were no longer serving as executive officers at the end of the last fiscal year (same as the old rules).

2006 SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards ¹ (\$)	Option Awards ² (\$)	Non-Equity Incentive Plan Compensation ³ (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation ⁴ (\$)	Total ⁵ (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
PEO	_____								

PFO	_____								

A	_____								

B	_____								

C	_____								

1 This column discloses the value of stock-related awards that derive their value from the Company's equity securities or permit settlement by issuance of the Company's equity securities, such as restricted stock, restricted stock units, phantom stock, phantom stock units, common stock equivalent units, or other similar instruments that do not have option-like features. Stock awards subject to performance-based conditions would also be included in this column. Valuation is based on the grant date fair value of the award determined pursuant to FAS 123R for financial reporting purposes. Note that the amount to be disclosed is the full grant date fair value, not just the portion of that amount recognized during the year for financial reporting purposes. A footnote would be required disclosing all assumptions made in the valuation (which can refer to the Company's financial statements and MD&A).

2 This column includes the value of stock options, SARs, and other instruments with option-like features. See Footnote 1 for a discussion on valuation. Note that if an option or SAR is repriced or otherwise materially modified, the incremental fair value of the options or SARs repriced or modified must be included in this column.

3 This column reports the dollar value of all other amounts earned during the fiscal year pursuant to non-equity incentive plans, i.e., incentive plans that are not accounted for under FAS 123R. Note that many annual bonus amounts under incentive plans that appeared in the "Bonus" column under the old rules will now go here. Performance-based compensation under an incentive plan that is not tied to performance would be disclosed in the year when the relevant specified performance criteria under the plan are satisfied and the compensation is earned, whether or not payment is actually made to the NEO in the year. The grant of an award providing for future compensation if such performance measures are satisfied would be disclosed in the supplemental Grants of Plan-Based Awards Table in the year of grant, which would generally be some year prior to the year in which performance-based compensation under the plan is reported in the SCT. Earnings on outstanding non-stock incentive plan awards are also to be included in the column and quantified in a footnote.

4 This column captures all compensation not properly reportable in the other columns. Each item of compensation that exceeds \$10,000 must be separately identified and quantified in a footnote. Items included in this column include the following:

B. GRANTS OF PLAN-BASED AWARDS TABLE

IN GENERAL:

- This table includes information regarding any plan-based award made in the last completed fiscal year, whether granted under a stock option or other stock-based plan (e.g., restricted stock, RSUs, or phantom stock) or a non-stock incentive plan. The table picks up awards previously reported in the LTIP Awards Table and includes any awards that have been transferred.
- If the grant date is different from the date on which the compensation committee took action (or was deemed to take action) to grant such awards, a separate, adjoining column must be added between columns (b) and (c) showing the date.
- If the exercise or base price is less than the closing market price of the underlying security on the date of the grant, a separate, adjoining column showing the closing market price on the date of the grant must be added after column (k).
- If the exercise or base price of options reported in column (k) was not the closing market price, the Company must describe the methodology for determining the exercise or base price in either a footnote or an accompanying textual narrative.
- For each award, the table requires disclosure of the number of shares, units, or other rights in the award; the dollar amount (if any) paid for the award; the grant date; and the performance period. The table also requires disclosure of the estimated future payouts at threshold, target, and maximum payout levels, as applicable.
- If grants are made to an NEO during the last fiscal year under more than one plan, the particular plan under which each grant was made must be disclosed.
- If non-equity incentive plan awards are denominated in units or other rights, a separate, adjoining column between columns (b) and (c) must be added quantifying the units or other rights awarded.

(continued from page 14)

- Perquisites and other personal benefits, unless the aggregate amount of such compensation is less than \$10,000. A footnote disclosure is required to identify and quantify any perquisite or other personal benefit if it is valued at the greater of \$25,000 or 10% of total perquisites or other personal benefits. Perquisites are to be valued on the basis of aggregate incremental cost to the Company, and the methodology of computation must be described in a footnote. Perquisites subject to identification must be described in a manner that identifies the particular nature of the benefit received, not just characterizing it generally.
- Gross-ups or other amounts reimbursed during the fiscal year for the payment of taxes. Gross-ups are to be identified and quantified separately from the perquisites to which they relate.
- The compensation cost (computed in accordance with FAS 123R) of providing any security at a discount (not available to all shareholders/salaried employees).
- Amounts paid or accrued pursuant to a plan or arrangement in connection with any termination of employment or change in control.
- Annual Company contributions or other allocations to vested and unvested defined contribution plans.
- The dollar value of any life insurance premiums paid by the Company with respect to life insurance for the benefit of the NEO.
- The dollar value of any dividends or other earnings paid on stock or option awards, when those amounts were not factored into the grant date fair value required to be reported for the stock or option award in column (e) or (f).

ADDITIONAL NOTES RE: PERQUISITES: The concepts of perquisites or other personal benefits should not be interpreted artificially narrowly to avoid disclosure. An item is not a perquisite or personal benefit if it is integrally and directly related to the performance of the executive's duties; otherwise, an item is a perquisite or personal benefit if it confers a direct or indirect benefit that has a personal aspect, without regard to whether it may be provided for some business reason or for the convenience of the Company, unless it is generally available on a non-discriminatory basis to all employees.

- 5 This column, which was not previously required in the SCT, simply adds the dollar amounts set forth in the other columns of the SCT.

2006 GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)			
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
PEO										
PFO										
A										
B										
C										

NOTE: This new table does *not* replace the Equity Compensation Plan Table, which is still required by Item 201(d) of Regulation S-K in some Proxy Statements and in Form 10-K.

NARRATIVE DISCLOSURE TO SCT AND GRANTS OF PLAN-BASED AWARDS TABLE

Following these tables, provide a narrative description of any additional material factors necessary to an understanding of the information disclosed in the tables. The material factors will vary depending on the facts but may include, in given cases, among other things, descriptions of:

- The material terms in each NEO's employment agreement or arrangement, whether written or unwritten.
- If at any time during the last fiscal year, any outstanding option or SAR is repriced or materially modified (such as by extension of exercise periods, change of vesting or forfeiture provisions, or the change or elimination of applicable performance criteria, etc.), a description of such repricing or material modification.
- The material terms of any award reported in the Grants of Plan-Based Awards Table. The narrative could include a general description of the formula or criteria to be applied in determining the amounts payable, the vesting schedule, a description of the performance-based conditions and any other material condition applicable to the award, whether dividends or other amounts would be paid, the

applicable rate, and whether the rate is preferential. The Company would not be required to disclose any factor, criteria, or performance-related or other condition to payout or vesting of a particular award that involves confidential commercial or business information or any disclosure factors that would result in competitive harm to the Company, as discussed above.

- An explanation of the amount of salary and bonus in proportion to total compensation.

III. OUTSTANDING EQUITY AWARDS

A. OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END TABLE

IN GENERAL:

- This table discloses information regarding outstanding awards under, for example, stock option (or SAR) plans, restricted stock plans, equity incentive plans, and similar plans and discloses the market-based values of the outstanding options, rights, shares, or units (*i.e.*, the potential amounts that the NEOs may realize) as of the Company's most recent fiscal year-end.

- The vesting dates of options, shares of stock, and equity incentive plan awards held at fiscal year-end must be disclosed by footnote to the applicable column where the outstanding award is reported.
- The Company must identify by footnote any award that has been transferred other than for value, disclosing the nature of the transfer.
- The number of shares or units reported in column (d) or (i), and the payout value reported in column (j), is to be based on achieving threshold performance goals, except that if the previous fiscal year's performance has exceeded the threshold, the disclosure shall be based on the next higher performance measure (target or maximum) that exceeds the previous fiscal year's performance. If the award provides only for a single estimated payout, that amount should be reported. If the target amount is not determinable, the Company must provide a representative amount based on the previous fiscal year's performance.
- Multiple awards may be aggregated where the expiration date and the exercise and/or base price of the instruments are identical. A single award consisting of a combination of options, SARs, and/or similar option-like instruments shall be reported as separate awards with respect to each tranche with a different exercise and/or base price or expiration date.
- Options or stock awarded under an "equity incentive plan" (*i.e.*, a plan with performance conditions) must be reported in columns (d) or (i) and (j), respectively, until the relevant performance condition has been satisfied. Once this condition has been satisfied, even if the option or stock award is subject to forfeiture conditions, options are reported in column (b) or (c), as appropriate, until they are exercised or expire, while stock is reported in columns (g) and (h) until it vests.

2006 OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
PEO									
PFO									
A									
B									
C									

B. OPTION EXERCISES AND STOCK VESTED TABLE

IN GENERAL:

- This table provides investors with a picture of the amounts that an NEO realized on equity compensation during the last fiscal year through the exercise of vested options and SARs and through the vesting of restricted stock, RSUs, and other stock-based awards. This table is similar to a portion of the current Aggregate Option/SAR Exercises in Last Fiscal Year and FY-End Options/SAR Values Tables, except that it also includes the vesting of restricted stock and similar instruments.
- Columns (c) and (e) include the aggregate dollar amount realized by an NEO upon transfer of any such instruments for value but do not include the value of any related

payment or other consideration provided (or to be provided) by the Company to or on behalf of the NEO, whether in payment of the exercise price or related taxes. (Any such payment or other consideration provided by the Company is required to be disclosed in the "All Other Compensation" column of the SCT.) The aggregate dollar amount realized upon vesting of restricted stock, etc., is

computed by multiplying the number of shares of stock or units by the market value of the underlying shares on the vesting date. For any amount realized upon exercise or vesting for which receipt has been deferred, the Company must provide a footnote quantifying the amount and disclosing the terms of the deferral.

2006 OPTION EXERCISES AND STOCK VESTED

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ¹ (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
(a)	(b)	(c)	(d)	(e)
PEO				
PFO				
A				
B				
C				

¹ The value realized is calculated for options and SARs by determining the difference between the market price of the underlying securities at the date of exercise and the exercise or base price of the options or SARs. It is calculated for restricted stock and RSUs by multiplying the number of shares of stock or units by the market value of the underlying shares on the vesting date.

IV. RETIREMENT AND DEFERRED COMPENSATION PLANS/BENEFITS

A. PENSION BENEFITS TABLE

IN GENERAL:

- This table replaces the current Pension Plan Table and some of the other narrative descriptions. The table discloses the estimated annual payments and benefits

payable under each retirement-related defined benefit pension plan (excluding tax-qualified defined contribution plans and nonqualified defined contribution plans). A separate line of tabular disclosure is required for each plan in which an NEO participates.

2006 PENSION BENEFITS

Name (a)	Plan Name (b)	Number of Years Credited Service ¹ (#) (c)	Present Value of Accumulated Benefit ² (\$) (d)	Payments During Last Fiscal Year ³ (\$) (e)
PEO				
PFO				
A				
B				
C				

1 The table must present the number of years of service credited to the NEO under the plan, computed as of the same pension plan measurement date used for financial statement reporting purposes with respect to the Company's audited financial statements for the last completed fiscal year. If the credited years of service for the executive under any plan differ from the actual years of service with the Company, a footnote is needed to quantify the difference and any resulting benefit augmentation.

2 The table must present the actuarial present value of the NEO's accumulated benefit under the plan, computed as of the same pension plan measurement date used for financial statement reporting purposes with respect to the Company's audited financial statements for the last completed fiscal year. "Normal retirement age" means the normal retirement age defined in the plan, or if not so defined, the earliest time at which a participant may retire under the plan without any benefit reduction due to age. The Company must use the same assumptions used for financial reporting purposes under generally accepted accounting principles, except that retirement age shall be assumed to be the normal retirement age as defined in the plan, or if not so defined, the earliest time at which a participant may retire under the plan without any benefit reduction due to age. The Company must disclose in the accompanying textual narrative the valuation method and all material assumptions applied in quantifying the present value of the current accrued benefit. (A benefit specified in the plan document or the executive's contract itself is not an assumption.) The Company may satisfy all or part of this disclosure by reference to a discussion of those assumptions in the Company's financial statements, footnotes to the financial statements, or discussion in the Management's Discussion and Analysis. For purposes of allocating the current accrued benefit between tax-qualified defined benefit plans and related supplemental plans, it is necessary to apply the limitations applicable to tax-qualified defined benefit plans established by the Internal Revenue Code and the regulations thereunder that applied as of the pension plan measurement date.

3 This column will not normally apply to NEOs who are currently employed.

Following the table, a succinct narrative description of material factors necessary to an understanding of each plan disclosed in the table is required. Such factors include, among other things:

- The material terms and conditions of benefits available under the plan, including the plan's normal retirement payment, benefit formula, and eligibility standards, along with the effect of the form of benefit elected on the amount of annual benefits;
- If any NEO is currently eligible for early retirement under any plan, identification of the NEO and the plan, as well as a description of the plan's early retirement payment, benefit formula, and eligibility standards;
- The specific elements of compensation, such as salary and various forms of bonus, included in applying the benefit formula, identifying each such element;
- Regarding participation in multiple plans, the different purposes for each plan; and
- The Company's policies with regard to such matters as granting extra years of credited service.

B. NONQUALIFIED DEFERRED COMPENSATION TABLE

IN GENERAL:

- This table is required to disclose for the last completed fiscal year contributions (by both the employee and

the Company), earnings, withdrawals, distributions, and balances under nonqualified defined contribution and other deferred compensation plans. A separate disclosure is required for each plan in which an NEO participates.

2006 NONQUALIFIED DEFERRED COMPENSATION

Name	Executive Contributions in Last FY (\$)	Registrant Contributions in Last FY (\$)	Aggregate Earnings in Last FY (\$)	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at Last FYE (\$)
(a)	(b)	(c)	(d)	(e)	(f)
PEO					
PFO					
A					
B					
C					

- To avoid double-counting, the Company would be required to report in a footnote the extent to which: (a) amounts in the “Executive Contributions” and “Aggregate Earnings” columns are reported as compensation in the SCT in the year in question; and (b) other amounts reported in the table in the “Aggregate Balance” column were reported in the SCT for prior years.
- The Company would be required to provide narrative description of material factors necessary to an understanding of the disclosure in the table. Such factors include, among other things:
 1. The types of compensation permitted to be deferred, and any limitations on the extent to which deferral is permitted;
 2. The measure of calculating interest or other plan earnings (including whether such measures are selected by the NEO or the Company and the frequency and manner in which such selections may be changed), quantifying interest rates, and other earnings measures applicable during the Company's last fiscal year; and
 3. Material terms with respect to payouts, withdrawals, and other distributions.

V. SEVERANCE AND CHANGE-IN-CONTROL ARRANGEMENTS

The Company is required to provide a narrative disclosure of specific aspects of any written or unwritten arrangement that provides for payments at, following, or in connection with the resignation, severance, retirement, or other termination (including constructive termination) of an NEO; a change in his or her responsibilities; a change in control of the Company; or a change in the NEO's responsibilities. The following must be disclosed:

- The specific circumstances that would trigger payments under the termination or change-in-control arrangements or the provision of other benefits, including perquisites and health care benefits;
- The estimated payments and benefits that would be provided in each covered circumstance, and whether they would or could be lump-sum or annual, disclosing the duration and by whom they would be provided (the Company may elect to present this information in tabular form);
- How the appropriate payment and benefits levels are determined under the various circumstances that would trigger payments or provision of benefits;

- Any material conditions or obligations applicable to the receipt of payments or benefits, including but not limited to non-compete, non-solicitation, non-disparagement, or confidentiality covenants including the duration of such agreements and any provisions regarding waiver; and
- Any other material factors.

For purposes of primarily quantitative disclosure, the Company must assume that the triggering event took place on the last business day of the Company's last completed fiscal year and that the price per share of the Company's securities is the closing market price as of that date. In the event that uncertainties exist as to the provision of payments and benefits or the amounts involved, the Company is required to make a reasonable estimate (or a reasonable estimated range of amounts) applicable to the payment or benefit and disclose material assumptions underlying such estimates or estimated ranges in its disclosure. In such event, the disclosure would require forward-looking information as appropriate. The disclosure is considered forward-looking information that falls within the safe harbor for disclosure of such information.

Perquisites and other personal benefits or property may be excluded only if the aggregate amount of such compensation will be less than \$10,000. Individual perquisites and personal benefits must be identified and quantified as required by the SCT. For purposes of quantifying health care benefits, the Company must use the assumptions used for financial reporting purposes under generally accepted accounting principles.

To the extent that the form and amount of any payment or benefit that would be provided in connection with any triggering event are fully disclosed under the Pension Benefits or Nonqualified Deferred Compensation Table requirements, reference may be made to that disclosure. However, to the extent that the form or amount of any such payment or benefit would be enhanced or its vesting or other provisions accelerated in connection with any triggering event, such enhancement or acceleration must be disclosed pursuant to this paragraph.

Where a triggering event has actually occurred for an NEO and that individual was not serving as a named executive officer of the Company at the end of the last completed fiscal

year, the disclosure required by this paragraph for that NEO shall apply only to that triggering event.

There is no need to provide information with respect to contracts, agreements, plans, or arrangements to the extent they do not discriminate in scope, terms, or operation in favor of executive officers of the Company and are available generally to all salaried employees.

VI. COMPENSATION OF DIRECTORS

Tabular disclosure of each non-employee director's compensation is now required. Like the SCT, this table would include a "Total" column that adds the amounts in the other columns to produce a total compensation figure for each non-employee director for the last fiscal year. The items required to be disclosed in the table are:

- The name of each director unless the director is also an NEO and his or her compensation for service as a director is fully reflected in the SCT;
- The aggregate dollar amount of all fees earned or paid in cash for services as a director, including annual retainer fees, committee and/or chairmanship fees, and meeting fees;
- For awards of stock and options, the aggregate grant date fair value computed in accordance with FAS 123R (column (c));
- The dollar value of all earnings for services performed during the fiscal year pursuant to non-equity incentive plans and all earnings on any outstanding awards (column (e));
- The aggregate change in the actuarial present value of the director's accumulated benefit under all defined benefit and actuarial pension plans (including supplemental plans) from the pension plan measurement date used for financial statement reporting purposes with respect to the Company's audited financial statements for the prior completed fiscal year to the pension plan measurement date used for financial statement reporting purposes with respect to the Company's audited financial statements for the covered fiscal year, plus any above-market or preferential earnings on compensation that is deferred on a basis that is not tax-qualified, including such earnings on non-qualified defined contribution plans; and
- "All Other Compensation" as described in Footnote 1 below.

2006 DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation ¹ (\$)	Total (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
A							
B							
C							
D							
E							

¹ Each compensation item disclosed in this column must be identified and quantified in a footnote except that perquisites need not be included or itemized unless the aggregate value of all perquisites is more than \$10,000. Any perquisite must be quantified if it is valued at the greater of \$25,000 or 10% of total perquisites. This column includes (but is not limited to) disclosure of the following:

- All perquisites and other personal benefits (as described above);
- All “gross-ups” and other tax reimbursements;
- For any security of the Company or its subsidiaries purchased from the Company or its subsidiaries (through deferral of salary or bonus, or otherwise) at a discount from the market price of such security at the date of purchase, unless that discount is available generally, either to all security holders or to all salaried employees of the Company, with the compensation cost, if any, computed in accordance with FAS 123R;
- The amount paid or accrued to any director pursuant to a plan or arrangement in connection with the resignation, retirement, or any other termination of such director, or a change in control of the Company;
- Company contributions or other allocations to vested and unvested defined contribution plans;
- Consulting fees earned from, or paid or payable by, the Company and/or its subsidiaries (including joint ventures);
- The annual costs of payments and promises of payments pursuant to director legacy programs and similar charitable award programs, with a footnote describing the details of the adjustment;
- The dollar value of any insurance premiums paid by, or on behalf of, the Company during the covered fiscal year with respect to life insurance for the benefit of a director; and
- The dollar value of any dividends or other earnings paid on stock or option awards, when those amounts were not factored into the grant date fair value required to be reported for the stock or option award in column (c) or (d).

Also, by footnote to the appropriate column, the outstanding equity awards at fiscal year-end must be disclosed. Grouping the directors in a single row of the table is permissible if all of their elements and amounts of compensation are identical.

A narrative description is also required, describing the material factors necessary to understand the table, including a

description of standard compensation arrangements (such as fees for retainer, committee service, service as chairman of the board or a committee, and meeting attendance) and whether any director has a different compensation arrangement (identifying the director and describing the terms of that arrangement).

EXHIBIT 1

Disclosure of Perquisites and Other Personal Benefits (“Perks”)

This flow chart is designed to test whether an item of executive compensation should be treated as a perquisite and how it should appear in the Summary Compensation Table. Any item that would fall in the “All Other Compensation” column can be tested, except for amounts such as tax gross-ups, severance pay, and life insurance that are separately addressed in the rule.

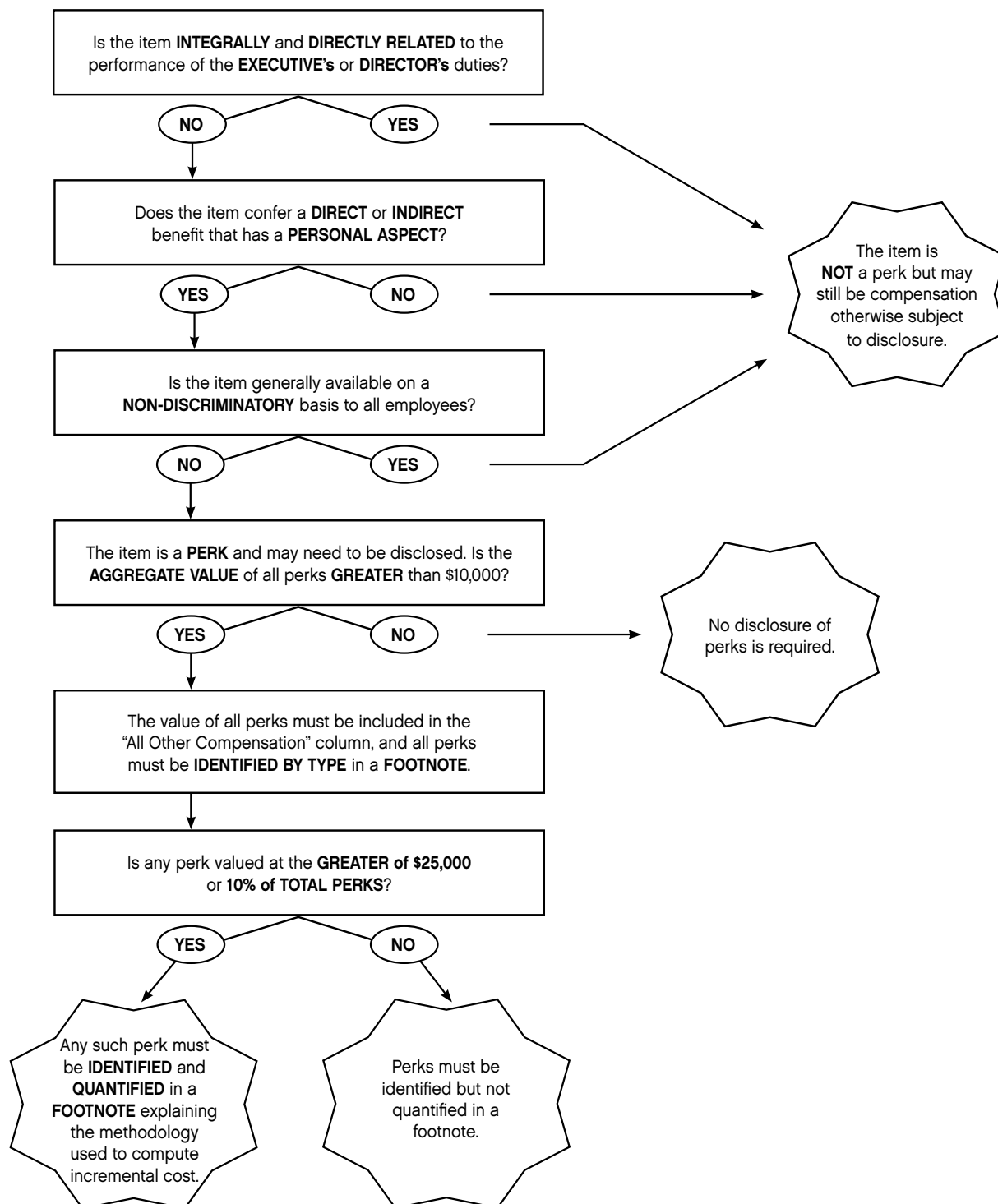


EXHIBIT 2

NEW SEC EXECUTIVE PAY DISCLOSURE REPORTING OF EARNINGS ON STOCK AWARDS AND OTHER COMPENSATION

Earnings On:	For Named Executive Officers and Directors
Restricted Stock	<ul style="list-style-type: none"> • No need to report dividends if “dividend protection” was included in the grant date fair value computed under FAS 123R and previously disclosed in the Summary Compensation Table (“SCT”) (for officers) or the Director Compensation Table (“DCT”) (for directors) as part of the grant date fair value. • If dividends were not included in the grant date fair value computation, disclosure of the dollar value of dividends is required in the “All Other Compensation” column of the SCT or DCT when dividends or other earnings are paid. • The material terms of any equity award (including whether dividends will be paid, the applicable dividend rate, and whether that rate is preferential) may be factors to be discussed in the related narrative section.
Stock Units (Phantom Stock) <ul style="list-style-type: none"> o RSU Awards o Other “Full Value” Awards (Performance Shares) 	<p>RSU Awards.</p> <ul style="list-style-type: none"> • No need to report dividend equivalents if “dividend protection” was included in the grant date fair value computed under FAS 123R (and previously disclosed in the SCT or DCT as part of the grant date fair value). • If dividend equivalents were not included in the grant date fair value computation, disclosure is required in the “All Other Compensation” column of the SCT or DCT when dividend equivalents or other earnings are paid. • The material terms of any equity award (including whether dividends will be paid, the applicable dividend rate, and whether that rate is preferential) may be factors to be discussed in the related narrative section. <p>Performance Shares.</p> <ul style="list-style-type: none"> • Same as for Restricted Stock Units (above).
Qualified Plans (401(k) Plans)	No requirement to disclose earnings.

Earnings On:	For Named Executive Officers and Directors
<p>Nonqualified Deferred Compensation Plans</p> <ul style="list-style-type: none"> o Compensation Deferred into Cash Accounts o Compensation Deferred into Stock Units (deferred stock) 	<p>Compensation Deferred into Cash Accounts.</p> <ul style="list-style-type: none"> • Above-market or preferential earnings must be disclosed in the “Change in Pension Value and Nonqualified Deferred Compensation Earnings” column of the SCT or DCT. Interest on deferred compensation is above-market only if the interest rate exceeds 120% of the applicable federal long-term rate, with compounding at the rate that corresponds most closely to the rate under the registrant’s plan at the time the interest rate is set. Only the above-market portion of the interest must be included. • <i>For NEOs Only:</i>¹ The dollar amount of aggregate interest or other earnings accrued during the last fiscal year must be reported in the “Aggregate Earnings in Last FY” column of the Nonqualified Deferred Compensation Table (whether or not such interest/earnings are above-market or preferential). A footnote should be included quantifying the extent to which amounts reported in the “Aggregate Earnings” column are reported as compensation in the last completed fiscal year in the SCT. <p>Deferred Stock.²</p> <ul style="list-style-type: none"> • Above-market or preferential earnings on compensation deferred on a non-tax-qualified basis must be disclosed in the “Change in Pension Value and Nonqualified Deferred Compensation Earnings” column of the SCT or DCT. Dividend equivalents on deferred compensation denominated in the registrant’s stock are preferential only if earned at a rate higher than dividends on the registrant’s common stock. Only the preferential portion of the dividends/equivalents must be included. • <i>For NEOs Only:</i>¹ The dollar amount of aggregate interest or other earnings accrued during the last fiscal year must be reported in the “Aggregate Earnings in Last FY” column of the Nonqualified Deferred Compensation Table (whether or not such interest/earnings are above-market or preferential). A footnote should be included quantifying the extent to which amounts reported in the “Aggregate Earnings” column are reported as compensation in the last completed fiscal year in the SCT.
Stock Options	Earnings are not usually paid on Stock Options.

¹ There is no requirement to report the dollar amount of aggregate interest or other earnings accrued during the last fiscal year for directors unless the interest/earnings are above-market or preferential.

² Registrants need not include in the “Salary” or “Bonus” column any amount of salary or bonus forgone at the election of an NEO pursuant to a registrant’s program under which stock, equity-based compensation, or other forms of non-cash compensation may be received by an NEO instead of a portion of annual compensation earned in a covered fiscal year. However, the receipt of any such form of non-cash compensation instead of salary or bonus earned for a covered fiscal year must be disclosed in the appropriate column of the SCT corresponding to that year (e.g., stock awards, option awards, all other compensation), or if it is made pursuant to a non-equity incentive plan and therefore not reportable in the SCT when granted, a footnote must be added to the “Salary” or “Bonus” column disclosing this amount, referring to the Grants of Plan-Based Awards Table where the award is reported. Likewise, registrants do not need to report in the “Fees Earned or Paid in Cash” column any amount of fees forgone at the election of a director where stock, equity-based compensation, or other forms of non-cash compensation are received instead of such cash fees. However, the receipt of such stock must be disclosed in the appropriate column of the DCT for the current year.

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