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SEC ADOPTS CHANGES TO EXECUTIVE COMPENSATION DISCLOSURE AND RELATED MATTERS

On July 26, 2006, the Securities and Exchange Commission voted to adopt changes to the rules requiring disclosure of: (1) executive and director compensation and security ownership; (2) related person transactions; (3) director independence; and (4) other corporate governance matters. These changes will affect disclosure in proxy statements, annual reports and registration statements, as well as the current reporting of employment arrangements on Form 8-K. The final release has not yet been issued by the SEC and we will provide additional details after the rules are published.

The Commission believes the rule changes and guidance will improve the quality and usefulness of the information that investors receive about executive compensation. Investors will now be provided with one number for total annual compensation for each named executive officer, a narrative analysis of compensation matters will be included and disclosures will be required to be made in plain English.

Compensation Matters

The amendments require additional columns in the current Summary Compensation Table to embellish the currently required tabular disclosure as well as complementary narrative disclosure. The goal is to achieve 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. To avoid anomalies arising out of unique factors such as an officer's age and length of service, determination of the highest paid executives will be made on the basis of "total compensation" minus (i) the actuarial present value of accumulated pension plan benefits and (ii) above-market earnings on non-qualified deferred compensation.

Executive compensation disclosure will now be 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, deferred compensation and other post-employment payments and benefits.

The Summary Compensation Table will show compensation for each named executive officer over the last three years. The Table will be accompanied by narrative disclosure and a Grants of Plan-Based Awards Table that will help explain the compensation information presented in the table. The Summary Compensation Table will include, in addition to columns for salary and bonus:

- A dollar value for all equity-based awards, shown in separate columns for stock and stock options, measured at grant date fair value;
- A column reporting the amount of compensation under non-equity incentive plans;
- A column reporting the annual change in the actuarial present value of accumulated pension benefits and above-market or preferential earnings on nonqualified deferred compensation;

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- A column showing the aggregate amount of all other compensation not reported in the other columns of the table, including perquisites. Perquisites will be included in the table unless the aggregate amount is less than \$10,000, and the final release will provide interpretive guidance for determining what is a perquisite; and
- A column reporting total compensation.

As written, the prior proposal would have required disclosure concerning up to three employees who were not executive officers during the last completed fiscal year, but whose total compensation was greater than that of any of the named executive officers. The SEC has indicated that this provision was not adopted and will be revised and repropose for public comment. The new proposal would require narrative disclosure concerning the compensation of the same persons as the prior proposal, with two qualifications: (1) the requirement would only apply to large accelerated filers; and (2) employees having no responsibility for significant policy decisions within the company, a significant subsidiary, or a principal business unit, division or function would be excluded.

Disclosure regarding outstanding equity interests will include: (1) an Outstanding Equity Awards at Fiscal-Year End Table (showing potential amounts that may be received in the future, including this information for each outstanding option rather than on an aggregate basis); and (2) an Option Exercises and Stock Vested Table showing amounts realized on equity compensation during the last fiscal year.

Retirement plan and post-employment disclosure will include: (1) a Pension Benefits Table, showing the actuarial present value of each named executive officer's accumulated benefit under each pension plan; and (2) a Nonqualified Deferred Compensation Table, showing executive contributions, company contributions, withdrawals, all earnings for the year (not just the above-market or preferential portion) and the year-end balance for nonqualified deferred compensation plans.

Companies will also have to provide a narrative description of any arrangement that provides for payments or benefits at, following, or in connection with any termination of a named executive officer, a change in responsibilities, or a change in control of the company, including quantification of these potential payments and benefits assuming that the triggering event took place on the last business day of the company's last fiscal year and the price per share was the closing market price on that date.

The Commission will provide in the final Release additional guidance regarding disclosure of company programs, plans and practices relating to the granting of options, including in particular the timing of option grants in coordination with the release of material nonpublic information and the selection of exercise prices that differ from the underlying stock's price on the grant date. Required disclosures about a grant of an option will include a grant date fair value and the date of compensation committee or full board action on the grant.

Compensation Discussion and Analysis

The new Compensation Discussion and Analysis section will be "filed" and not merely "furnished," making it part of the disclosure that is subject to certification by a company's principal executive officer and principal financial officer. This "CDA" will require, among other things, narrative disclosure about option grants to executives such as the reasons for selecting a particular grant date or the methods used to select the terms of awards such as the exercise prices of stock options. Overall, the CDA will address the objectives and implementation of executive compensation programs.

A new furnished Compensation Committee Report will require a statement of whether the compensation committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on this review and discussion, recommended that it be included in the company's annual report on Form 10-K and proxy statement.

Other Requirements

The new requirements will consolidate the Form 8-K disclosures regarding employment arrangements. Reports will continue to be necessary as to named executive officers within four business days of entering into such arrangements.

The requirements for disclosure of related person transactions will be modernized, including an increase in the dollar threshold for these transactions from \$60,000 to \$120,000. As revised, disclosures will be required for the Company's policies and procedures for reviewing and approving related person transactions.

A new disclosure item will consolidate existing disclosure requirements regarding director independence and related corporate governance matters. The new item will include updated disclosure requirements about director independence.

The new rules will require disclosure of the number of shares pledged by management.

Effective Dates

Compliance with these provisions will be required for Forms 10-K and 10-KSB for fiscal years ending on or after December 15, 2006 and for proxy and information statements filed on or after December 15, 2006, that are required to include affected disclosures for fiscal years ending on or after December 15, 2006. The modifications to Form 8-K will be effective for current reports due 60 days after the amendments are published in the Federal Register.

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