

April 3, 2006

INSIDER ACTION: DANIEL LEE

Policy perk: Bonus pays for CEO's life insurance

April 3, 2006

Shoe Carnival seems determined to keep a longtime perk in place for Mark Lemond, chief executive of the Evansville- based shoe retailer.

It's called a split-dollar life insurance policy, and in the complex world of executive compensation it really amounts to getting something for nothing.

In this case, Shoe Carnival picks up Lemond's annual premium of \$21,300 for a policy that provides his estate with \$1 million in life insurance coverage, according to a recent filing with the Securities and Exchange Commission.

That represents a small portion of his overall compensation. After all, Lemond is slated to make a base salary of \$670,000 in 2006.

The split-dollar policy, though, has become a complicated part of his pay package, with the company having to switch its method of funding Lemond's policy to make sure it is in compliance with the 2002 Sarbanes-Oxley Act.

In recent years split-dollar policies for top executives have become controversial because the premiums paid by companies on behalf of their executive have been widely viewed as personal loans -- something barred by Sarbanes-Oxley, which was designed to increase oversight of corporations.

Lemond's split-dollar policy began in March 1999 as part of an overall compensation package approved by the company's board. "They agreed that the company would pay the premiums," said Shoe Carnival Chief Financial Officer W. Kerry Jackson.

So to keep the policy after the enactment of Sarbanes-Oxley, Shoe Carnival switched from directly paying Lemond's annual premium to giving him with a bonus to cover those costs. For 2006, Shoe Carnival is handing him \$35,000 -- enough to cover his premium and personal taxes from the bonus payment.

And here's another wrinkle: Companies are supposed to be reimbursed for all premium payments made for executives' split-dollar policies. But because those payments now are made indirectly through bonuses, Shoe Carnival won't get any of that money back.

In years past, executives across the nation have enjoyed split-dollar policies many times larger than Lemond's. But in 2004 only about 4 percent of Fortune 500 CEOs had split-dollar life insurance policies disclosed in SEC filings, according to compensation research firm Equilar.

"Everybody's running scared," said George L. Cushing, an attorney specializing in taxes, estates and trusts for Kirkpatrick & Lockhart Nicholson Graham in Boston. "They don't know whether they can continue these things."

And at least one corporate watchdog criticized Shoe Carnival's practice of using a bonus to pay Lemond's premiums indirectly. "It's a flagrant disregard of the spirit of Sarbanes-Oxley," said Paul Hodgson, senior research associate for The Corporate Library, a research firm specializing in corporate governance.

Jackson said he "100 percent disagrees" with that assessment, saying, "There's nothing hidden about it at all."

And so the perk persists.