N.C.-Based Company Rewards CEO for Paying Off His Debt to Firm

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How about a bonus for paying off your debt to the company?

That's the unusual compensation arrangement Speedway Motorsports Inc. set up for its chief executive. Part of Chairman and Chief Executive O. Bruton Smith's $1.45 million bonus for 2006 was based on the fact that he repaid some of the money he's owed his company for at least four years, according to a recent filing with the Securities and Exchange Commission. This has compensation experts puzzled.

"Basing a portion of a bonus on simply the repayment of outstanding debt is not only unusual, it is inconsistent with pay for performance," said Bruce R. Ellig, author of a guide to executive compensation.

Smith's 2006 bonus was based on three components: meeting target return on average equity, Smith's "reduction of debt" owed to the company and Speedway Motorsports' meeting or exceeding forecast earnings. Lauri Wilks, spokeswoman for the Concord, N.C., promoter of race car events, said there is no specific weighting set either for Smith's debt-reduction bonus criterion or the other two factors.

Wilks said she didn't know the amount of Smith's current outstanding debt to Speedway Motorsports. It stood at $1.9 million at the end of last year, and was related both to the CEO's life insurance premiums being treated as loans and "cash advances and expenses paid by the company on behalf of the chairman before July 30, 2002," according to Speedway Motorsports's most recent proxy statement.

Smith's debt to his company stood at $9 million at the end of 2002, was reduced to $3.8 million at the end of 2003 and declined to $2.9 million at the end of 2004, according to past proxy statements.

Wilks said that the life insurance arrangement is no longer in effect, and that the company stopped "any kind of loans" to Smith after the Sarbanes-Oxley law prohibiting public companies from extending new loans to their executives took effect in 2002.

Paying off his debt has been a factor in Smith's bonus for at least the past three years, according to earlier SEC filings.

"With increased scrutiny of companies and compensation, the outside directors of the company and the compensation committee wanted the chairman to actively reduce any kind of debt that he owed," Wilks said.

Ellig called the arrangement "a little strange," and said it equated to a double benefit because the company first lent money to the chief executive and then rewarded him for paying it off later.

Wilks of Speedway Motorsports noted that Smith has been paying off his debt substantially over the past few years.

Lucian A. Bebchuk, Harvard Law School professor and director of its corporate governance program, said that he had never encountered an executive bonus that took into account the recipient's payback of loans, and he called individual debt reduction "a very funny performance measure."