

13TH ANNUAL CEP AND SILICON VALLEY NASPP SYMPOSIUM

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SANTA CLARA UNIVERSITY • CERTIFIED EQUITY PROFESSIONAL INSTITUTE • SILICON VALLEY CHAPTER-NASPP



Whose On First? And What's A Recharge?

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Agenda

- Pre-Game - Meet the Team
- First Inning – Recharge Basics
- Second Inning – Project Approach
- Third Inning - Due Diligence
- Rain Delay!
- Fourth Inning – Implementation
- Ninth Inning Win - Outcome
- Extra Inning – Trends and Developments
- Questions



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Arthur J. Gallagher & Co. Overview

- Founded in 1927, publicly traded since 1984
- Operations in 35 countries and client-service capabilities in more than 140 countries around the world
- Among the world's top 4 insurance brokers
- Second largest U.S. property and casualty third-party administrator

Key Statistics	
Annual Revenue (2016)	\$4.25B
Total Employees	25,000
Employees Receiving LTI Equity	3.5%
Global Reach	35 Countries 68% Domestic, 32% International
Equity Programs:	
Stock Options	15 Countries
RSUs	
Performance Plan	
ESPP	7 Countries, 2 plan designs

Simple Business Model

We sell insurance and adjust claims, without underwriting risk



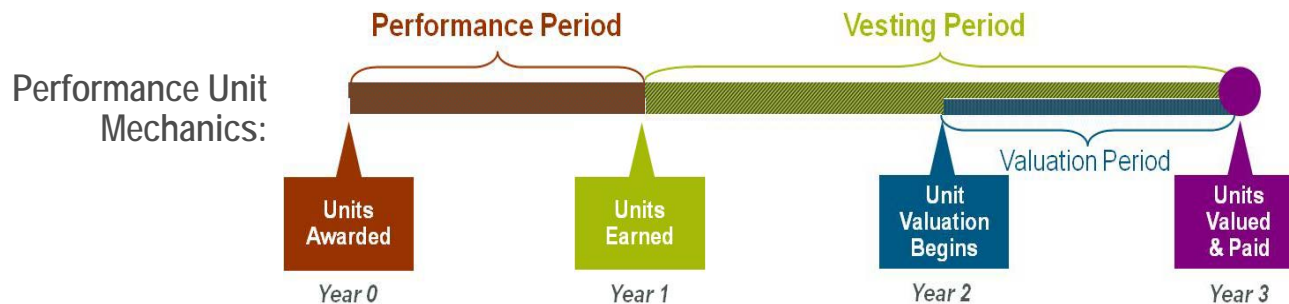
Culture at AJG

- **Family Legacy.** Strong sense of family; now led by third-generation Gallagher. Long-term focused.
- **Rooted in “The Gallagher Way.”** Guided by shared values defined in “The Gallagher Way,” 25 tenets composed by Robert E. Gallagher in 1984.
- **Dynamic and Acquisition Focused.** History of acquiring smaller brokers as growth engine; recent larger acquisitions have increased international footprint.
- **Need for Flexibility.** Fast-paced sales environment with decentralized decision making. High customization of compensation programs required.
- **Value New Talent.** Industry-renowned intern program. High investment in young talent. Excellent conversion to employees, with formal program.
- **Performance Driven.** Sales mentality and high recognition of top performance. Programs designed to recognize performance. Little focus on level or hierarchy.

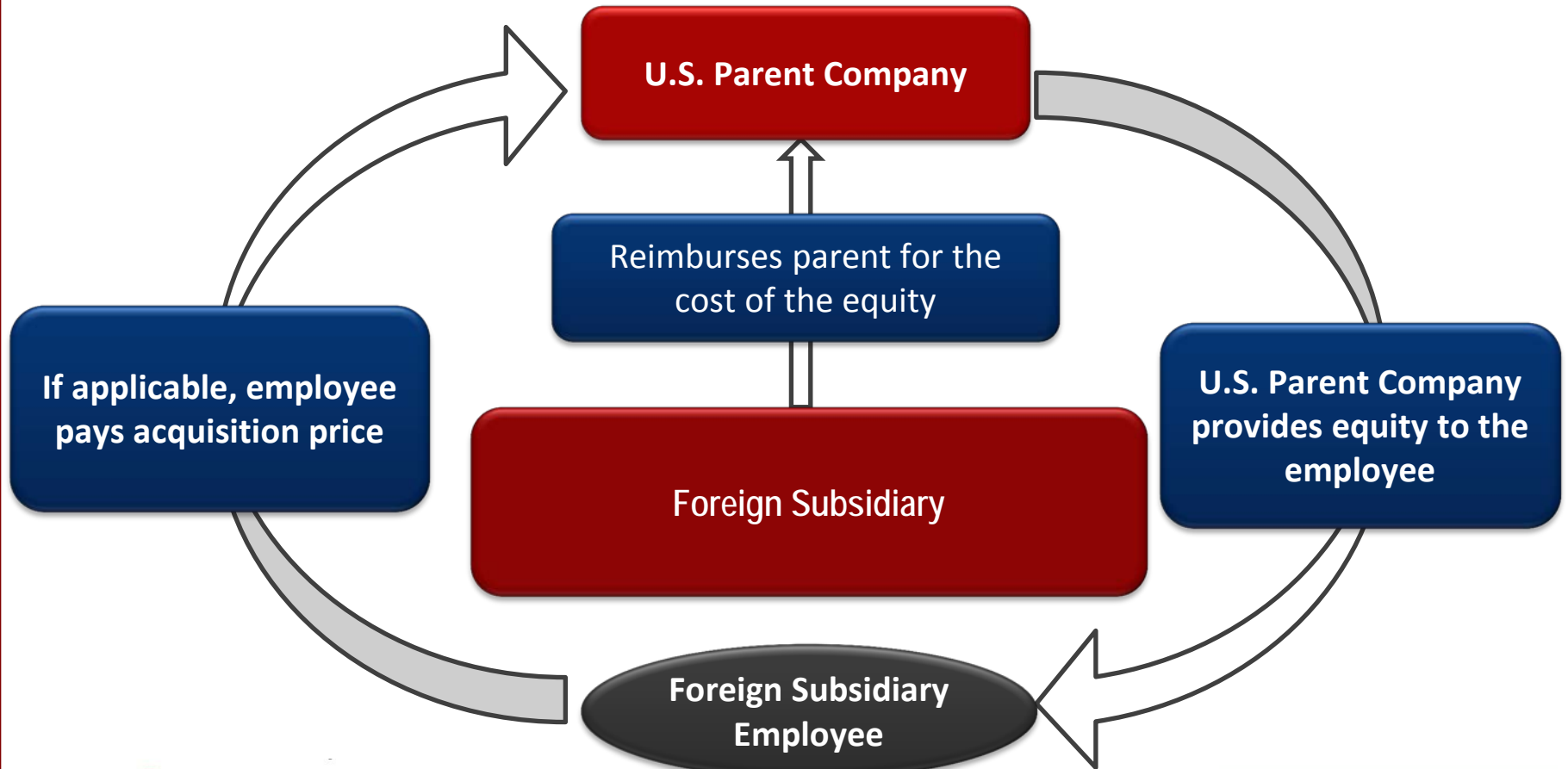


AJG Long Term Incentive Program

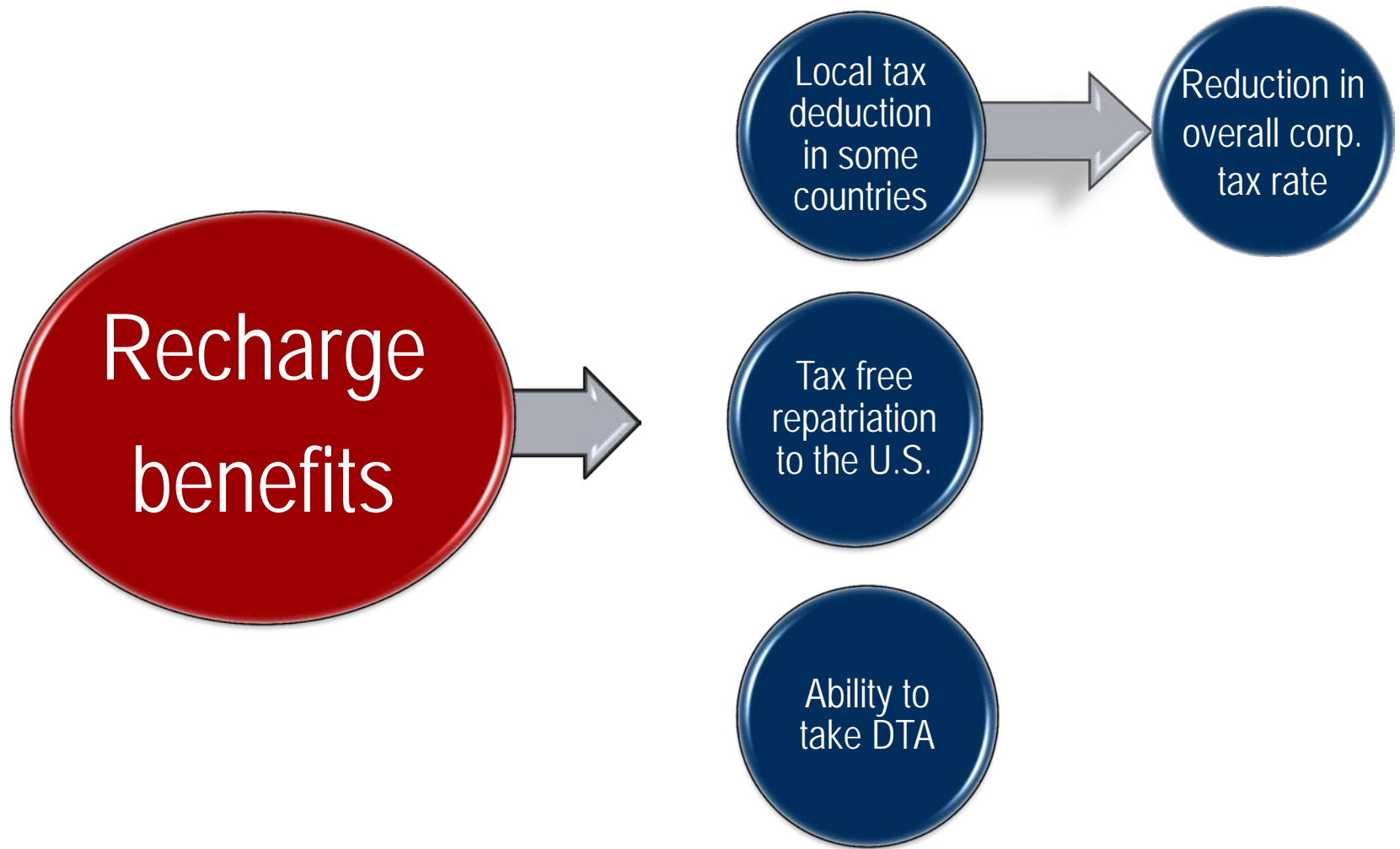
- All are eligible
 - Nomination process based on individual performance
- No guarantee to participate
 - No automatic participation by level and no commitments in employee agreements
 - High rotation of participants—25-35% are new to the program each year; less than 50% of executives participate in any year
- Participants receive a mix of all three vehicles—all employees receive stock options, RSUs, and performance units (PUPs); officers receive PSUs
 - Mix of vehicles varies; higher concentration of performance awards at top levels
 - Uncommon practice to use performance vehicles so broadly; drives common goal across organization and allows expanded participation



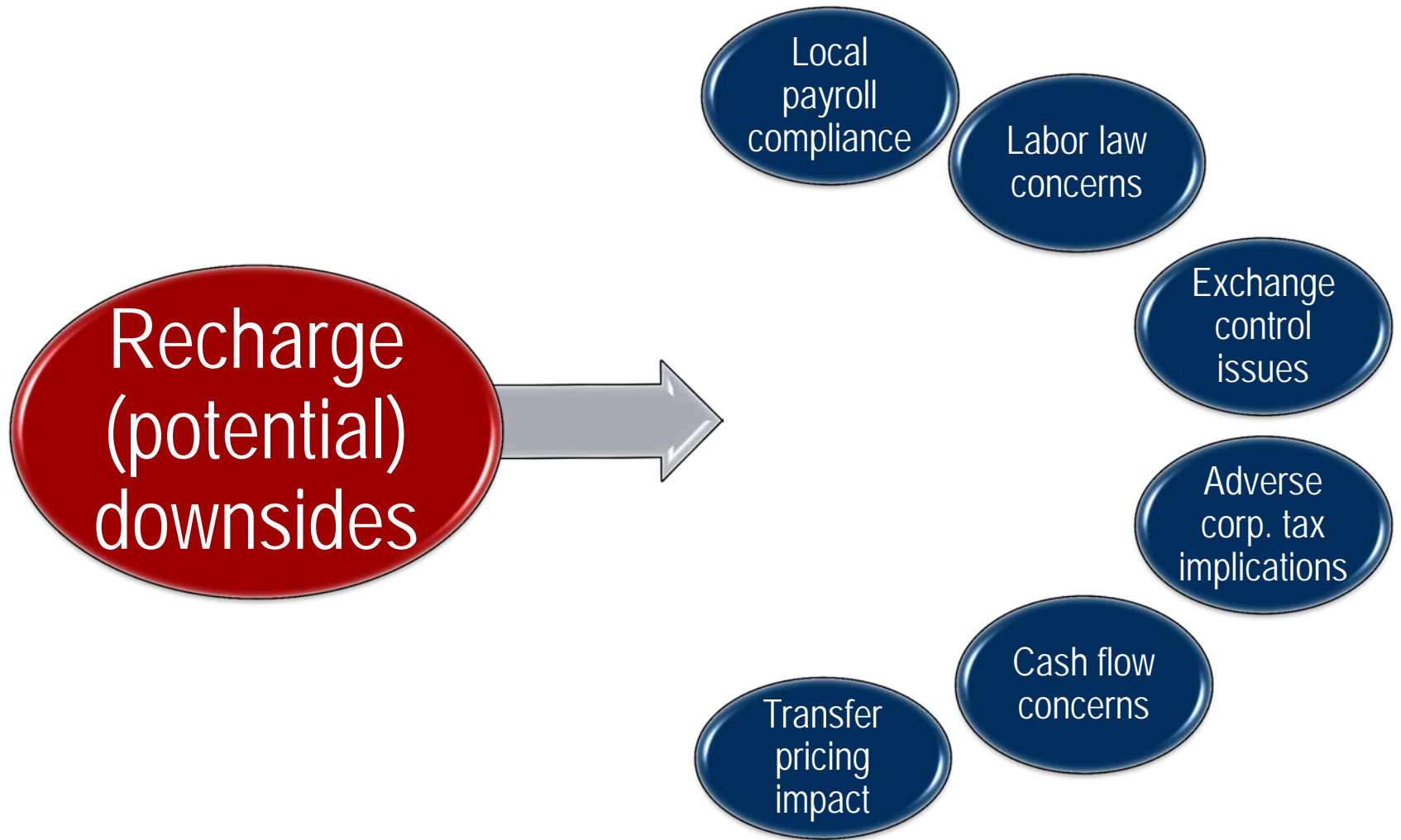
First Inning – Basics



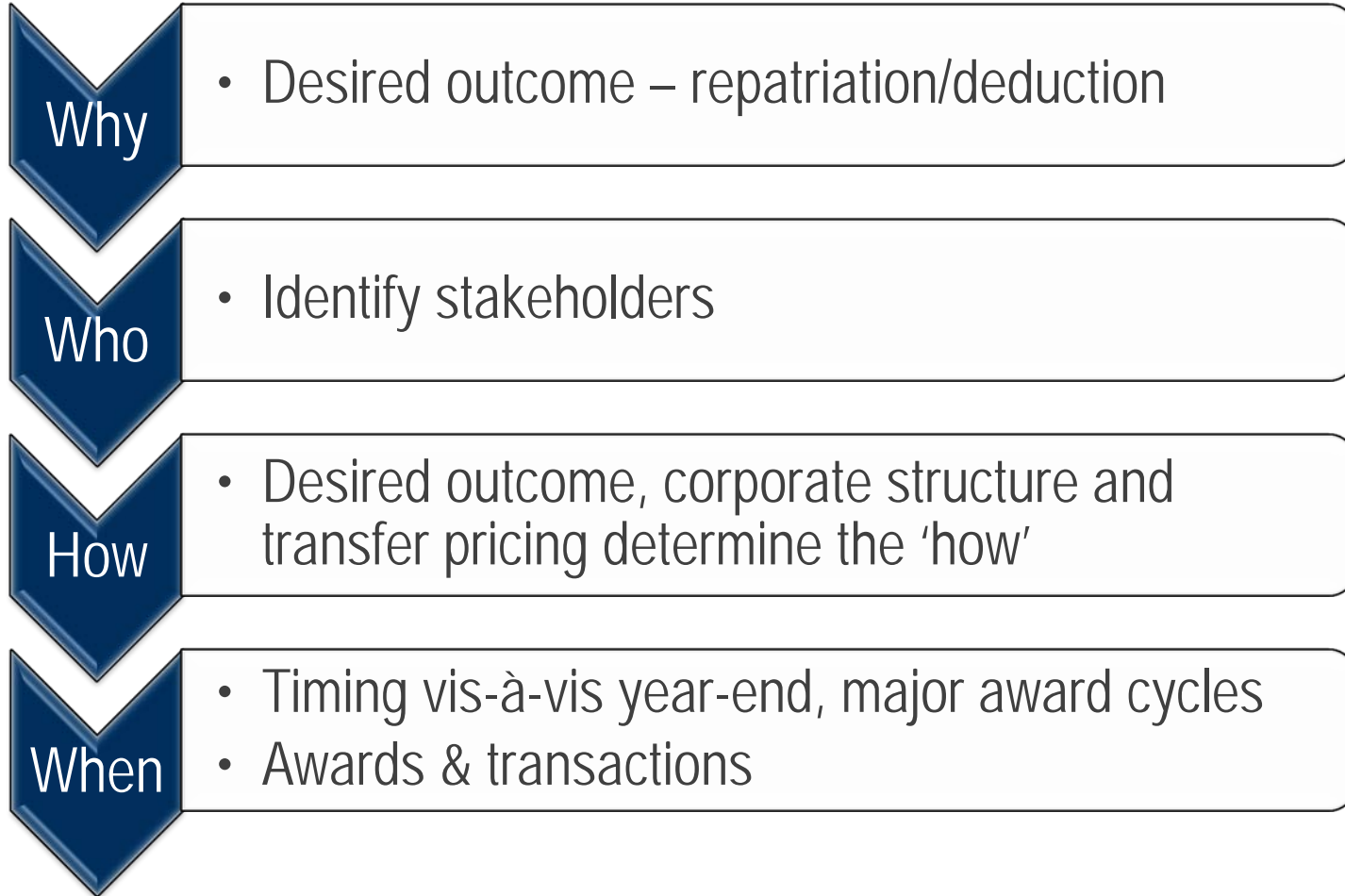
First Inning – Basics



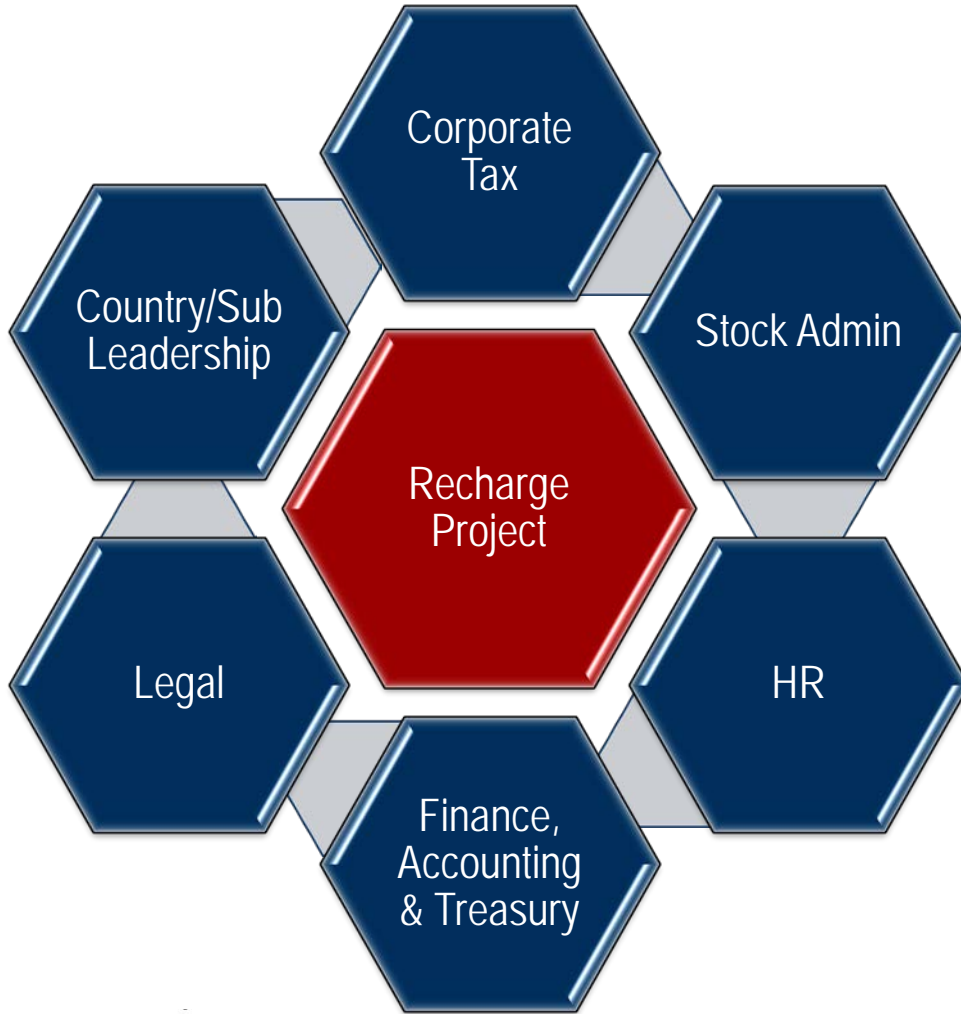
First Inning – Basics



Second Inning – Project Approach



Second Inning – Project Approach



Team Effort
*Take care to
build the
right team*



Third Inning – Due Diligence

- Impact on payroll taxes & employer compliance requirements
- Impact on labor law issues
- Exchange controls
- Withholding on payments made to non-residents
- Tax treatment of payment to Parent co.
- Tax deduction valuation methodology
- Transfer pricing impact
- Impact on subsidiary cash flow



Rain Delay!

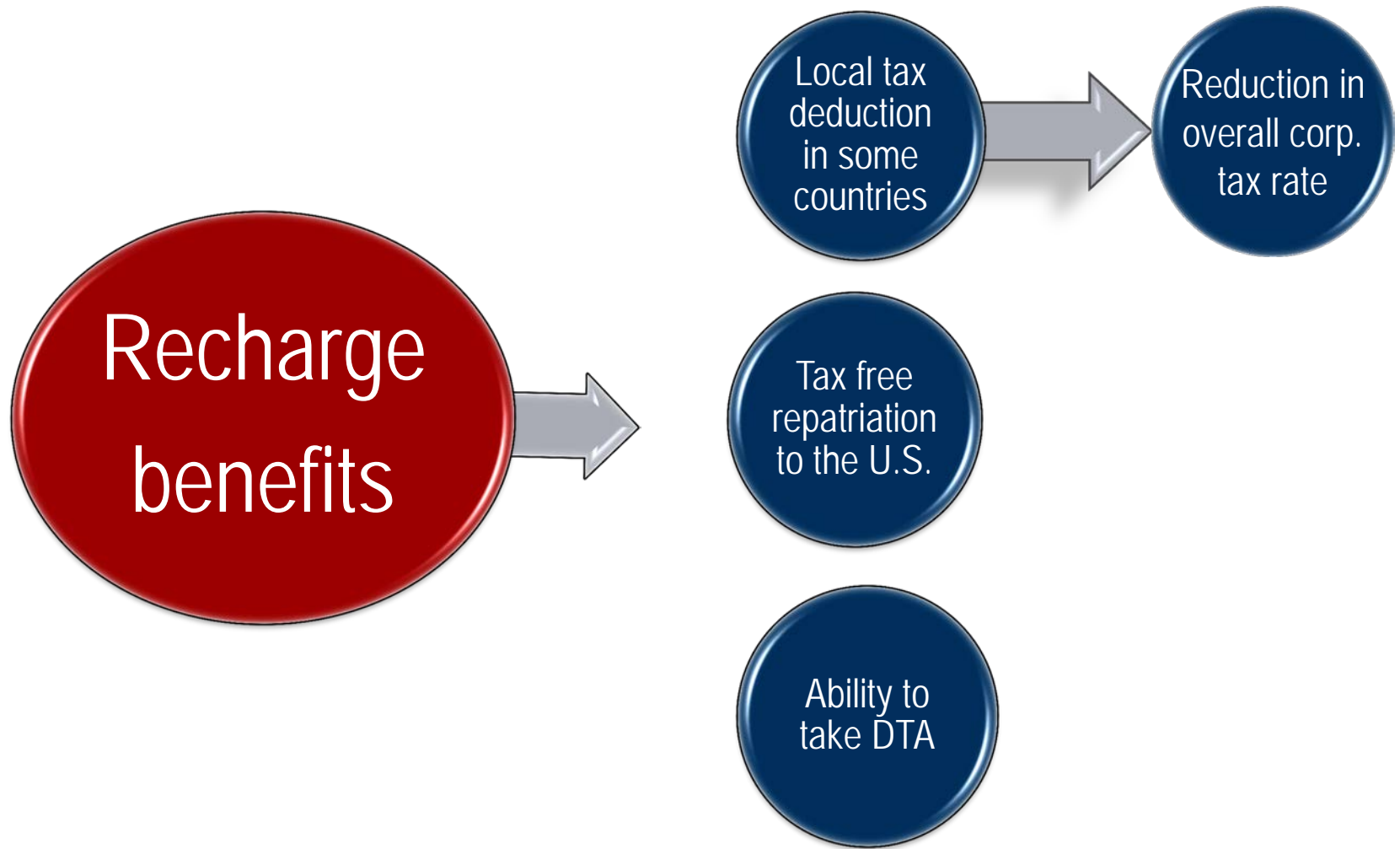
- Mobile employees
- Differing priorities by stakeholders
- Time taken to complete documents
 - Availability of signatories!
- Communications regarding new employer compliance requirements
 - Employees
 - Payroll
- Prospective only countries
 - Timeline / deadlines
 - Impact on withholding



Fourth Inning – Implementation



Ninth Inning – Win!



Extra Inning – Trends and Developments

- Changing employer compliance requirements
 - Belgium
 - Brazil
 - Colombia
- Recharges for assignees
 - Korea
- Base Erosion and Profit Shifting (BEPS) Initiative by OECD
- Inclusion of stock compensation costs in transfer pricing agreements
 - U.S. - Altera case
 - Israel - cost-sharing agreements



Questions

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