

Global ESPP Implementation

Keys for Success

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Agenda

- Introductions
- Project background
- Rollout schedule and key dates
- Plan design considerations
- Technical considerations
- Final design
- General risk areas
- EEO Implementation tips
- Communication best practices
- The result . . .



Introductions

HCC: At a Glance



HCC

HCC Insurance Holdings, Inc. underwrites non-correlated specialty insurance products worldwide. The company operates in five segments: U.S. Property and Casualty, Professional Liability, Accident and Health, U.S. Surety and Credit, and International

Stock Ticker: NYSE: HCC

Market Cap: \$4.47 billion

2013 Revenue: \$2.54 billion

Founded: 1974

Headquarters: Houston, TX

Employees: ~1,900 worldwide

Global Presence: ~6 countries



Introductions

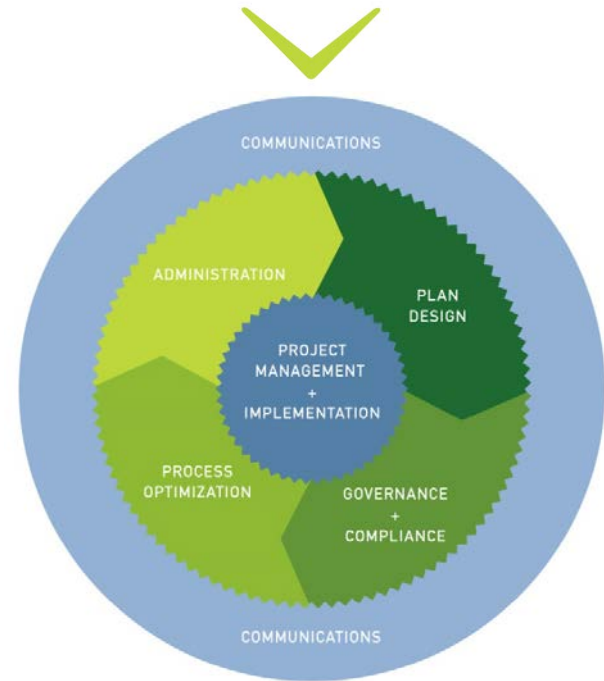
Hire potential. Higher performance.

At Independent Stock Plan Advisors, we deliver executive compensation solutions that inspire your workforce. By delivering just-in-time resources, we bridge global equity and incentive compensation knowledge and resource gaps at every level of your organization. Dynamic, flexible and focused, we're the people who keep your people happy.



Our advisors count more than the numbers.

Some firms specialize in executive compensation strategy, governance and technical matters. Others concentrate on plan operations and administration. We do both. We understand the rules governing global equity and incentive compensation plans, as well as the functionality of the vendor platforms that support them. As a result, we're able to offer an inherently holistic approach to executive compensation planning.



The genesis

The “CEO Golf Trip”



Primary goal

Create culture of
ownership in US



Additional objectives

Increase employee engagement

Improve productivity / ROI

Grow ownership in friendly hands



Why ESPP?

Employer benefit

- Retain, attract and motivate
- Align all staff levels with shareholder interest and ownership
- Prof. Blasi study (4-5% higher growth)
- Realistic expense (only pay for what you actually deliver)

Employee benefit

- Flexibility and choice
 - Employees choose to opt in or out of plan
 - Convenience of payroll deduction
 - Buy stock at discount to market value
 - Immediately vested, can sell stock at any time



Defining success

Year 1

10 – 20% participation

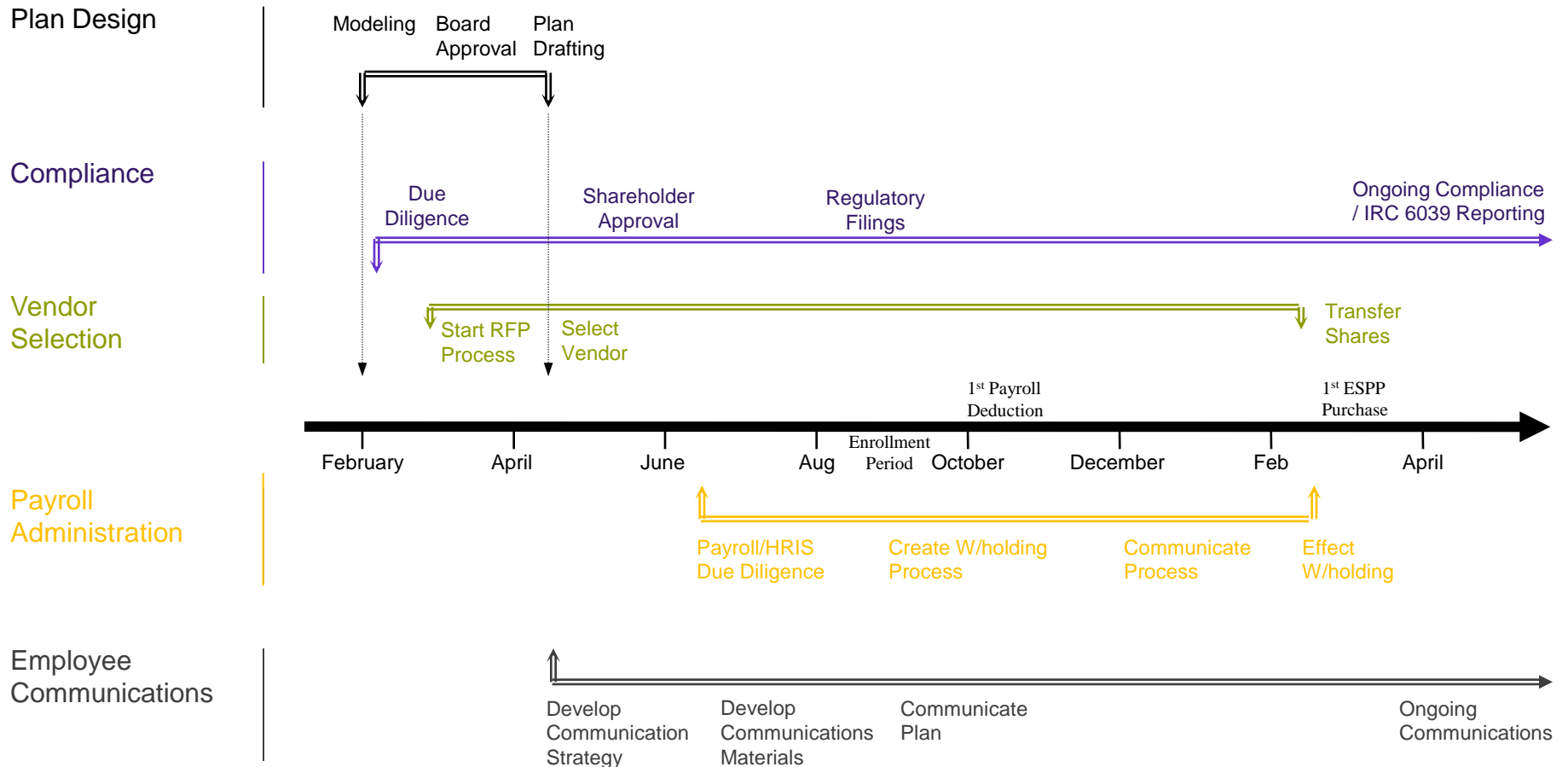
Year 2

20 – 40% participation



Project background

Rollout schedule and key dates



Plan design considerations

- An ESPP is an employee benefit plan that allows employees to purchase company shares at a discount – typically with funds accumulated via payroll deductions
- Key plan design features are as follows:
 - Discount vs. company match
 - Qualified or not
 - Look-back feature
 - Length of offering period
 - Eligible employees
 - Holding period



Additional “Big Picture” Considerations

Total reward alignment	<ul style="list-style-type: none">• How will the plan align with the current total rewards and overall business strategy?
Value delivered	<ul style="list-style-type: none">• What is the employee perceived value vs. actual cost of plan?• Does this vary by employee level?• Tax qualified opportunities available?
Retention & attraction	<ul style="list-style-type: none">• Are there turnover or recruiting concerns?• Do we want to impose a holding requirement?
Plan funding & ROI	<ul style="list-style-type: none">• How will you evaluate the effectiveness of the plan?
External competitiveness	<ul style="list-style-type: none">• Should participation levels be benchmarked against market practices?
Global alignment	<ul style="list-style-type: none">• Will the plan be standard around the world?• Will the plan be modified to capture local tax benefits?• Expense push-down?



Plan design considerations

NASPP 2011 Survey

- Of 581 survey respondents, roughly half (52%) have ESPP
 - ESPP more prevalent in high tech companies (69%); not so much in manufacturing (29%)
- Most ESPPs are qualified under IRC Section 423 with 15% discount, many with look-back feature
 - 82% are Section 423 plans
 - 71% offer 15% discount; 62% offer look-back feature
- Participation % varies widely
 - 40% reported participation rate of 20% or less
 - 35% reported participation rate between 21% and 50%
 - 20% reported participation rate between 51% and 80%
 - 5% reported participation rate over 80%



Technical considerations

- Accounting implications
 - Equity vehicle with arguably the most realistic expense
 - You only pay for what you actually deliver
 - Under ASC 718
 - Compensatory if discount > 5% and/or plan contains look-back feature
 - Fair value calculation required

	ESPP cost per \$10 share					
	15% discount		10% discount		5% discount	
Look-back period	No limit	Limit	No limit	Limit	No limit	Limit
24 months	\$4.33	\$3.94	\$3.84	\$3.58	\$3.36	\$3.23
18 months	\$3.95	\$3.61	\$3.46	\$3.24	\$2.98	\$2.87
12 months	\$3.51	\$3.23	\$3.02	\$2.83	\$2.53	\$2.43
6 months	\$2.92	\$2.72	\$2.43	\$2.29	\$1.93	\$1.86
None	\$1.70	\$1.50	\$1.13	\$1.00	\$0.00	\$0.00



Technical considerations

- Accounting implications (cont.)
 - Ways to reduce employer compensation cost
 - Shorten offering period (e.g. from 24 months to 6 months)
 - The longer the offering period, the more diluted the Plan, since employees are more likely to purchase their shares at a substantial discount
 - Eliminate look-back feature
 - Reduces administrative and cost burden
 - Reduce discount (e.g. from 15% to 5%)
 - The smaller the discount, the less the cost per share



Technical considerations

- Tax
 - Notable IRC Section 423 Requirements
 - Written plan must:
 - Specify maximum # of shares that may be issued under the plan
 - Approved by shareholders within 1 year (+ / -) of plan adoption
 - Most companies begin the first offering “after” the shareholders have approved the plan
 - \$25,000 Annual Limit
 - No more than \$25K of stock may be purchased under 423 plan during each calendar year
 - Limit is calculated based on FMV of stock on Grant Date



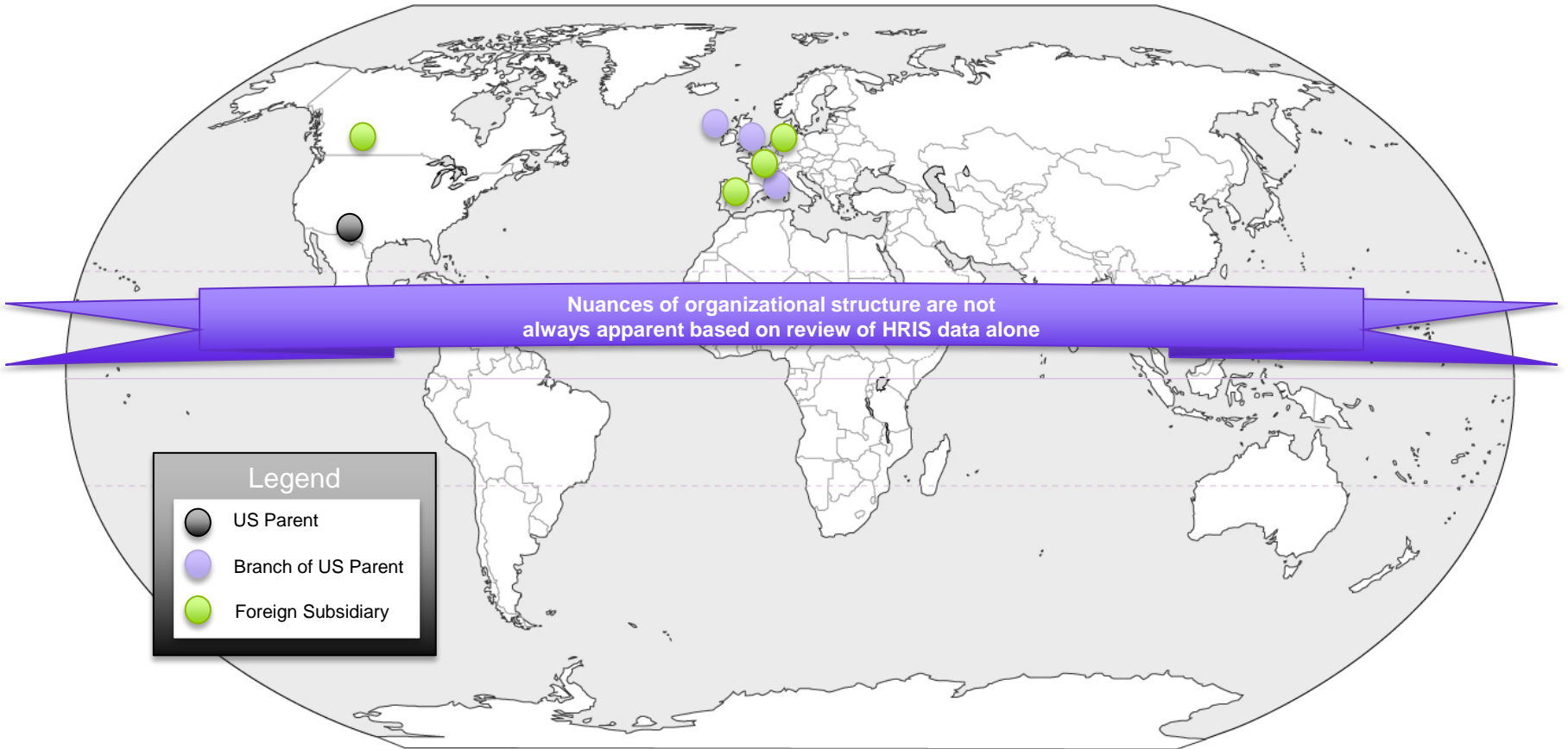
Technical considerations

- Tax (cont.)
 - Eligibility requirements
 - Nondiscriminatory (with some exceptions)
 - Highly compensated employees under IRC Section 414
 - Employed < 2 years
 - Work 20 or less per week
 - Seasonal employees
 - Equal rights & privileges
 - Except for narrow exceptions for non-US EEs, all eligible EEs must generally be offered same rights and privileges
 - ***Foreign branch vs. subsidiary distinction is significant***

Foreign anti-discrimination laws may limit availability of exclusions



The World According to HCC



Features

Eligibility	<ul style="list-style-type: none">▪ The ESPP will be available to employees in both the US & UK▪ Additional countries eligible as of 2nd purchase period▪ No exclusions
Purchase Period	<ul style="list-style-type: none">▪ Purchases will occur biannually, at fair market value on either the first or last day of the purchase period, whichever is lower
Enrollment	<ul style="list-style-type: none">▪ Biannually▪ 2-week period prior to the start of each Purchase Period
Look-Back Period	<ul style="list-style-type: none">▪ 6 Months
Discount	<ul style="list-style-type: none">▪ 15% off the purchase price
Participant Contribution	<ul style="list-style-type: none">▪ 1 – 15% of base salary



General risk areas

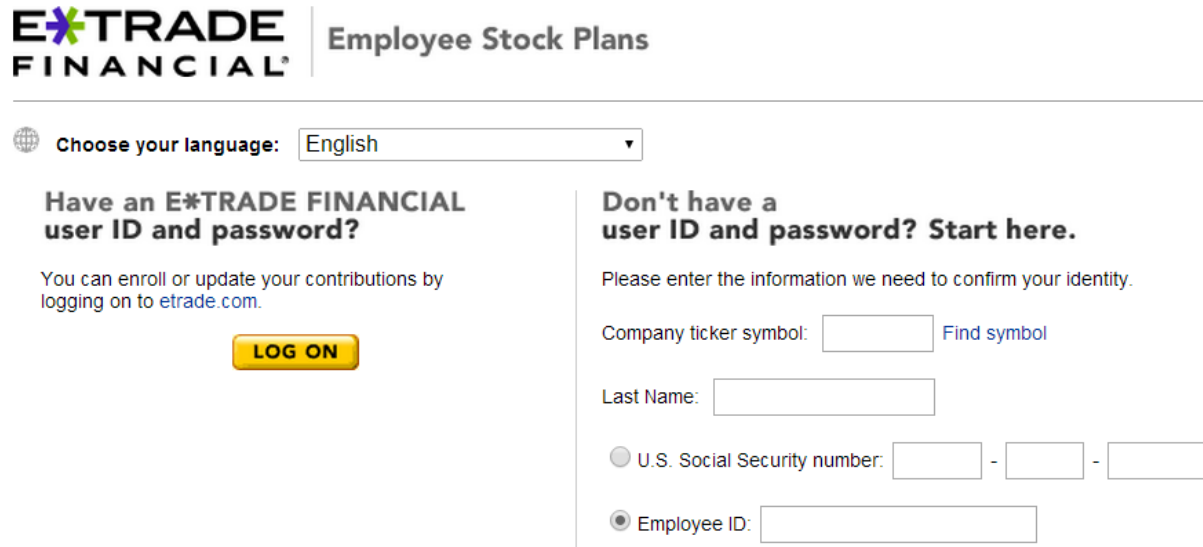
- Key issues
 - Senior leadership and local support are critical to success
 - Varying regulatory approval schedules can impact timing
 - Lack of clear accountabilities, particularly between corporate and local subsidiary
 - Conflicting projects, corporate and local
 - Resource constraints
 - Availability and accuracy of global employee data



Equity Edge Online™ Implementation Tips

ESPP Enrollment

- Leverage 'Location ID' in eligibility file for multiple payroll groups
- Automatic carry-over enrollment elections from prior vendor's system
- Cumulative contributions displayed to employee
- Electronic acceptance
- Multiple enrollment sites for international presence



E*TRADE FINANCIAL | Employee Stock Plans

Choose your language: English

Have an E*TRADE FINANCIAL user ID and password?

You can enroll or update your contributions by logging on to etrade.com.

LOG ON

Don't have a user ID and password? Start here.

Please enter the information we need to confirm your identity.

Company ticker symbol: [Find symbol](#)

Last Name:

U.S. Social Security number: - -

Employee ID:



E*TRADE Hosted Enrollment



Take a couple of minutes to review the information below and enroll in your stock purchase plan.

Message From Your Company:



You can now enroll in Demo Corp's ESPP. If you have questions, email us at stockplan@democorp.com or call 555-1212

Enrollment Information

Set contribution percentage to: % (Between 1% and 10%)

Set contribution amount to: USD (Between \$1 and \$500)

Enter your e-mail address:

Confirm your e-mail address: (required only if changing)

We will send important account updates like change confirmations, trade status and new statement notifications to the e-mail address below.

Review Plan Documents

You must open and review the documents below before you enroll in your employer's stock purchase plan. ([Adobe Acrobat Reader](#) required)

- [2004 Plan Document](#)

[Beneficiary Designation Form](#) (To designate your [beneficiary](#), you need to print, sign, and return this form to your stock plan administrator.)

Brokerage Account Information

Enter the name of your brokerage firm: (this selection applies only to your stock purchase plan shares)

Electronic Signature

To certify that you have read and understood the terms and conditions of your employer's stock purchase plan, enter "I agree" in the box below. Then click **Continue**.



CONTINUE >

Enrollment History

Offering Period

01/01/2007 - 12/31/2007

Purchase Dates

06/30/2007, 12/31/2007

Changes Allowed

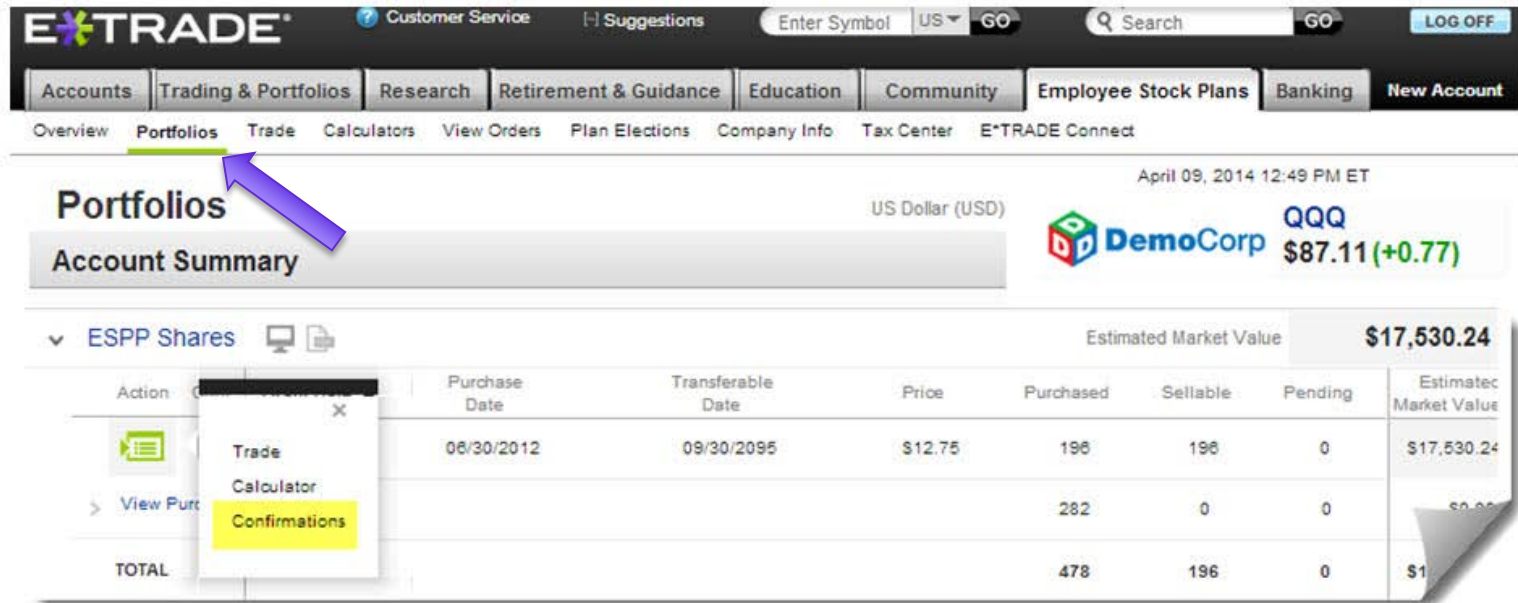
Type	Remaining
Increase	2
Decrease	1



Equity Edge Online™ Implementation Tips

ESPP Purchase

- Model purchase in Sandbox before moving it to Production
- Cumulative 'Contribution' file split by payroll groups
- Confirmation of Purchase exposed to employees through etrade.com



The screenshot displays the E*TRADE website interface. At the top, there is a navigation bar with 'E*TRADE' logo, 'Customer Service', 'Suggestions', and search fields. Below this is a secondary navigation bar with tabs for 'Accounts', 'Trading & Portfolios', 'Research', 'Retirement & Guidance', 'Education', 'Community', 'Employee Stock Plans', 'Banking', and 'New Account'. The main content area shows the 'Portfolios' section for 'DemoCorp QQQ' with a price of \$87.11 (+0.77) as of April 09, 2014. A purple arrow points to the 'Portfolios' tab. Below the account summary, there is a table for 'ESPP Shares' with an estimated market value of \$17,530.24. A dropdown menu is open over the 'Action' column, showing options: 'Trade', 'Calculator', and 'Confirmations' (highlighted in yellow). The table data is as follows:

Action	Purchase Date	Transferable Date	Price	Purchased	Sellable	Pending	Estimated Market Value
	06/30/2012	09/30/2095	\$12.75	196	196	0	\$17,530.24
				282	0	0	\$0.00
TOTAL				478	196	0	\$17,530.24



Equity Edge Online™ Implementation Tips (cont'd)

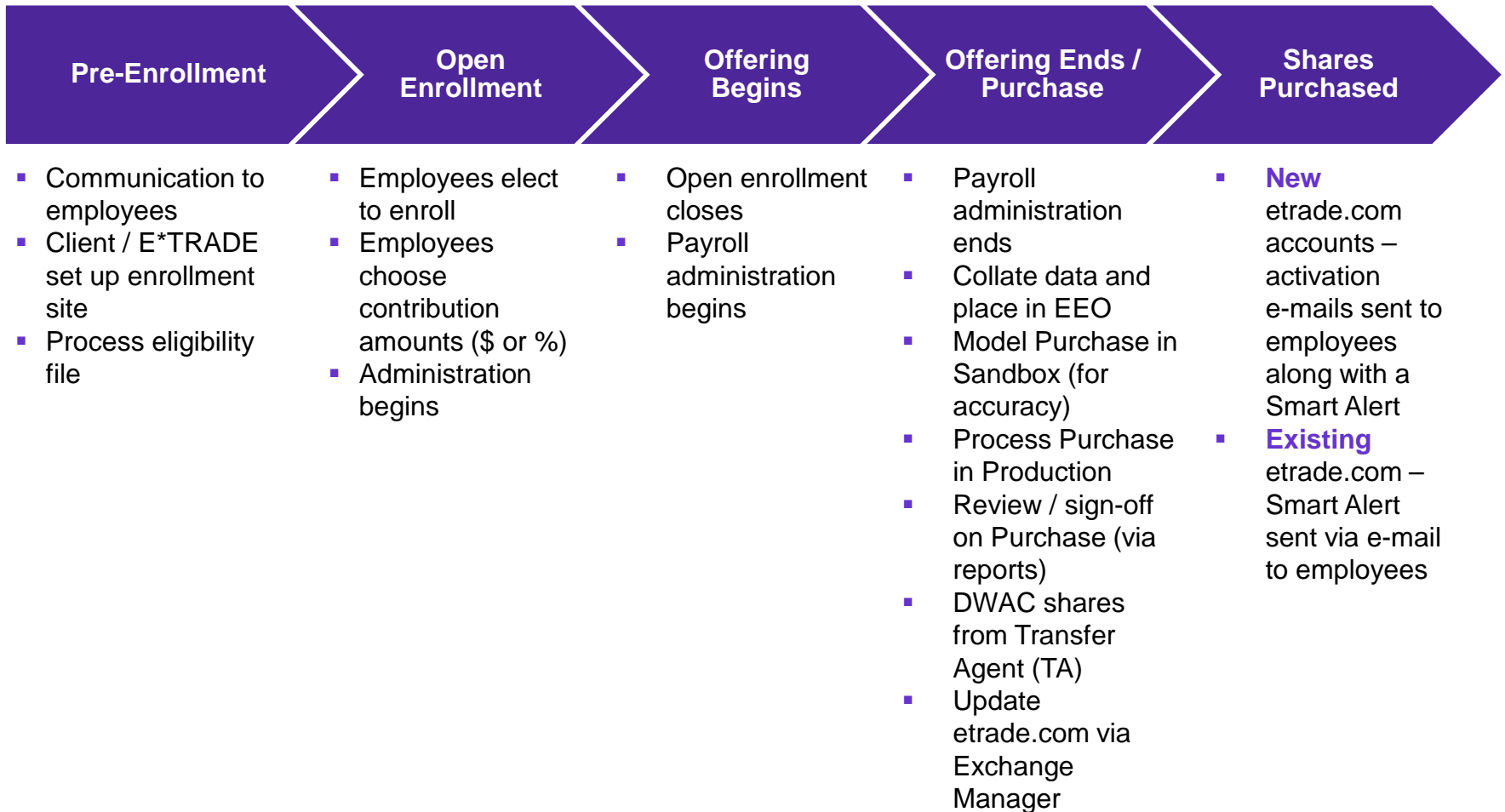
ESPP Purchase

- Disposition Surveys in EEO
- Disposition of Sale tracking through E*TRADE via the Client Resource Center
 - Transfers out of stock plan holding account
 - Disposition (qualifying – disqualifying) reports

The screenshot shows the E*TRADE Corporate Services website interface. At the top, there are logos for E*TRADE CORPORATE SERVICES and DemoCorp. Navigation links include HOME, NEWS, EMPLOYEE SERVICES, SUPPORT, PRODUCTS, EDUCATION, and COMMUNITY. The main content area is titled 'PICK UP FILES AND REPORTS' and contains a list of links: Drop Off Files, Pick Up Files, Daily Files, Monthly Files, Error Reports, Other Files and Reports, Create Broadcast Message, Publish Company Documents, Set Trading Window, Block Transaction Types, and Management Agreement. A blue arrow points to the 'Monthly Files' link, which is highlighted. Below the 'Monthly Files' link, there is a description: 'Contains SOP Sales (ISO Disposition), SOP Transfers (ISO Transfers), ESPP Sales (upe), ESPP Transfers, Enrollment Summary, Restricted Elections, and Restricted Stock Planned Orders.'



Equity Edge Online™ Enrollment to Purchase Timeline



Communication best practices

- Key issues
 - Integrate into overall business strategy discussions
 - Local executive champions are key to success
 - Align key business and compensation messages
 - Communication medium matters
 - Web-based / In person / Printed materials
 - Cultural sensitivity is important
 - Communication challenges
 - Employees do not always understand / appreciate the value of the plans that are available
 - One-size plans do not always fit local needs
 - Varied employee preferences & access to electronic / self-service media



Communication Best Practices

- Ensure employees are directed to etrade.com/enroll
- Requirements by employees to login and enroll:
- U.S. Employees: Ticker Symbol, Last Name, Social Security Number (SSN) or Employee ID
- Non-U.S. Employees: Only Employee ID required (not SSN)

The screenshot shows the E*TRADE Corporate Services website for DemoCorp. At the top left is the E*TRADE logo and 'CORPORATE SERVICES'. To its right is the DemoCorp logo. Further right is a 'Need Help?' button with a person icon and a 'LOG OFF' button. Below these is an 'Open New Company' text box with a 'GO' button and a 'Quick Links' dropdown menu showing '-- Select One --'. A navigation bar contains links for HOME, NEWS, EMPLOYEE SERVICES, SUPPORT, PRODUCTS, EDUCATION, and COMMUNITY. Below the navigation bar is a link '>> Communication Center Home'. Three main content boxes are displayed: 'For New Stock Plan Participants', 'Supporting the Stock Plan Experience', and 'Participant Instructional Guides'. Below these is a section for 'Employee Stock Purchase Plan (ESPP) Enrollment' with a document icon, a description: 'An instructional overview on how easy it is for employees to use the online ESPP enrollment feature.', and a link: 'Access and share the link for distribution'.



1st Purchase Period

25.7%
in US

23.4% participation

2nd Purchase Period

25.9%
in US

24.9% participation

3rd Purchase Period & Beyond

TBD . . .

