

ACQUIRING COMPANY X

NORTH AMERICAN
CREDIT AND COLLECTIONS GROUP

ACQUISITION TARGET: COMPANY X

Product and Billing User's Guide

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Portfolio Work Sample

Introduction

This document explains the daily tasks and activities performed by Company X's Product Sales and Billing Teams as well as the tools used on a daily basis. The views presented here encompass the acquired company's entire credit and collections process.

Non-credit personnel may also use this document to obtain a base knowledge of Company X's contract negotiation process.

Portfolio Work Sample

1. Product and Billing Descriptions

Company X provides software services to its customers through individually tailored contracts. Contracts are typically invoiced according to an established fee schedule and emailed to clients on a monthly basis. Depending on where the client falls in the contract process, invoicing can occur in one of three payment levels:

- Invoices for prepaid contracts;
- Invoices for partially prepaid contracts; and,
- Invoices for contracts billed on a monthly, quarterly, or annually depending on client service demand.

1.1 Types of Licenses

Company X offers two types of licensing agreements that affect billing frequencies. These are Term Licenses and XYZ Agreements.

Term Licenses

Typically written for earlier clients, these licenses are for a specific time period and allow for specific software installation on the client's server.

XYZ Agreements

Currently, all new clients sign the XYZ Agreements.

XYZ Agreements allow software setup on a hosting company's server with both the client and Company X having access to the contracted programs. This style of license agreement is favorable to Company X in the event of a delinquency. When a delinquency occurs, access can be quickly shut off.

1.2 Key Status Terms

Definitions: Company X has three different client invoicing status keys in Great Plains. These keys are modified throughout the pricing term of the contract and are indicators of where a client is in the billing process.

- **License/Services:** Assigned at the time of software installation to bill pre-launch fees;
- **Activation/Post Activation:** Assigned at software launch to bill monthly licensing fees;
- **Maintenance/Maintenance Renewal:** Assigned to all the Rate Card fee assessments for maintenance requests.

1.3 **Client Products**

COMPANY X sells three main products—each serving a specific need. These products are the Business Product, Inventory Product, and Pricing Product. Product overviews are briefly described below.

1.3a **Business Product**

Company X's Business Product reports on critical inventory, price and revenue. Specific functions of this software include:

- Revenue leakage source identification;
- Delivery trend and revenue impact quantification of waste inventory;
- Revenue and price performance tracking;
- Customer and market segment analysis.

1.3b **Inventory Product**

Company X's Inventory Product maximizes supply forecasting and inventory management through proprietary algorithms. Specific functions of this software include:

- Prediction of near and long term supplies;
- External event prediction planning adjustment;
- Self-serve reporting functions for analysts, support personnel, sales teams, and management.

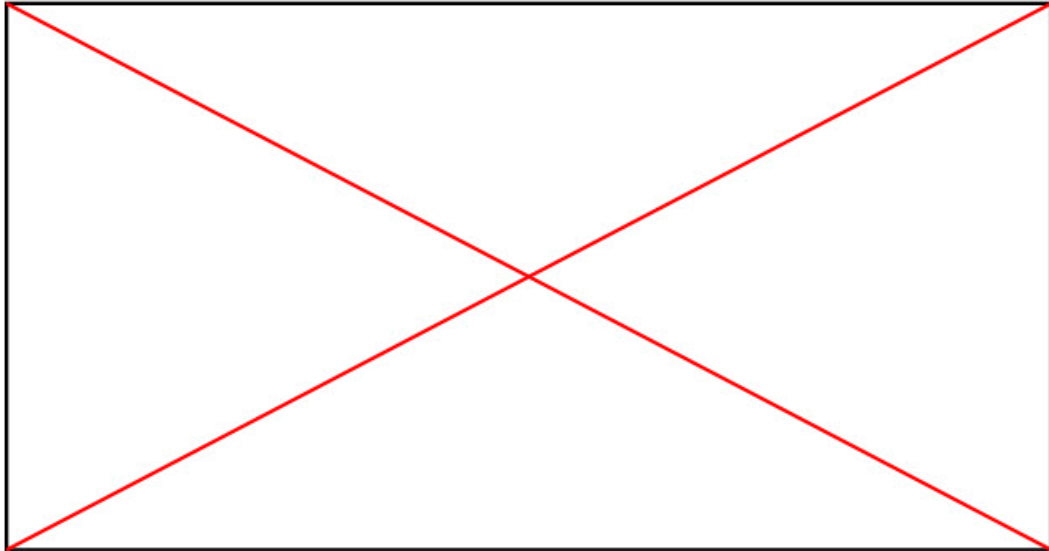
1.3c **Pricing Product**

Company X's Pricing Product utilizes revenue-optimized rate card and pricing plan applications for product planning, inventory provisioning, and deal negotiations. Application tools within this particular product include:

- Policy management functionalities for pricing managers;
- Market analyses measuring size, seasonality, and customer segmentation;
- Advanced demand modeling to anticipate shifting levels of market demand;
- Price Optimization tools to maximize market demand revenues, inventory availability, and seasonal trend analyses.

2. Contract Process Overview

Company X's licensing contracts are initiated either through various sales events or specific client marketing. All licensing contracts follow a standard course. See [Section 4](#) for a more detailed breakdown.



2.1 Credit Hierarchical Structure

Term Sheets and final contract negotiations are the responsibilities of the VP of Finance and Treasury and the Controller.

2.2 Collections Hierarchical Structure

Initial Collections efforts are handled by the Controller. If a second payment reminder is sent, collection efforts are elevated to the Executive VP of Operations.

3. Invoicing and Reporting Tools

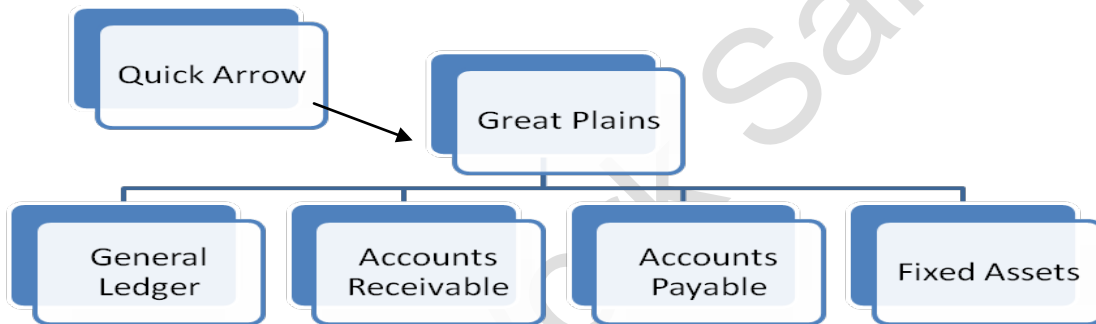
Company X utilizes two systems for payment and invoicing.

Great Plains

Great Plains is used for fixed fees invoicing a post-software launch.

Quick Arrow

Used for variable fees invoiced at pre-launch. Quick Arrow is a project management approach to variable work such as project set up, training, or per diem expenses. Project managers enter their time and run reports to estimate costs on portions of a project's completion. This information is then manually downloaded into Great Plains to combine both fixed and variable charges into one detailed client invoice. After invoicing is completed, monthly AR reporting is generated for review.



3.1 Great Plains

Each customer is assigned a three or four digit ID at the time of system entry. Due to the small number of company clients, the customer name is the common search term. Great Plains is similar to other accounting systems where users can view current and past data on customer invoicing and payment histories prior to on-boarding additional business.

3.2 Quick Arrow

Customers are assigned unique identifiers for accessing project management updates and time billed on negotiated project contracts. Users can also access client records by name. Quick Arrow entries are completed by the Time and Services Team and then downloaded into a monthly report. This report is then manually entered into Great Plains for end of month billing.

3.3 Account Receivables Aging

COMPANY X's AR Aging can be generated from Great Plains at any time and will show a real time balance. AR Aging can also drill down into specific fees detailed in a client's contract. After month-end close, the Controller and the VP of Finance will review the AR Aging GL to determine whether any escalation procedures are necessary.

4. Detailed Sales and Billing Process

*Note: At this time, Company X does not conduct a new client credit review as customers are typically Fortune 100 companies. Terms are usually Net 30 but Net 45 is allowed, depending on the client. Additionally, Company X software is standard code-based only. There are **no** custom enhancements.*

- Potential clients are targeted at sales conferences.
- Initial discussions regarding a client's software licensing needs are held at the C-level.
- Once needs are determined, Term Sheets are drawn up showing rates and licensing fees.
- Prior to Term Sheet signoff, Company X runs test reports using the proposed software and client data. Upon completion of a value assessment, reports are generated to show the difference between current client analytics and Company X software capabilities.
- If the client agrees with reporting results, Term Sheets are signed and contract negotiations begin. Typically, contracts are completed within three stages over a period of 2-3 weeks:
 - Statement of Work (SOW);
 - Software License and Support Agreement (SLSA);
 - Agreement for Professional Services (APS).
- Once the contract is signed, the client provides Company X the Purchase Order form.
- At the Effective Date of Signing, Company X invoices the first payment of Software Setup Schedule.
- The signed contract is scanned to a shared drive with the hard copy originals being filed.
- Going forward, monthly licensing fees are invoiced to the client according to negotiated terms. At this time, the clients pay as agreed, causing the AR Aging to reflect amounts due only in 1 to 30 day buckets.
- Typically, contracts will run between 24 and 48 months. After this time, the client may renew if it so chooses. The renewal process is similar to the original contract set up.

5. Fee Structures

Depending on a project's status, Company X will invoice three types of fees.

Activation Fee

Activation Fees are billed once the Statement of Work becomes effective. Fees consist of either one lump sum payment or monthly invoicing as set out in the Fee Schedules. Activation Fees can include the costs of software installation, initial staff training, and Company X employee travel expenses. Activation Fees are reported through Quick Arrow before downloading into Great Plains for monthly invoicing. Fees are typically paid in full prior to the official software launch.

Licensing Fee

Licensing Fees can be either partially or prepaid by the client at the time of contract signing. Partial payments are also billed through Great Plains.

Post Activation Fees

Post Activation Fees are billed once the client has accepted the contracted software. These fees encompass monthly licensing fees (if not already prepaid by the customer) along with monthly maintenance fees set out in Schedule A of the Statement of Work. Post Activation Fees are billed through Great Plains.

5.1 Payments

Company X will accept wire payments and checks.

5.1.1 Credit Card Payments

Company X does not accept credit card payments.

5.1.2 Payment Plans

While Company X will consider payment plans on a client by client basis, the practice is not generally encouraged.

5.1.3 Promissory Notes

Company X does not offer Promissory Notes.

5.2 **Payment Processing**

Checks

The AP specialist is responsible for coordinating all checks received on a daily basis. After making copies for the client files, checks are then forwarded to the Controller for entering into Great Plains. Once a week, the Controller completes a deposit slip for the checks and mails a deposit package to its business accounts at ABC Bank in Santa Clara, CA.

Wire Transfers

Once a week, the Controller will log into the ABC Bank account to confirm incoming wire transactions. Once receipt is confirmed, the customer's account is debited and AR is credited in Great Plains.

Portfolio Work Sample

6. Exceptions Requests

COMPANY X currently offers only one type of invoice exception—Net Terms determination. While typical payment terms are Net 30, the Controller will grant Net 45 from time to time. However, there are no terms exceeding 45 days.

6.1 Revised Invoices

In certain cases, customers may require a Revised Invoice. When this occurs, a request is sent to the Controller who completes a credit/re-bill in the customer account. When the account is under dispute, the Controller will review the validity of the dispute against the actual contract terms before issuing a credit/re-bill in the customer account.

6.2 Refund Process

To date, there have been no requests for refunds as Company X maintains a “hands-on” communications process with its clients throughout the entire contract and set up process. While each contract does allow potential refunds, the general policy is not to grant them. Instead, the Controller and client will work through each request on a case by case basis for possible account credits.

6.3 Annual Audit Rights

Company X reserves the right to audit each client’s system in order to determine pricing compliance within the licensing grants specified in the contract. Typically, Company X is allowed one audit visit per year. However, depending on the contract and license, audits may be completed bi-annually. The client must be notified of the intent to audit no less than 10 days before the audit commences. Company X will notify the company of its intent by a Formal Notice of Audit letter.

6.3.1 Audit Non-Compliance Fees

During the course of the audit, if Company X determines there has been a deficiency in the amounts previously paid to Company X, the client will be invoiced for all outstanding, non-compliance fees, plus the costs of conducting the audit.

7. Account Receivables Aging

AR Aging is generated once the month-end General Ledger closes. The Controller and VP of Finance review the Aging reports to identify any outstanding issues requiring additional follow-up.

7.1 Service Levels

While Company X's client base is Fortune 100 companies, the number of clients is small enough for personalized account maintenance. The Controller handles any billing or dispute problems.

7.2 Customer Statements

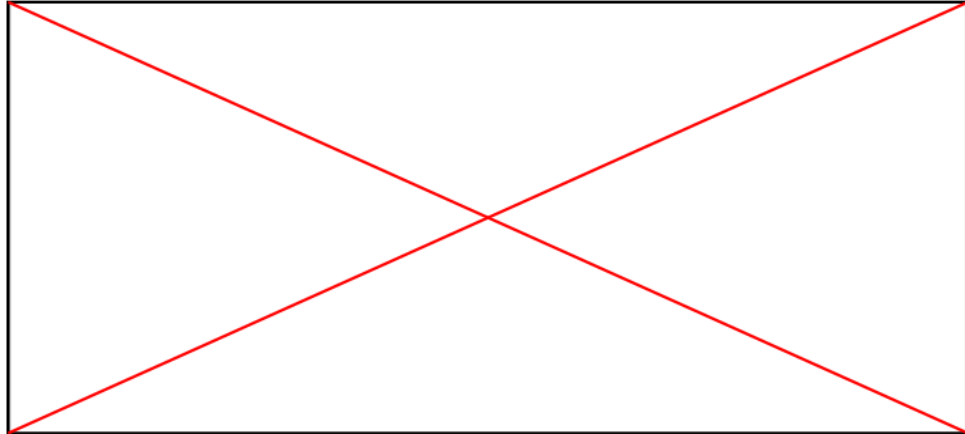
Company X invoices its customers within the first week of the month after receiving the previous month's billing information from Quick Arrow. Invoices are generated through Great Plains and emailed to the client as a PDF.

7.3 Aging Credits and Unclaimed Property

At this time, Company X does not have an Aging credits or Unclaimed Property policy as invoices are based on a set schedule of billing fees negotiated prior to contract signing. Consequently, AR's typically reflect only a 1-30 day aging. Further issues on non-payment can be attributed to either non-receipt of invoice or service dispute. These are handled directly by the Controller.

8 Delinquencies, Collections, and Termination

The delinquency, collections, and termination process is spelled out in each individual client contract.



8.1 Overview of Delinquency, Collections, and Termination Policy

Once a month, the Controller will review the AR Aging report against the closed GL to determine which clients are past due. If delinquencies are found and no disputes have been raised with the Controller (clients have 30 days from the time the monthly invoice arrives to dispute the billings), a reminder email is sent to the Project Manager to approve the invoice for payment.

If the invoice continues to be delinquent, a 1.5% interest charge will be assessed on the outstanding balance.

If the Project Manager does not respond, the Controller will send a payment request to the Finance Department with a copy to the Project Manager.

If there is still no response or payment, the Controller elevates the issue to Company X's Executive VP of Operations. The Executive VP then works with his counterpart within the delinquent company to resolve the issue. At this point, any questions or issues are usually resolved and payment is remitted.

If the delinquency issue still remains, the next step involves account termination.

8.2 Interruption of Services Notification

Reaching this step in the delinquency process is rare and aside from what is outlined in each individual client contract, no formal policy has been established. The contract-noted process is as follows:

If a client refuses to remit payment, Company X will send a Notice of Breach and Demand for Cure Letter setting a formal Service Suspension Date. Actual timing of the suspension and when a Breach letter is sent can be found in Section 7 of each contract.

8.3 Termination of Account Due to Non-Payment

Reaching this step in the delinquency process is rare and aside from what is outlined in each individual client contract, no formal policy has been established. The contract-noted process is as follows:

If the client still will not remit payment after the Notice of Breach is served, licensing software access will be “locked down”.

8.4 Dispute Resolutions

Invoices are typically disputed a result of performance nonconformity to the original contract. Any assertion that an invoice cannot be paid for this reason will be escalated directly to the Controller who determines the claim’s validity and the need for additional action.

Further action can include technicians reviewing the software issues and repairing the cause of the errors. If these repairs cannot be completed within 30 days from when the initial dispute was logged, the customer may either grant Company X additional time to solve the problems or may ask for a refund of the portion of the support fees charged during the software down time. As Company X typically does not grant refunds, a credit to the client account may be given instead.

8.5 Termination of Accounts due to Specified Events

Company X allows its customers the right of contract termination only within specific circumstances. Since contracts are individually tailored to each client, these types of events will vary and will incur cancellation fees. Some examples include:

- Standard End-of-Contract Termination language;
- Termination for Cause (applicable for both Company X and Client);
- A Change of Control in Company Management;
- Proven Low Rates of Return.

Note: Standard End-of-Contract Terminations will require the Client to send a 30-day notice prior to the beginning of the final contracted month. Once the time frame has expired, the client must either return all licensing applications to Company X or submit a signed affidavit confirming their destruction.

Note: If Termination for Cause is elected, a formal 30-Day Notice must be received from either party electing the termination.

8.6 **Termination Fees**

Typical cancellation fees include, but are not limited to:

- Payment of all fees and expenses currently owed to Company X; or,
- A set cancellation fee, plus all fees and expenses currently owed.

Again, as each contract is individually negotiated, careful review of the fees should be completed prior to finalizing contract termination.

8.7 **Reinstatement of Services and Fees Charged**

If the client wishes to reinstate the license contract and necessary support services after termination, reinstatement fees will be charged and must be paid prior to the license being “unlocked”.

8.8 **Renewals**

At this time, there have been no client requests for license renewals. Renewal language is not typically written into the contract due to continual updates to the software and additional costs that may be assessed. However, if a client wishes to renew its terms, direct contact with either the Sales Department or the Controller is recommended.

9. Bad Debt and Write-offs

Company X does not have a bad debt or write-off policy.

9.1 Adverse Actions and Bankruptcy Proceedings

At this time, Company X does not have a bankruptcy process. However, if a client were to declare bankruptcy, Claim Notifications would be immediately forwarded to Acquiring Company X's Legal Department.

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