

# ***Sales Compensation Plan Guideline***

***Participant:  
Mr. XYZ***

**This sales compensation plan contains information which is proprietary to Company X , Inc. Information contained herein shall not be disclosed to others, copied, reproduced or otherwise used in whole or in part without expressed written consent of Company X , Inc.**

## **I. INTRODUCTION**

This plan describes the objectives, guidelines, policies and procedures under which Sales Representatives and Managers will be compensated in 20\_\_\_\_. This plan will take effect on July 24, 2006 and requires receipt of a signed Addendum A from the plan participant to Company X (Company).

## **II. OBJECTIVES**

- A. Provide a program for attracting and maintaining effective sales and management personnel having the required knowledge, skills and abilities;
- B. Provide equitable and fair compensation levels based on the level of responsibility and performance;
- C. Provide the incentives for attaining company, customer, and job related objectives;
- D. Generate revenue growth and Increase market penetration and share;
- E. Obtain the best financial results possible

## **III. ADMINISTRATION**

- A. Effective Dates - the plan will be effective from \_\_\_\_\_ to \_\_\_\_\_ at which time the plan shall automatically terminate.
- B. Eligibility - eligibility for participation in this Plan is limited to employees of Company who are directly responsible for sales and / or to the management thereof. To participate in the Plan, each person must sign a copy of the Annual Compensation Goals form (Addendum B). Changes in any of employee's assignments, area of responsibility, and/or quotas will require new forms to be signed as applicable.
- C. Plan Modifications - Company reserves the right to amend, revoke, or modify this Plan at any time. Written notice of any and all changes which affect an individual's personal plan will be distributed in writing in a reasonable manner.
- D. Assignments - the 20\_\_\_\_ Compensation Plan Guideline, as well as Addendum B describes the responsibilities and performance criteria for each participant. These responsibilities encompass maximizing profitable sales opportunities for Company as well as achieving goals and objectives, which are compatible with Company's desire to be number one in the markets it serves. Areas of responsibility may be any one or a combination of any of the following:

1. Geographic area
2. Channels of distribution
3. A specific customer group or market segment
4. A selected product or group of products
5. A selected service or group of services

Each assignment will carry a total annual and quarterly Sales Revenue Quota. Each participant is expected to meet and/or exceed said quotas as outlined in Addendum B.

Participants, who start in eligible positions after the start of each plan year, will participate in the Plan on a prorated basis. Quotas will be established for the remainder of the Plan year in process.

Company reserves the right to designate certain accounts as high risk or special house accounts and to pay a reduced compensation rate. Notification of this type of account will be provided in writing 15 or more days prior to said reductions becoming effective. Any current accounts so designated are listed as an attachment to this Plan.

E. Changes in Assignments - assignments may be changed at the discretion of the Company at any time. Notification of such changes will be provided in writing prior to the effective date.

#### **IV. COMPENSATION ELEMENTS**

Compensation to the participants in this plan may consist of any combination of the following elements:

- A. Base salary
- B. Incentive compensation based upon monthly net service/product revenue
- C. Incentive compensation based upon quarterly or annual net revenue goals
- D. Compensation based upon achievement of performance goals, which may or may not be net revenue based

#### **V. BASE SALARY GUIDELINES**

Participant's base salary is based upon:

- A. Participants job level, and

- B. Level of knowledge, skills, abilities, past job performance, and in some cases geographic location

Each participant in this plan shall have performance objectives mutually set with the participant's immediate supervisor for each Plan year. Performance against these objectives and goals will determine the basis for each participant's merit increase, if any, for the following Plan year. All base salary modifications require signatures by the participant's supervisor and the company President. Base salary increases will require an approved, written and signed performance appraisal. Payment of base salary will be made (weekly, bi-weekly, monthly, etc.).

## **VI. INCENTIVE COMPENSATION DETERMINATION**

Determination of incentive compensation to be paid to Plan participants is as follows:

A. Sales Classifications:

1. Standard Sales - the sale of standard Company products or services at the published list price, less any stated and approved discounts, at stated approved terms and conditions.
2. Non-standard Sales - the sale of standard Company products or services at approved discounts below those considered standard as indicated above, at stated and approved terms and conditions.
3. Low Margin (LM) Sales – the sale of Company products or services that do not carry Company's normal margins.
4. Unapproved Sales - the sale of standard Company products or services at unapproved discounts or terms.

B. Conditions of Incentive Payment:

1. Payment Frequency - all incentive compensation will be calculated under the terms and conditions of this Plan. All payment of such incentive compensation is subject to the appropriate federal, state and local withholding taxes. Incentive compensation earned in a fiscal month will be paid on or before the last day of the following month. Any incentive compensation earned on a quarterly or annual basis will be paid on or before the last day of the month following the end of said term.
2. Sales Revenue Recognition - except as provided below, one hundred percent (100%) of Net Sales Revenue from a qualified sale is recognized for incentive purposes as of the date of Company's invoice to said purchaser, and is net of any

shipping, handling charges, trade-in credit, and all taxes as applicable. Up to fifty percent (50%) of sales revenue from any sale may be withheld from incentive compensation calculations in situations involving extended payment terms beyond \_\_\_\_ days, or for accounts who are considered by Company's Credit Department to be above normal credit risks. The remaining fifty percent (50%) will be recognized upon payment in full by the purchaser. Determination of such withholdings will be at the sole discretion of Company's Credit Department and the (VP Sales, President, etc.).

Sales revenue from a sale classified as non-standard but approved will be recognized as 100% for goal / quota achievement, but actual commissions may be reduced in amount at the discretion of the Company. Any such reduced commissions will be discussed and agreed upon with participant at the time the non-standard order is approved for sale.

Sales revenue from low margin (LM) sales will be eligible for 25% of the commissions per this plan until such time as Company attains 100% of its total annual sales revenue goal without such products, and the participant attains 100% of his / her territory goals without such products. At the time that Company attains its annual revenue goal without LM products, all LM sales revenue will automatically become eligible for the balance of commissions (remaining 75%) at the rates contained herein provided Participant has also achieved 100% of his / her annual territory goals without such LM products. At no time will such LM sales revenue be eligible for any form of over-quota incentive compensation.

Sales revenue from a sale classified as unapproved will receive no sales commissions or credit against sales quotas unless approved in writing by the (VP Sales, President, etc.).

### 3. Adjustments / Chargebacks:

Accounts receivables 60+ days past due - if an invoice is over sixty (60) days past due from the date accepted by both the Customer and Company, at the time of order, then the applicable sales revenues will be charged back against the participant(s) involved at 100% of the previously credited amount. Upon resolution of any applicable outstanding balance within one (1) year from the date of invoice, up to 100% of the original revenue value will again be credited to the participants account at the sole discretion of the Company.

Product Returns - If a product is returned by a customer for any reason for a full or partial refund or credit, sales revenues for the effected participants will be reduced by the applicable amount and commissions and other incentives will be reduced as previously paid or credited.

Contingent Liabilities, non-approved performance, etc.. - if a Plan participant does not disclose contingent liabilities, any other side or associated agreements, or consummates any sales outside of accepted Company policies, procedures, and guidelines, then all associated Sales Revenues recognized and commissions and other incentives paid or credited will be charged back against the participants account. Additional disciplinary actions may be taken up to and including dismissal. A Plan participant who leaves the employment of Company and who has received any credit or compensation for unearned commissions or other incentives agrees to reimburse Company such amounts within 30 days after leaving Company employment and/or written notification is received.

4. Third Party Commission splits - in the event that a third party reseller ships a product into another participants area of responsibility, the available commissions will be credited as indicated on Addendum C attached. A monthly report may be made available indicating all such occurrences. If a special split is requested, it must be submitted within 30 days from order entry, must be submitted on a copy of the attached request form, Addendum G - 1, and must be approved by the participant's supervisor.

## **VII. CHANGES IN ASSIGNMENT OR PROMOTION**

### **A. Credit for revenue earned in a previous territory or position**

If a territory boundary is changed, a participant is transferred or elects to be moved to another territory, or a managerial position is changed, the participant may make a written request for credit on sales revenue earned while responsible for the previous territory or position, provided that said revenues are adequately documented. This request must be made within thirty (30) days of actually starting the new territory or position. A sample of the approved request form is attached in Addendum G - 2.

### **B. Charge-backs for sales from previous participant revenues**

A participant accepting a new sales territory and/or position will be allowed thirty (30) days from the first official day in the new territory or position, to submit in writing a request for exemption from charge-backs on specified sales made previous to his / her new responsibility. The request must be in writing and must be approved by the participant's supervisor. It is understood that in the event such listed sales are consummated, no sales revenues, commissions or other incentives will be awarded to said participant for such sales. A sample of the required request form is attached in Addendum G - 3.

**Note: There will be no duplicate revenues earned on any single order -- i.e. once a commission is earned on a sale another like participant cannot earn a commission on the same sale.**

## **VIII. TERMINATION OF EMPLOYMENT**

This Plan shall not be construed in any way as constituting a contract of employment. Nothing in this Plan shall in any way diminish or limit the company's right to terminate the employment of any participant at any time, or obligate or imply future employment, compensation, or benefits. Either the employee or the company may terminate the employment relationship at any time.

In the event that a participant leaves the employment of Company, either voluntarily or involuntarily, such participant will be paid for all sales revenues earned up to the day of official termination. After the last official day of employment, the participant is no longer an employee and as such can no longer earn revenues; therefore Company will not owe any additional incentives after that time. Incentives other than commissions earned for any other performance criteria such as quarterly goal performance, etc., will only be paid for the last whole performance unit earned.

Participants who are terminated due to a reduction in work force may be eligible for severance and commission / bonus payments. Commission / bonus eligibility will be prorated based on the actual last workday and severance will be calculated per policy.

Upon termination, the participant must immediately return all Company equipment, credit cards, cash advances, manuals, literature, correspondence, sales files, and any other paper(s) which relate to the business of the Company. Failure to return such property may cause Company to hold the participants final incentive payment until satisfied accordingly, or deduct any amounts which may be lawfully withheld from said compensation.

Participants may be terminated at any time if they consistently perform below performance levels as set forth in this plan.

## **IX. DEATH OF PARTICIPANT**

In the event of the death of a Plan participant, Company's sole compensation liability will be for the base salary and other incentives earned up until the time of death, subject to deduction of any amount owed to the company which may be lawfully deducted from said compensation.

## **X. REVIEW PROCEDURES**

The company has established an Incentive Review Board (IRB) to resolve unanticipated sales compensation issues such as; the resolution of payout disputes, adjustments of quotas, and any other matters concerning plan interpretation. Any dispute over the terms and conditions of this plan shall be resolved by arbitration.

## **XI. OTHER INCENTIVES**

A Plan participant who has sales quota responsibility for a minimum of nine months will qualify to compete for membership in the 100% Club and President's Club as applicable. See details Addendum F.

## **XII. JURISDICTION, VENUE, AND TIME LIMIT FOR CLAIMS**

Participant knowingly and voluntarily consents to the jurisdiction of the State or Federal courts in Linn County, Iowa USA for the purposes of adjudicating any rights and liabilities of the parties pursuant to this agreement. Any action or claim relating to the terms hereunder must be commenced within one year after the cause of action has accrued. This agreement shall be governed by and construed in accordance with the laws of Iowa.



## **Addendum A**

### **Incentive Plan Description**

#### **A. Product Commission Rates (See Addendum D):**

Participant will receive commissions that are product / service based. The commission schedule is established a minimum of 15 days prior to the beginning of each fiscal year, but may be adjusted quarterly. Commission rates will vary from 0 - \_\_\_\_%. The rate paid will be the rate in effect at the time of invoicing and will be paid in the month following such invoicing as outlined herein.

Sales reversals will be made in line with the Plan Guidelines.

#### **B. Quarterly Bonus (See addendum D):**

At the end of each quarter, if the Plan participant has attained 100% of his/her total quarterly sales quota, the participant will receive a bonus as indicated below. For quarters two thru four, if participant is also on plan year-to-date (YTD), the participant will receive a quarterly YTD bonus as indicated below. For the purpose of this bonus, sales of LM products or services will not apply for quota calculations.

	Q1	Q2	Q3	Q4	Total
Qtr. Bonus	\$2,000	\$2,000	\$2,000	\$2,000	\$8,000
YTD Bonus	0	\$2,000	\$4,000	\$6,000	\$12,000
Total	\$2,000	\$4,000	\$6,000	\$8,000	\$20,000

#### **C. Over Quota Performance:**

Participants are eligible to receive additional incentive amounts after their total annual sales quotas, as outlined in Addendum B, are achieved. The additional incentive amounts will apply to all sales above the annual quota that are invoiced within the applicable Plan year and comply with all terms and conditions as explained within the Plan Guidelines.

For 100% attainment of both New Business and Repeat Business quota, the commissions for sales over the annual quota amount are computed using the standard commission rates multiplied by 200%.

**Addendum B**  
**Annual Compensation and Goals**

Participant: Mr. \_\_\_\_\_

A. Compensation:

- |                                      |                  |
|--------------------------------------|------------------|
| 1. Annual Salary                     | \$00,000         |
| 2. Commission Rates (Per Addendum D) | \$00,000 on plan |
| 3. Bonuses (Per Addendum A)          | \$20,000 max.    |

B. Sales Territory: (Insert)

C. Personal Sales Quota 20\_\_\_\_:

	Q1	Q2	Q3	Q4	Total
New Business					
Repeat Business					
Total					

NOTE: Over quota commission accelerators are based upon attaining the total quota and the New Business quota. Participant may not count over-quota Repeat Business in place of New Business, but may count New Business in place of Repeat Business for calculating total performance.

*For the purpose of attaining the New Business sales quota, no more than \_\_\_\_% of any single customer sales revenue will be eligible for goal attainment. As an example, if the New business quota is \$2,000,000, the maximum sales revenue that can contribute to reaching the New Business quota will be \$\_\_\_\_\_. New customer sales volume in excess of \_\_\_\_% of New Business quota will be paid as New business, but will count toward the Repeat Business quota. As an example, if a single new customer purchases \$550,000 during the Plan year, \$\_\_\_\_\_ will count for New Business Quota and the remaining \$\_\_\_\_\_ will count toward the Repeat business quota.*

I agree to the above terms and conditions of the 20\_\_\_\_ Sales Compensation Plan, including the sales goals and compensation guidelines listed above.

Participant \_\_\_\_\_

Date \_\_\_\_\_

Supervisor

Date

---

President

Date

## **Addendum C**

### **Compensation for “Out-Of-Territory” Sales**

In the event that a third party reseller (VAR, Dealer, etc.) ships a product or causes a product to be shipped into another participants area of responsibility, or a customer causes a product to be shipped into another participants area of responsibility;

- The associated sales quota revenues will be credited 100% to the territory where the product is shipped unless a split is approved by Sales Management per the attached forms and guidelines.
- Revenues for sales commissions will be credited to the territory where the Dealer, VARs home office is located or the customer “sold to” is located unless commission splits are approved by Sales Management per the attached forms and guidelines.

## **Addendum D**

### **Commission Rate Schedule**

	<b>Gross Margin</b>	<b>Commission Rate</b>
Standard Margin Sales	>35%	1.5%
Reduced Margin Sales	26% - 35%	1.125%
Low Margin (LM) Sales	25% or less	0.75%

New business is defined to include all revenue earned in 20\_\_ from a customer (person, business and/or location) who previous to January 1, 20\_\_ had not purchased any Company products or services. Any questionable accounts will be decided by sales management whose sole decision will be final.

New business started in 20\_\_ will receive a minimum of twelve (12) months of New Business activity credit and may carry over into the 20\_\_ Plan year. As an example, if a new customer's first product shipment was made by Company on February 1, 20\_\_, any shipments made to the customer in any of the following twelve (12) months ending January 31, 20\_\_ will count as New Business revenue in the month the shipment occurs. New Business started in any month will be rounded out to the first day of that month for the purpose of calculating the twelve-month term.

Commission rates will always be paid in line with the commission rates in effect at the time of shipment.

Note: Sales of Low Margin (LM) products and services will not count as sales revenue for territory quota attainment. These sales will be eligible for 25% of the commission per this Plan until such time as company attains 100% of its total annual sales goals without such LM products, and participant attains 100% of his / her territory sales quota without such products. At the time when both Company and participant attain 100% of their respective sales revenue goals without LM sales, participant will receive the balance of the commission (75%) on sales made to date, and will earn full commission on all other LM sales for the balance of the Plan year. At no time will such sales be eligible for over-quota commission accelerators.

### **High Risk or Special House Accounts**

Accounts listed below are considered high Risk of Special House Accounts. Commissions will be paid on these accounts as indicated only. Revenue from these accounts will not count toward participant's territory sales quota and will not be eligible for over-quota commission accelerators.

## ***Addendum E***

### ***Other Awards & Incentives***

Listed below are other awards and incentives that will be made available as indicated. Participant eligibility is outlined in the Plan Guideline.

#### **President's Club:**

Recognition for sales performance of 110% or more of total annual sales quota as outlined in Addendum B will be recognized with an annual non-monetary award as well as a "Presidents Club" indication on the participant's business card for the following Plan year.

#### **100% Club**

Recognition for sales performance of 100% of total annual sales quota as outlined in Addendum B will be recognized with an annual non-monetary award as well as a "100% Club" indication on the participant's business card for the following Plan year.

**Addendum G - 1**  
**Special Commission Splits**  
**Sample Form**

Special commission splits for sales involving two or more territories and sales representatives may be requested if approved by the participant's supervisor prior to submission. All parties must be in agreement as to the split terms prior to submission. To submit a request, fill out the form below and submit to the President. Management will make a decision and the affected personnel will be notified approximately ten (10) days as to the acceptance of the request.

**Personnel Requesting the Split:**

Rep. 1 \_\_\_\_\_

Rep. 2 \_\_\_\_\_

Rep. 3 \_\_\_\_\_

**Specific Order Information:**

Customer Name \_\_\_\_\_ Contact \_\_\_\_\_

Customer Home Office Location \_\_\_\_\_ Order # \_\_\_\_\_

Phone Number \_\_\_\_\_ Date order was entered \_\_\_\_\_

Service Ordered \_\_\_\_\_

Participant Signature \_\_\_\_\_

**Split Requested:**

Rep. 1 \_\_\_\_\_ % \_\_\_\_\_

Rep. 2 \_\_\_\_\_ % \_\_\_\_\_

Rep. 3 \_\_\_\_\_ % \_\_\_\_\_

**Approvals:**

Supervisor: \_\_\_\_\_ Date: \_\_\_\_\_

President : \_\_\_\_\_ Date: \_\_\_\_\_

## **Addendum G - 2 Revenue Credit Form**

If a territory boundary is changed, a participant elects to be moved to another territory, or a management position is changed, the participant may make a written request for credit on sales revenue earned while responsible for the previous territory or position, provided that said revenues are adequately documented. This request must be made within 30 days of actually starting the new territory or position. Participant may also apply for credit on future revenues for orders that are entered, approved, and adequately documented prior to the change taking place. If approved, revenues will be credited until all units purchased as part of the requested original order are shipped. This will NOT include any additions to such orders placed anytime after the start date in the new territory. Approval from the participant supervisor is required prior to submission of this form. After completion, please submit the completed form to the President. Participants will be notified of actual approval, rejection, or modification with approximately ten (10) days after receipt.

### **Form:**

Date: \_\_\_\_\_

Participant: \_\_\_\_\_ Old Territory / Position: \_\_\_\_\_

New Territory / Position: \_\_\_\_\_ Date Started: \_\_\_\_\_

Order Requested: \_\_\_\_\_ Order #: \_\_\_\_\_

Date Order Shipped: \_\_\_\_\_ Expected Ship Date: \_\_\_\_\_

Participant Signature: \_\_\_\_\_

### **Approvals:**

Sales Manager: \_\_\_\_\_ Date: \_\_\_\_\_

President: \_\_\_\_\_ Date: \_\_\_\_\_



**Addendum G - 3**  
**Exemption from Chargeback**  
**Form**

Charge-backs for sales from previous participant revenues.

A participant accepting a new sales territory and/or position will be allowed thirty (30) days from the first official day in the new territory and/or position, to submit in writing a request for exemption from charge-backs on specified sales made previous to his / her new responsibility. The request must be in writing and must be approved by participant's Supervisor. It is understood that in the event such listed sales are consummated, no sales revenues, commissions or other incentives will be awarded to said participant for such sales. Please submit the form below to your Supervisor and notification will be provided back to you within ten (10) days as to the acceptance, rejection, or modification.

**Form:**

Date: \_\_\_\_\_

Participant: \_\_\_\_\_ Old Territory / Position: \_\_\_\_\_

New Territory / Position: \_\_\_\_\_ Date Started: \_\_\_\_\_

Order Requested: \_\_\_\_\_ Order #: \_\_\_\_\_

Date Order Shipped: \_\_\_\_\_ Expected Ship Date: \_\_\_\_\_

Participant Signature: \_\_\_\_\_

**Approvals:**

Sales Manager: \_\_\_\_\_

Date: \_\_\_\_\_

President: \_\_\_\_\_

Date: \_\_\_\_\_