



## Calculations and Maintenance

### Computing the Amount Required for Your Bond, Irrevocable Letter of Credit or Cash Security Deposit

The ARC Agent Reporting Agreement requires that a bond, letter of credit (LOC) or Cash Security Deposit (CSD) be in an amount at least equal to the average monthly net cash remittance as determined for the twelve month period ending on the last sales period ending date of the fifth month prior to the anniversary date of the Agent's bond, LOC or CSD. The amount so determined may not be lower than the prescribed minimum—either \$10,000 or \$20,000 as appropriate—and need not exceed the prescribed maximum, \$70,000.

Alternatives to the cash sale standard remittance schedule, styled Variable Remittance options, are described in Section 13.0 of this handbook. The only Variable Remittance option which is included in the bond calculation is the Variable Payment with Consolidated Check (PC) option. Therefore, when verifying your average monthly net cash remittance, you must include PC sales, if applicable, with the net remittance for regular cash sales. If you do not have the PC option you can determine the monthly average by simply using the amount shown for net remittance on your weekly sales summary.

The following is a chart to help you ascertain the proper net remit period based upon the anniversary month of your bond, LOC or CSD:

<u>Anniversary</u> <u>Date</u>	<u>90 Day Notice</u>	<u>Calculation</u> <u>Period</u>
Jan. 2008	10/07	09/06-08/07
Feb. 2008	11/07	10/06-09/07
March 2008	12/07	11/06-10/07
April 2008	01/08	12/06-11/07
May 2008	02/08	01/07-12/07
June 2008	03/08	02/07-01/08
July 2008	04/08	03/07-02/08
Aug. 2008	05/08	04/07-03/08
Sept. 2008	06/08	05/07-04/08
Oct. 2008	07/08	06/07-05/08
Nov. 2008	08/08	07/07-06/08
Dec. 2008	09/08	08/07-07/08

For example, if your instrument's anniversary date is in July, use the entire month of March for the preceding year through the entire month of February of the current year to compute the bondable amount.

If, for any reason when computing the required amount the Agent has fewer than twelve months of sales, the amount shall be at least equal to the average monthly net cash remittance of the preceding months ending on the last sales period ending date of the fifth month prior to the anniversary date of the

Agent's bond, LOC or CSD. As noted above, such amount must be between the minimum and maximum provided.

### Bond/LOC/CSD Coverage

If the agent has one or more branch or satellite ticket printer locations, the bond, LOC or CSD must cover all locations, and computation must be based on the total net cash remittance of all locations.

### Periodic Adjustment of the Bond, LOC or CSD Amount

ARC does not expect an agent to maintain a bond, LOC or CSD in excess of that required amount under the computation outlined above; however, each Agent must maintain a bond, LOC or CSD consistent with the computation. Accordingly, any required adjustment of the bond or LOC to provide coverage in excess of the minimum shall be made each time it is renewed (anniversary date), reinstated, or replaced. This means, of course, that the Agent must review its coverage at least once each year. The renewal and reinstatement stipulations DO NOT apply to the Cash Security Deposit since the CSD cannot be canceled and thus will never need to be renewed or reinstated. A major exception to this annual review is if the Agent submits an application for a branch office or STP location. In that case, the Agent's bond, LOC or CSD must be in the proper amount before ARC can approve the application.

The agent may adjust the bond, LOC or CSD amount downward, but in no event below the minimum of \$10,000 or \$20,000, whichever is applicable, whenever the computation outlined above indicates an excess in coverage.

ARC will monitor travel agents' bond, LOC and CSD amounts once a year and will advise agents at least 90 days in advance of the anniversary date of the amount of any increase required. Agents are required to make the necessary adjustments to their bond, LOC or CSD upon the anniversary date, or other date if the Bond or LOC only is either reinstated or replaced. If the required amount of increase is greater than \$10,000, the agent may increase the bond, LOC or CSD 25% of the total amount required but in no instance less than \$10,000. Each increase must be made every ninety days beginning with the anniversary date of the bond or letter of credit.

The failure of an agent to maintain a proper coverage is governed by section VIII.F of the ARC Agent Reporting Agreement, contained in Section 80 of this handbook. Since this is so important, that section is quoted below:

1. Upon cancellation of the Agent's bond or LOC, ARC will immediately so notify all carriers and the Agent, and will



## Section 30.2

withdraw all ARC traffic documents and airline identification plates supplied to the Agent; provided, however, that as a temporary measure to avoid the withdrawal of ARC traffic documents and airline identification plates, the Agent may assign, in a form acceptable to ARC, a Certificate of Deposit in the amount required for a bond, LOC or CSD pursuant to section IV.A.1.a of this agreement. The effective date and acceptance by ARC of such assignment shall be no later than the date of cancellation of the bond or letter of credit and shall be accepted by ARC as a substitute for a period not to exceed thirty days from the date of cancellation. Unless the Agent provides ARC a proper replacement bond, LOC or CSD within 30 days after the cancellation, ARC will terminate this agreement.

2. If ARC determines that the Agent has failed to adjust its bond, LOC or CSD as required by section IV.A.3 of this agreement, ARC may apply to the Arbitrator for an emergency authorization to remove ARC traffic documents and the airline identification plates from the Agent.

### Exception Permitting Minimum Financial Coverage

Agents who establish their right to the \$100,000 net worth exemption need maintain only the minimum bond, LOC or CSD. In order to establish eligibility for the \$100,000 net worth exemption, the Agent must submit on an annual basis a current financial statement, meeting the specific requirements in subsection IV.A.2 of the Agreement (Section 80 of handbook) which states:

Effective on and after May 1, 1987, each Agent which has been on ARC's Agency List continuously for two years, and each Agent (1) as to which ARC has approved a change of ownership within the scope of Section II or Section V of Attachment G to the Agent Reporting Agreement and (2) which has been on ARC's Agency List continuously for two years, may maintain, in lieu of the bond or letter of credit prescribed above, a bond or letter of credit in the required form in the amount of \$10,000. This option may not be exercised until the Agent has submitted, and ARC has approved in writing, a current financial statement which shall thereafter be updated and submitted annually to ARC for written approval and shall at all times meet the following requirements.

- a. The financial statements of the Agent must: (1) **be examined or audited in accordance with generally accepted auditing standards**; and (2) be prepared in accordance with generally accepted accounting principles; and (3) contain a report on the examination signed by a person or firm licensed to practice public accountancy in a state of the U.S. **Financial statements which are merely**

**'reviewed' or 'compiled,' but not examined or audited by a firm licensed to practice public accounting, do not meet these requirements; and**

- b. Tangible net assets demonstrated by such statements must be at least \$100, 000; and
- c. The report on the financial statements must have been prepared within four months of the close of the period covered by the financial statements and, together with the relevant forms, mailed to ARC within thirty (30) days after the date of the report of the public accountant.
- d. Where the Agent is not a corporation but involves one or more individuals, personal financial statements may be accepted if prepared in accordance with Statement of Position 82-1 as published by the American Institute of Certified Public Accountants, and meets all other requirements set forth above.
- e. Financial statements meeting all the relevant requirements above may be accepted on behalf of an incorporated Agent from either the parent organization, if the Agent is its subsidiary, or a stockholder of the Agent, provided that such parent or stockholder has on file with ARC an acceptable written guarantee of the Agent's obligations under this Agreement.

**IMPORTANT NOTE:** Bond, LOC or CSD coverage must not be decreased until after you have received notice from ARC that your net worth exemption has been approved. Lowering coverage to \$10,000 in anticipation of favorable ARC action on a pending application for net worth exemption is a dangerous and serious violation of the Agent Reporting Agreement.

### Bond Cancellation

It is extremely important to maintain a adequate financial coverage via a Bond, LOC or CSD at all times. Failure to maintain a Bond, LOC or CSD will result in removal of your ARC traffic documents and airlines' plates and the termination of your ARC Agreement. (See Section VIII.F of the Agreement which is quoted above.)

### Important Aspects of Bonds and Letters of Credit

As noted repeatedly, an Agent may provide either a Bond, LOC or CSD. Oftentimes, an Agent will have reason to replace one with the other, and it is to this practice that the following important aspects are highlighted. An outline of these three instruments and how they work may be helpful.

**Effective Date: BOND**

A bond has an effective date set forth in the first paragraph. This date is so framed that it clearly establishes for the Surety the precise starting point at which the Surety assumes responsibility and liability. Any debt incurred prior to the stated effective date of a bond would not be covered by that bond, even though the discovery of the debt was made subsequent to the bond's effective date.

**Effective Date: LETTER OF CREDIT**

A letter of credit also provides space for the insertion of a date. In this case, however, the date serves no more purpose than merely establishing the date on which the letter of credit was issued. Upon issuance, the issuer immediately assumes full responsibility up to the limit of the instrument for any debt of the Agent to ARC under the Agreement regardless of when the debt was actually incurred. This is the first major difference between these two instruments.

**Effective Date: CASH SECURITY DEPOSIT**

The effective date of the Cash Security Deposit (CSD) is established by the issue date of the cashier's or certified funds check that the agent or applicant provides with his CSD application. This date is also the anniversary date upon which governs the computation period used to determine the amount of coverage that each agent is required to maintain (see Section 30.2, page 1).

**Cancellation and Effect: BOND**

The bond is continuous in nature and does not expire by its own terms. A bond may be canceled only upon prior written 30-day notice from the Surety to ARC. Even an Agent's failure to pay the bond premium does not, in and of itself, cancel the bond. Obviously, in that case, the Agent's failure may cause the Surety to dispatch its 30-day notice to ARC to cancel the bond. To repeat, only the Surety can cancel its bond and only then with 30 days written notice in advance to ARC.

Once canceled, the Surety, nevertheless, remains liable for any claims against the bond for a period of six months. The debts must have been incurred while the bond was in effect, however, and ARC must notify the Surety thereof within 90 days of discovery. The six-month period of continuing liability is important to note as it explains why a Surety probably will not release your collateral during that period, even though the bond has been canceled.

**Cancellation and Effect: LETTER OF CREDIT**

An important feature of the letter of credit, and one that ARC will not accept if amended in any way by the issuer, is the

first provision covering the terms, which is the automatic extension provision. This provides that the letter will automatically be extended without amendment for an additional year from the present and each future expiration date (described earlier), unless the issuer has advised ARC by certified letter, return receipt requested, of its intent not to extend the letter. Such notice of intent must be received by ARC not less than 60 days before such expiration date.

The notice requirement, you will note, is twice as long as for a bond, and is so for a very good reason. Unlike a Surety, the liability of the bank or letter of credit ceases immediately upon the expiration of its letter, unless, of course, ARC has drawn against the letter with the bank on a timely basis, i.e., before the expiration date. Banks, therefore, may release collateral or other pledges immediately following the expiration of letters of credit where no ARC draws have been made upon the letter of credit. This is the second major distinction between the two types of instruments.

ARC normally issues a sight draft against the canceled letter of credit ten days before the expiration date. This draw will not be rescinded except upon receipt of an acceptable replacement as explained below.

**Cancellation: CASH SECURITY DEPOSIT (CSD)**

A Cash Security Deposit (CSD) is an ARC-generated instrument of financial coverage and thus is not "issued" in the sense that a surety Bond or Letter of Credit (LOC) is issued. Because of this critical distinction, once accepted by ARC, a CSD remains in force without the necessity of being renewed or reinstated until such time as the agent replaces coverage with a Bond or LOC, voluntarily deletes from ARC's Agency List, sells his agency or is terminated for default. In other words, a CSD Agreement cannot be canceled because it DOES NOT need to be renewed or reinstated.

**Replacements and Substitutions of all three types of Instruments**

Keeping in mind the features and effects of Bonds, LOCs and Cash Security Deposits described above, we shall now review how these affect changes which you may request in your type of coverage.

**Replacement of a Bond with another Bond**

The replacement bond must be received by ARC and effective no later than the cancellation date of the bond being replaced.

Since the replacement bond will not cover any debts incurred prior to its effectiveness, ARC will not release the previous Surety from liability. The replaced bond will run its course in accordance with its terms.



## Section 30.2

### Replacement of a Bond with a Letter of Credit

The letter of credit must be received by ARC on or before the cancellation date of the bond.

Upon receipt of written request from the Agent or the Agent's Surety, provided there is no change of ownership (Type IV and V), ARC will release the Surety from any and all liability effective with the issue date of the letter of credit. In this case, the Surety can be relieved of continuing liability, thereby permitting it to release to you any collateral being held in support of the bond, since, as aforesaid, a letter of credit covers any indebtedness, regardless of when the debt was actually incurred.

### Replacement of Letter of Credit with a Letter of Credit (LOC)

An acceptable replacement LOC must be received at least 15 days prior to the expiration date of the LOC being replaced. If this overlap is not provided, ARC will most likely draw down on the current LOC while it is still in effect so as to protect ARC's interest. If ARC has issued a draft and the funds have not been received, ARC will not cancel its draw until an acceptable LOC has been received. If ARC has received the funds, they will be released after receipt of an acceptable LOC.

### Replacement of a Bond with a Cash Security Deposit (CSD)

ARC must receive a complete CSD application including a cashier's or a certified funds check for the full amount of required coverage on or before the cancellation date of the bond.

The procedures and time frame to release the Surety from liability once the Bond is replaced by a CSD is identical to the procedures and time frame employed by ARC when a Bond is replaced by an LOC. See above, **Replacement of a Bond with a Letter of Credit**.

### Replacement of a Letter of Credit with a Cash Security Deposit

If replacement is being made for a reason other than expiration, ARC will return the replaced letter of credit to the issuing bank upon receipt of a complete CSD application and a written request from either the agent or the issuing bank.

### Replacement of Letter of Credit with a Bond

This type of transaction is the most sensitive and, unfortunately, least understood of all of the possible exchange variations. For these reasons, you are urged to read the following very carefully. Should there be any confusion or questions, we strongly encourage you to satisfy yourself on all points before committing yourself to a bond for the purpose of replacing an existing letter of credit. If the letter of credit is being replaced because it is going to expire, the effective date of the bond must be the same as or earlier than the expiration date of the letter of credit, and the bond must be received by ARC before that expiration date. PLEASE NOTE, however, that since the replacement bond will not cover any transactions that occurred before its effective date, ARC will draw on the letter of credit and hold the funds for 100 days after the effective date of the bond. This is done as a protective measure to provide a limited period of time during which ARC and the carriers can determine if any unpaid transactions occurred before the bond became effective. The funds will be released shortly after the 100 day period if no unpaid transactions have been found.

If the replacement is not due to expiration of the letter of credit but merely as a replacement with a bond due to the agent's preference, the letter of credit will be returned to the issuing bank upon written request from either party after 100 days from the effective date of the bond, provided no debts arise and remain unpaid during that period. As an adjunct to the immediately preceding circumstance the agent, as an alternative, may elect to provide a bond with an effective date 100 days PRIOR to the letter of credit anniversary date. This would entail dual coverage for that period of time, but would ensure that the letter of credit, provided no default occurred in the interim, would be released to the bank upon written request from either the agent or the issuing bank slightly after the 100th day from the effective date of the bond.

### Replacement of a Cash Security Deposit with a Bond

If a CSD is replaced with a Bond, ARC will hold the CSD funds for 100 days from the effective date of the Bond and upon written request from the signatory of the CSD Agreement will issue a refund check to that individual or his designee absent any discovery of any claims that were incurred prior to the effective date of the Bond.

### Voluntary Deletion

Another sensitive area, and one that is also misunderstood, is when an Agent decides to discontinue its agency business and voluntarily deletes from the ARC Agency List. In many of such cases, ARC is contacted after the deletion and the caller requests either the release of the Surety's liability, if bonded, the return of the letter of credit or the refund of the CSD funds. The obvious reason, of course, is so that collateral can be returned since the Agent is no longer in business. The fact is that these instruments simply do not work that way.



If the agent voluntarily deletes from the ARC Agency List and a letter of credit is in effect with no expiration pending, the letter of credit will be returned to the issuing bank, upon written request from either the agent or the issuing bank, 100 days from the date the effective date of the voluntary deletion or 100 days from a satisfactory accounting of all ARC accountable traffic documents and carrier identification plates, whichever occurs later, and provided no debts arise and remain unpaid during that period .

If, however, the voluntary deletion occurs coincidentally with the expiration of the letter of credit, ARC will draw down on the letter of credit and the funds will be released after 100 days from the date of a satisfactory accounting of all ARC accountable traffic documents and carrier identification plates and provided no debts arise and remain unpaid during that period.

If the deleted Agent has a bond, the Surety may, of course, issue a notice of cancellation. The Agent actually should request that the bond be canceled once decision has been made to delete voluntarily. Even so, the Surety remains liable under the terms of the bond for any debts which subsequently surface that were incurred during the bond's effectiveness. That period runs for six months, during which time the Surety may elect not to release any collateral.

If the deleted agent is covered by a CSD, those funds will be refunded to the signatory of the CSD Agreement upon written request 100 days after the effective date of the voluntary deletion or 100 days from the satisfactory accounting of all ARC traffic documents and carrier identification plates, whichever occurs later, provided no debts arise and remain unpaid during that period.

### **Replacement of a Letter of Credit, Bond or Cash Security Deposit (CSD) with a Letter of Credit or a CSD in Conjunction with an ARC Approved Complete Change of Ownership (Type IV and V)**

Liability for debts incurred to ARC carriers prior to the effective date of an ARC approved change of ownership do not transfer to the new ARC owner of record (purchaser). Therefore, when the purchaser replaces the seller's letter of credit with his own letter of credit, bond or CSD ARC will retain the seller's letter of credit or CSD funds for 100 days from said effective date to ensure that any debts that may arise which were incurred by the seller to ARC carriers will be covered by the seller's letter of credit or CSD funds.

Additionally, if, upon proper notice to ARC, the seller's letter of credit is canceled before the 100 days have elapsed, ARC will draw down on the letter of credit to protect its interest. After receipt of funds paid to ARC, ARC will repay within six (6) months any funds which may remain and which exceed

the total amount of claims paid by ARC to carriers for unpaid documents, either directly to the agent or to the issuing bank, whichever is specified in the original letter of credit. If the seller has a bond, he must notify his surety to cancel the bond upon approval of the change of ownership.

### **Effects of Cancellation of either a Bond or an LOC**

Agents must be covered at all times by Bond, LOC or CSD. When ARC receives notice that a Bond or LOC is to be canceled or will expire, the Agent is advised promptly. If proper replacement is not received by the cancellation or expiration date, ARC is required to remove all un-issued ARC traffic documents and airline identification plates at that time. Should replacement be received within 30 days thereafter, airline plates will be returned, tickets may be reordered by the agent, and the matter closed; otherwise, the Agent Reporting Agreement is terminated on the 31st day and the Agent is removed from the ARC Agency List.

Having no coverage for any period of time and for any reason is viewed seriously, and ARC must act quickly and positively, as required by the Agreement. Refusal to surrender traffic documents and plates upon demand, again, for whatever reason, is likewise viewed seriously. Such action is sternly dealt with and always results in severe consequences for the Agent.

**Sureties very rarely ask that their original bonds be returned once they are canceled. Banks, on the other hand, frequently request the return of the original letters of credit after cancellation once all ARC provisions for release of same have been met. The issuing bank may request in writing that the letter of credit be returned to it. An agency may also request, in writing, that the letter of credit be returned to the bank.**

### **Reclassification of an Agent to VTC Status**

If a reclassifying agent is covered by a Bond and the Bond has not been canceled at the reclassification effective date, ARC will take no action. If the Bond has been canceled on or before that date ARC will take no action but will not provide the issuing surety a Release of Liability prior to the expiration of the six months date following the termination date.

If the reclassifying agent is covered by an LOC and the LOC has not been canceled at or 60 days prior to the reclassification effective date, ARC will take no action but will release the LOC to the issuing bank upon written request from either the agent or the issuing bank absent any outstanding debts to carriers or to ARC.

If the LOC has been canceled and the cancellation date falls within 100 days of the reclassification effective date, ARC



## Section 30.2

will request that the LOC be extended to cover that 100 period. If the agent is unwilling or unable to extend or renew the LOC ARC will draw on the full amount and hold the funds until the 100 days have elapsed at which time they will be returned to the issuing bank, again, absent any outstanding debts to carriers or to ARC.

If the reclassifying agent is covered by a CSD, ARC will return the CSD funds upon written request from the signatory of the CSD Agreement likewise absent any outstanding debts to carriers or to ARC.



