
POWERMAX ENERGY, LLC

STATEMENT OF POLICIES AND PROCEDURES

1. PowerMax Energy, LLC, hereinafter "Company," is a direct selling Company marketing electric energy services and products to the consumer through Independent Business Owners. The policies and procedures herein are applicable to all independent business owners of the Company.
2. An Independent Business Owners, hereinafter "IBO", is one who has completed a Company application and agreement and has been accepted by the Company as an IBO. The Company reserves the right to accept or reject anyone as an IBO.
3. All IBOs must be the age of majority in the state in which they distribute Company products and services. The Company will consider each married couple a single IBO. Husbands and wives may not sponsor each other directly or indirectly, nor have different sponsors. If one spouse is already an IBO, the nonparticipating spouse may elect to become an IBO, but must join the same IBOship as his or her spouse. The Company reserves the right to reject any applications for new IBOships or applications for renewal. Should a husband/wife IBO divorce, they should notify the Company as to how the IBOship is to be managed thereafter. Otherwise, the Company will recognize the final judicial or adjudicatory disposition of the IBOship.
4. IBOs are independent marketing representatives of the Company and are not to be considered purchasers of a franchise or a distributorship. The agreement between the Company and its IBOs does not create an employer\employee relationship, agency, partnership, or joint venture between the Company and the IBOs. Each IBO shall hold harmless the Company from any claims, damages or liabilities arising out of IBO's business practices. Company IBOs have no authority to bind the Company to any obligation. Each IBO is encouraged to set up his\her own hours and to determine his\her own methods of sale, so long as he\she complies with the policies and

procedures of the Company.

5. **Transaction Submission Integrity.** It is essential to the success of the Company, its IBOs and clients that submissions of transactions to the Company maintain integrity of communication. It is to be expected that all transactions submissions to the Company, including, but not limited to, IBO applications, IBO communication, IBO financial transactions and consumer transactions, be submitted by the individual or entity involved in the transaction. Third party submission of any and all transactions submissions is prohibited. An IBO may not communicate any transactions submissions on behalf of another IBO, IBO applicant or client. This rule is applicable to any and all forms of transactions submissions, including, but not limited to, online, telephone, fax, email, etc.
6. In the conduct of its business, the IBO shall safeguard and promote the reputation of the products and services of the Company and shall refrain from all conduct which might be harmful to such reputation of the Company or to the marketing of such products and services or inconsistent with the public interest, and shall avoid all discourteous, deceptive, misleading, unethical or immoral conduct or practices.
7. The company's program is built upon retail sales to the ultimate consumer. The company also recognizes that IBOs may wish to purchase product or service in reasonable amounts for their own personal or family use. For this reason, a retail sale for bonus purposes shall include sales to nonparticipants, as well as sales to IBOs for personal or family use which are not made for purposes of qualification or advancement. It is company policy, however, to strictly prohibit the purchase of product or service solely for the purpose of qualifying for bonuses or advancement in the marketing program. IBOs must fulfill published personal and group retail sales requirements, including requisite retail sales to nonparticipants, as well as supervisory responsibilities, to qualify for bonuses, overrides or advancements.
8. Any IBO, who sponsors other IBOs, must fulfill the obligation of performing a bona fide supervisory, distributing and selling function in the sale or delivery of product to the

ultimate consumer and in the training of those sponsored. IBOs must have ongoing contact, communication and management supervision with his or her sales organization. Examples of such supervision may include, but are not limited to: newsletters, written correspondence, personal meetings, telephone contact, voice mail, electronic mail, training sessions, accompanying individuals to Company training, sharing genealogy information with those sponsored. IBOs should be able to provide evidence to the Company semiannually of ongoing fulfillment of sponsor responsibilities. If an IBO is an Enroller in the marketing program entitled to Enroller bonuses, then the Enroller is obligated to the same responsibilities of supervisory, communication and training activities with respect to IBOs he or she has enrolled, irrespective of whether the Enroller is also the Sponsor of those IBOs.

9. **Company Retailing Policy.** The Company sales and marketing program is based upon retail sales to the ultimate consumer. Every aspect of the program is designed to assist our IBOs in the marketing of fine products and services to the general consuming public. As a dual consumer safeguard, of the utmost importance to the Company is the policy that IBOs should purchase products and services in commercially reasonable quantities, and under no circumstances may IBOs cause others to purchase products or services in amounts that are not reasonably expected to be sold to the consuming public or in unreasonable amounts for personal or family use. In furtherance of these policies, the company has adopted specific rules on retail sales and retailing referenced as the Company retail rules. In the interest of protecting the consumer and the opportunity of its IBOs, the Company enforces this rule through a verification program.

Company Retail Rule. Although the primary function of the Company is to sell products and services to the general consuming public, the Company realizes that its IBOs may wish to purchase product for personal or family use in reasonable amounts. For this reason, the Company defines a retail sale to include sales to nonparticipants, as well as purchases for personal or family use in reasonable amounts, which are not made solely for purposes of qualification or advancement. This is a standard followed

by leading direct selling companies. Notwithstanding this policy, the Company, in order to specifically further retail selling, has adopted a requirement that an IBO will not be eligible for any bonuses or overrides unless he or she has at least 5 active client credits per month to retail clients.

Retail Sales Rule Audit Verification Program. In its effort to support and enforce the retail sales rule, the Company on a quarterly basis will conduct random audit verification follow-ups. Representatives of the Company will contact IBOs to further verify compliance with the retail sale rule. IBOs should maintain records and be prepared to assist company representatives in their task.

10. **Sales Volume Qualification by Order Taking.** As with other leading direct selling companies, the Company has adopted minimum personal and group sales volume requirements. With respect to tangible products, which may be offered for purchase for resale, minimum sales volume requirements may also be fulfilled by taking orders from retail clients which will be fulfilled or drop-shipped by the Company directly to the retail client.
11. All IBOs are responsible for paying local, state and federal taxes due on earnings from commissions or any other earnings generated as a seller of Company products and services.
12. Company IBOs shall not advertise Company products and services and/or marketing plans except as specifically approved by the Company. Company IBOs agree to make no false or fraudulent representations about the Company, the products, the Company compensation plan, or income potentials.
13. All IBOs are required to purchase a sales kit at the time of submission of their IBO application to the Company. The sales kit is sold "at Company cost." This sum is not a service or franchise fee, but rather is strictly to offset costs incurred by the Company for educational and business materials required for an independent IBO of the Company. No product or service purchase by the IBO is required. Data processing fees will be

deducted from commissions and bonuses.

14. Trademark, Trade Names, Advertising.

- a. The name of the Company and other names as may be adopted by the Company are proprietary trade names and trademarks of the Company. As such, these marks are of great value to the Company and are supplied to IBO for IBO's use only in an expressly authorized manner. IBO agrees not to advertise the Company products or services in any way other than the advertising or promotional materials made available to IBO by the Company. IBO agrees not to use any written, printed, recorded or any other material in advertising, promoting or describing the products or services or the Company marketing program, or in any other manner, any material which has not been copyrighted and supplied by the Company, unless such material has been submitted to the Company and approved in writing by the Company before being disseminated, published or displayed.
- b. The IBO, as an independent contractor, is fully responsible for all of his/her verbal and written statements made regarding the product or service and marketing program which are not expressly contained in writing in the current IBO agreement, and advertising or promotional materials supplied directly by the Company. IBO agrees to indemnify the Company and hold it harmless from any and all liability including judgments, civil penalties, refund, attorney fees, court costs or lost business incurred by the Company as a result of IBO's unauthorized representations.
- c. The Company will not permit the use of its copyrights, designs, logos, trade names, trademarks, etc. without its prior written permission.
- d. All Company materials, whether printed, on film, produced by sound recording, or on the internet, are copyrighted and may not be reproduced in whole or in part by IBOs or any other person except as authorized by the Company.

- Permission to reproduce any materials will be considered only in extreme circumstances. Therefore, an IBO should not anticipate that approval will be granted.
- e. A Company IBO may not produce, use or distribute any information relative to the contents, characteristics or properties of Company product or service which has not been provided directly by the Company. This prohibition includes but is not limited to print, audio or video media.
 - f. A Company IBO may not produce, sell or distribute literature, films or sound recordings which are deceptively similar in nature to those produced, published and provided by the Company for its IBOs. Nor may an IBO purchase, sell or distribute noncompany materials which imply or suggest that said materials originate from the Company.
 - g. Any display ads or institutional or trademark advertising copy, other than covered in the foregoing rules, must be submitted to the Company and approved in writing by the Company prior to publication.
 - h. All advertising copy, direct mailing, radio, TV, newspaper and display copy must be approved in writing before being disseminated, published or displayed with the exception of blind ads where no reference is made to the Company name or product name.
 - i. Exceptions: IBO's are specifically authorized to reproduce contracts, applications and materials that are non-marketing related. In the event of a question on the scope of this exception, IBO's should contact the IBO Services Department.

15. Internet and Website Policy.

The Company maintains an official corporate website. IBOs are allowed to advertise on the internet through an approved Company program which allows IBOs to

have a Company home page that can be personalized with the IBO's message and the IBO's contact information. These websites link directly to the Company website giving the IBO a professional and Company-approved presence on the internet. Only these approved websites may be used by IBOs. No IBO may independently design a website that uses the names, logos, product or service descriptions of the Company, nor may an IBO use "blind" ads on the internet making product or income claims which are ultimately associated with Company products, services or the Company's compensation plan. Any person using Company names, logos, trademarks, etc. on the internet or any other advertising medium, except as permitted by Company Rules and Regulations, shall be subject to immediate discipline, including termination of IBO status.

- 16. Prohibition of Sales on Unauthorized Internet Sites.** Except with written authorization from the Company, an IBO may not sell nor promote Company products on unauthorized internet sites, including, but not limited to auction sites such as eBay, nor internet shopping sites, nor internet malls.
- 17. No Spam Policy.** It is specific Company policy to prohibit unsolicited email (spamming) or information by facsimile relating to the Company's opportunity and products and services. The Company has a zero tolerance policy of spamming practices. IBOs who violate the Company's "no spam policy" are subject to termination, suspension or disciplinary action.
- 18. Retail Establishments.** Company products or services may only be displayed and sold in retail establishments upon the following conditions: Only approved company produced literature, banners, or signage may be displayed on a shelf, counter, or wall and must be displayed by itself.
- 19. Trade Shows, Flea Markets, Swap Meets, or Garage Sales.** With written authorization from the Company, Company products or services and opportunity may be displayed at trade shows, flea markets, swap meets, or garage sales by IBOs. Request for participation in trade shows, flea markets, swap meets, or garage

sales must be received in writing by the Company at least two weeks prior to the show. Written authorization from the Company must be received before participating in the trade show, flea markets, swap meets, or garage sales. Unless written authorization is secured from the Company, Company products or services and opportunity are the only products or services and/or opportunity that may be offered in the trade show booth. Only Company produced marketing materials may be displayed or distributed.

20. **International Sales.** No IBO may export or sell directly or indirectly to others who export the Company's products, literature, sales aids or promotional material relating to the Company, its products or services or the Company's program from the United States or its possessions or territories to any other country. IBOs who choose to sponsor internationally may do so only in countries in which the Company has registered to operate its business and must comply fully with the Rules of Operation of a Company IBOship in that country. Any violation of this rule constitutes a material breach of this contract and is grounds for immediate termination of the IBOship.
21. The Company reserves the right to approve or disapprove IBO's change of business names, formation of partnerships, corporations, and trusts for tax, estate planning, and limited liability purposes. If the Company approves such a change by IBO, the organization's name and the names of the principals of the organization must appear on the IBO application agreement along with a social security number or federal identification number.
22. The IBO agreement may be canceled at any time and for any reason by an IBO notifying the Company in writing of the election to cancel.
23. If an IBO elects not to renew his\her IBO agreement, all rights to bonuses, marketing position and wholesale purchases cease.
24. Although the Company markets services as opposed to tangible products, it has adopted these buyback rules to promote consumer protection standards, and such

rules will be honored in the event the company offers tangible products at any time. If the IBO has purchased products for inventory purposes or mandatory sales aids while the IBO agreement was in effect, all products in a resalable condition then in possession of the IBO, which have been purchased within 12 months of cancellation, shall be repurchased. The repurchase shall be at a price of not less than ninety percent (90%) of the original net cost to the participant returning such goods, taking into account any sales made by or through such participant prior to notification to the Company of the election to cancel. Buyback is 12 months in Massachusetts, Maryland, Montana, Georgia, Louisiana, Wyoming, Texas, Oklahoma and Puerto Rico. In addition, the company will honor statutory mandated buyback requirements of every jurisdiction.

25. The Company shall be entitled to change product or service prices at any time and without notice, and to make changes in the statement of policy and procedures.
26. Each IBO shall comply with all state and local taxes and regulations governing the sale of Company products or services.
27. **Prohibition on Raiding and Cross-Solicitation of Products or Other MLM and/or Business Opportunities.** The Company takes seriously its responsibility to protect the livelihood of its sales force and to the hard work invested to build a sales organization. Raiding and solicitation actions in which IBOs seek to raid and solicit other IBOs in the sales organization to non-company products and services and to other MLM/business opportunities, severely undermines the marketing program of the Company, interferes with the relationship between the Company and its sales force and destroys the livelihood of other IBOs who have worked hard to build their own business, the business of their sales force and benefits they have earned by helping to build a sales organization. Therefore, IBOs shall not sell to, nor solicit from, other Company IBOs non-company products or services, or in any way promote to other Company IBOs business opportunities in marketing programs of other MLM or business opportunity companies at any time. Unless approved in writing by the

Company, this prohibition includes sales or solicitation of non-company products or services at meetings organized for company sales, promotion, training recruitment, demonstration, etc. This prohibition on soliciting and raiding shall be in effect during the term of the IBO agreement and for a period of three (3) years after the termination of the IBO agreement. For the term of this agreement and for three (3) years after termination hereof, an IBO shall not recruit any of Company's IBOs to join other direct sales or network marketing companies nor solicit Company's IBOs to purchase services or products, or in any other way interfere with the contractual relationships between Company and its IBOs.

28. On a periodic basis, the Company will supply data processing information and reports to the IBO which will provide information to the IBO concerning the IBO's sales organization, product purchases and product mix. IBO agrees that such information is proprietary and confidential to the Company and is transmitted to the IBO in confidence. The IBO agrees that he or she will not disclose such information to any third party directly or indirectly, nor use the information to compete with the Company directly or indirectly. The IBO and the Company agree that, but for this agreement of confidentiality and nondisclosure, the Company would not provide the above confidential information to the IBO.

29. **Vendor Confidentiality.** The Company's business relationship with its vendors, manufacturers and suppliers is confidential. An IBO shall not contact, directly or indirectly, or speak to or communicate with any representative of any supplier or manufacturer of the Company except at a Company sponsored event at which the representative is present at the request of the Company. Violation of this regulation may result in termination and possible claims for damages if the vendor/manufacturer's association is compromised by the IBO contact.

30. Nondisclosure and Nonuse of Confidential Information.

The parties acknowledge that Company is organized to market a variety of products and services through a direct sales or network marketing format. Company

and IBO agree and acknowledge that many of Company's products, product formulae, methods, processes, ingredients, training and information regarding IBOs and suppliers, and financial and management information, are considered by the Company to be trade secrets, confidential and proprietary and not readily accessible to the public. Company believes that such confidential information represents a legitimate, valuable, and protectible interest that gives Company a competitive advantage, which otherwise would be lost if this confidential information was improperly disclosed or revealed.

For purposes of this Agreement, "confidential information" means: (a) information regarding product formulas and ingredients, techniques and processes; (b) information regarding IBOs and suppliers, and financial and management information; (c) any information marked by Company as confidential or otherwise identified or treated as confidential or trade secrets; (d) any media used to store, communicate, transmit, record, embody or otherwise memorialize such confidential information.

IBO therefore agrees that during the term of this Agreement, and at any time thereafter, for so long as the confidential information remains confidential, that IBO shall not disclose or threaten to disclose Company's confidential information to any person, partnership, corporation, or to any other business or governmental agency without the express written consent of Company.

For the duration of this Agreement and for as long as such confidential information remains confidential, IBO shall not use or threaten to use confidential information in any way that is inconsistent with the provisions of this Agreement or contrary to the instructions or interest of Company. IBO shall not, directly or indirectly, intentionally or negligently allow or assist others in using Company's confidential information in any way inconsistent with or contrary to the terms of this Agreement, or the instructions or interests of Company.

Noninterference. For the duration of this Agreement as set forth herein, and for three (3) years thereafter, neither IBO nor any entity over which IBO has de facto or

legal control, shall disrupt, impair or interfere with the business of Company, whether by way of interfering with, or raiding its IBOs, disrupting its relationships with clients, agents, representatives, distributors, suppliers, vendors or manufacturers or otherwise. "Disrupting" or "interfering" shall include, but not be limited to, direct or indirect solicitation or recruitment for other sellers or suppliers of electrical energy or other energy services or products, or business opportunities or products or services of other direct selling or network marketing companies.

Inventions and Improvements. IBO acknowledges and agrees that all inventions, formulas, techniques, processes, concepts, systems, programs, client lists, compilations, and other intellectual property (whether or not patentable, patented, copyrighted, or subject to or susceptible of formal intellectual property protection under the laws of any jurisdiction and whether or not made during working hours) made or conceived by IBO solely or jointly with other person(s) during the term of IBO's employment relationship with Company that relate to activities or proposed activities during the relationship or that result from work performed by IBO for Company shall be the property of Company.

IBO agrees to promptly disclose in writing to Company all Company Intellectual Property and hereby assigns all right, title and interest in Company Intellectual Property in any and all countries to Company or its nominee. IBO further agrees, when requested, to carry out the intent and purpose of the assignment by:

- a. executing oaths, declarations, assignments, powers of attorney and other papers;
- b. communicating to Company all facts known to IBO relating to Company Intellectual Property, and the history thereof; and
- c. complying with requests of Company for perfecting title to Company Intellectual Property in Company, and for securing, maintaining and enforcing protection for Company Intellectual Property.

IBO agrees that IBO's employees, agents, independent contractors or those persons under the direct or indirect control or supervision of IBO, currently or in the future, are bound by IBO's obligations regarding trade secrets, confidentiality noninterference, nonuse and nondisclosure in this Agreement, and that IBO shall be liable for breaches of these obligations by IBO's employees, agents, independent contractors or those under the direct or indirect control or supervision of IBO, currently or in the future.

31. **Noncompetition Agreement.** During the term of this Agreement and for three years thereafter, in the U.S. market, IBO shall not, without the prior written consent of the Company, perform any sales, marketing, distribution, advisory or consulting services, directly or indirectly for any other person or entity engaged in the supply, manufacture, distribution, marketing or sale of electrical energy or other energy products or services or any other Company products or services. IBO shall not enter into a contractual or representative or distribution agreement with any other supplier, manufacturer, distributor or seller of electrical energy or other energy products or services.

IBO agrees that IBO's employees, agents, independent contractors or those persons under the direct or indirect control or supervision of IBO, currently or in the future, are bound by IBO's obligations regarding non-competition in this Agreement, and that IBO shall be liable for breaches of these obligations by IBO's employees, agents, independent contractors or those under the direct or indirect control or supervision of IBO, currently or in the future.

32. Upon the death or incapacity of the IBO, his or her rights to bonuses and marketing position, together with IBO responsibilities, shall pass to his or her successors in interest upon written application and approval by the Company. The successor IBO must fulfill all responsibilities of the IBO.

33. An IBO may not sell, assign or otherwise transfer his or her IBOship, marketing position or other IBO rights without written application and approval by the Company. The potential buyer must be at the equivalent or higher rank as the selling IBO or have

been a Company IBO for at least a one-year period prior to the sale. The IBOship must be offered in writing first to the IBO's sponsor. If the sponsor declines the offer, the IBO may offer the IBOship for sale to other qualified Company IBOs, but only on the same terms and conditions as offered to the sponsor. An IBO who sells his or her IBOship shall not be eligible to requalify as an IBO for a period of at least six months after the sale. The Company reserves the right to review the sale agreement and to verify waiver from the upline sponsor in the event the upline sponsor declines to purchase the IBOship.

34. This statement of policies and procedures is incorporated into the IBO agreement and constitutes the entire agreement of the parties regarding their business relationship.
35. The Company expressly reserves the right to alter or amend prices, Rules and Regulations, Policies and Procedures, product availability and compensation plan. Upon notification, in writing, such amendments are automatically incorporated as part of the agreement between the Company and the IBO. Company communication of changes may include, but shall not be limited to mail, email, fax, posting on the Company website, publication in company newsletters or magazines, etc.
36. A partnership or corporation may be an IBO. However, no individual may participate in more than one (1) IBOship in any form without express written permission from the Company. Only in the most extreme and extraordinary circumstances will this be considered.
 - a. An IBO may change status under the same sponsor from individual to partnership or corporation or from partnership to corporation with proper and complete documentation.
 - b. To form a new IBOship as a partnership or corporation or to change status to one of these forms of business, you must request a partnership/corporation form from the corporate home office. This form must be submitted detailing all partners, stockholders, officers or directors in the partnership or corporation.

The partner or officer who submits the form must be authorized to enter into binding contracts on behalf of the partnership or corporation. In addition, by submitting the partnership/corporation form, you certify that no person with an interest in the business has had an interest in an IBOship within three (3) months of the submission of the form (unless it is the continuation of an existing IBOship that is changing its form of doing business).

37. Corporate and Partnership Guarantee for Owners. Although the Company has offered IBOs the opportunity to conduct their IBOship as corporate or partnership entities, it is agreed that since the IBOship entity is under the control of its owners or principals, the actions of individual owners as they may affect the Company and the IBOship are also critical to the Company's business. Therefore, it is agreed that actions of corporate shareholders, officers, directors, agents or employees and the actions of partnership partners, agents or employees, which are in contravention to the Company's policies shall be attributable to the corporate or partnership entity.

38. Disciplinary Actions. An IBO's violation of any policies and procedures, the agreement, terms and conditions or any illegal, fraudulent, deceptive, or unethical business conduct may result, at the Company's discretion, in one or more of the following disciplinary actions:

- a. Issuance of a written warning or admonition.
- b. Imposition of a fine, which may be imposed immediately or withheld from future commission checks.
- c. Reassignment of all or part of an IBO's organization.
- d. Suspension, which may result in termination or reinstatement with conditions or restrictions.
- e. Termination of the IBO.

39. The Company reserves the right to terminate any IBOship at any time for cause when

it is determined that the IBO has violated the provisions of the IBO agreement, including the provisions of these policies and procedures as they may be amended or the provisions of applicable laws and standards of fair dealing. Such involuntary termination shall be made by the Company at its discretion. Upon an involuntary termination, the Company shall notify the IBO by mail at the latest address listed with the Company for the IBO. In the event of a termination, the terminated IBO agrees to immediately cease representing him/herself as an IBO.

40. Termination.

- a. When a decision is made to terminate an IBOship, the Company will inform the IBO in writing that the IBOship is terminated immediately, effective as of the date of the written notification. The termination notice will be sent by certified mail to the IBO's address on file with the Company.
- b. The IBO will have 15 days from the date of mailing of the certified letter in which to appeal the termination in writing. The IBO's appeal correspondence must be received by the Company within 20 days of the Company's termination letter. If the appeal is not received within the 20-day period, the termination will be automatically deemed final.
- c. If an IBO files a timely appeal of termination, the Company will review and reconsider the termination, consider any other appropriate action, and notify the IBO of its decision. The decision of the Company will be final and subject to no further review. In the event the termination is not rescinded, the termination will be effective as of the date of the Company's original termination notice.

41. All IBOs have the right to sponsor others. In addition, every person has the ultimate right to choose his/her own sponsor. If two IBOs should claim to be the sponsors of the same new IBO, the Company shall regard the first application received by the corporate home office as controlling.

- a. As a general rule, it is good practice to regard the first IBO to meaningfully work

with a prospective IBO as having first claim to sponsorship, but this is not necessarily controlling. Basic tenets of common sense and consideration should govern.

- b. As a convenience to its IBOs, the Company may provide various methods of registering or informing the Company of newly sponsored IBOs, including telephone registration and facsimile registration. Until such time as the Company receives an application, either as hard copy or by facsimile, containing all appropriate information, as well as the signature of the proposed new IBO, the Company will only consider the incomplete telephone or facsimile registration in the category of "intended" registration. Thus, although the Company is attempting to create some convenience for its sponsoring IBOs, it is the responsibility of the sponsoring IBO to cause delivery to the company of a completed and signed IBO agreement if the sponsor is to expect recognition as the official sponsoring IBO.
- c. There is no "magic" involved in the Company or in any business. Those who sponsor widely but who do not help new IBOs develop their business meet with limited success. Therefore, a responsibility of sponsorship is to work with new IBOs, helping them learn the business and encouraging them during the critical early months.
- d. Sponsors are not required to carry inventory of products or sales aids for new IBOs. When tangible product is involved, IBOs who do so, however, find building a major sales organization much easier because of the decreased response time in meeting a new IBO's needs.

42. Transfer of Sponsorship. Transfer is rarely permitted and is actively discouraged. Maintaining the integrity of sponsorship is absolutely mandatory for the success of the overall organization.

- a. Transfers will generally be approved in three (3) circumstances only:

- i. In the case of unethical sponsoring by the original sponsor. In such cases, the Company will be the final authority.
 - ii. With the written approval of the immediate five (5) upline sponsors.
 - iii. Resigning from the Company entirely and waiting three (3) months to reapply under the new sponsor.
 - b. In cases of unethical sponsoring, the individual may be transferred with any sales organization intact; in all other events, the individual alone is transferred without any sales organization IBOs being removed from the original line of sponsorship.
43. To be eligible for monthly override commissions and bonuses, the IBO must comply with:
- a. Supervisory responsibility requirements as outlined herein.
 - b. Retail sales rule requiring sales to at least 5 active client credits per month.
 - c. The requirement that his/her sales organization has retailed product or service.
44. The Company encourages each independent IBO to keep accurate sales records. The program is based upon retail sales to the ultimate consumers; therefore, all forms of stockpiling or pyramiding are prohibited. Products and services are offered to IBOs only for personal consumption and for resale to consumers.
45. **Income Claims.** No income claims, income projections nor income representations may be made to prospective IBOs. Obviously, any false, deceptive or misleading claims regarding the opportunity or product/service are prohibited. In their enthusiasm, IBOs are occasionally tempted to represent hypothetical income figures based upon the inherent power of network marketing as actual income projections. This is counter-productive, since new IBOs may be quickly disappointed if their results are not as extensive or as rapid as a hypothetical model would suggest. The Company believes firmly that the income potential is great enough to be highly attractive in reality without

resorting to artificial and unrealistic projections.

46. **Representation of Status.** In all cases, any reference the IBO makes to him/herself must clearly set forth the IBO's independent status. For example, if the IBO has a business telephone, the telephone may not be listed under the Company's name or in any other manner which does not disclose the independent contractor status of the IBO.

47. **Newspaper Advertisements.** Some Independent Representatives use classified advertising in the newspapers to find prospects. The following rules apply:

- All advertisements must be approved by the Company in advance.
- No advertisement may imply that a "job" or "position" is available.
- No specific income can be promised.
- Advertisements must contain no misleading facts or distortions of the Company opportunity or product line.

48. **Business Cards and Stationery.** Any printed materials, including business cards and stationery, must be approved by the Company in advance. Criteria for approving these materials will include a judgment regarding the quality of the materials as well as properly setting forth the independent status of the IBO.

49. **Telephone Solicitation.** The use of the Company's name or copyrighted materials may not be made with automatic calling devices or "boiler room" operations either to solicit IBOs or retail clients. The use of these methods in ways that are legal and are the equivalent of the "blind ads" alluded to above cannot be regulated by the Company.

50. **Press Inquiries.** Any inquiries by the media are to be referred immediately to the Company. This policy is to assure accuracy and consistent public image.

51. Federal and state regulatory agencies rarely approve or endorse direct selling programs. Therefore, IBOs may not represent that the Company's program has been approved or endorsed by any governmental agency.

52. **Indemnification and Hold Harmless.** The independent Business Owner hereby

indemnifies and releases Company, its officers, directors, agents and assigns and holds harmless from and against the full amount of any and all claims, causes of action, judicial and administrative proceedings suits, charges, liabilities, losses, damages, costs and expenses, including without limitation court costs and reasonable fees and expenses of attorneys and consultants, which are or may be made, filed or assessed against Company at any time arising out of IBO's business operations and representations made by IBO in the operation of his/her business, arising from the following:

- a. Violation and/or lack of compliance with terms of the IBO agreement, policies and procedures, rules and regulations, marketing program manual or guidelines or any other directive from the Company as to method and manner of operation of the independent business;
- b. Engaging in any conduct not authorized by the Company in the Company market program;
- c. Any fraud, negligence or willful misconduct in the operation of the independent business;
- d. Misrepresentation or unauthorized representation regarding the Company's product or service, marketing opportunity or potential or the Company's marketing program;
- e. Failure to adhere to any federal, state or local law, regulation, ordinance and/or any order or rule issue by any court of appropriate jurisdiction;
- f. Engaging in any action which exceeds the scope of authority to the IBO as granted by the Company;
- g. Engaging in any activity over which Company has no effective control as to the actions of the IBO.
- h. Engaging in the general business operations of IBO's business.

53. Waiver. The Company never gives up its right to insist on compliance with these rules or with the applicable laws governing the conduct of a business. This is true in all cases, both specifically expressed and implied, unless an officer of the Company who is authorized to bind the Company in contracts or agreements specifies in writing that

the Company waives any of these provisions. In addition, any time the Company gives permission for a breach of the rules, that permission does not extend to future breaches. This provision deals with the concept of "waiver," and the parties agree that the Company does not waive any of its rights under any circumstances short of the written confirmation alluded to above.

54. Governing Law. These rules are reasonably related to the laws of the state of Texas and shall be governed in all respects thereby. The parties agree that jurisdiction and venue shall lie with the place of acceptance of the IBO application, the state of Texas.

55. Partial Validity. Should any portion of these Rules and Regulations, of the IBO's application and agreement, or of any other instruments referred to herein or issued by the Company be declared invalid by a court of competent jurisdiction, the balance of such rules, applications, or instruments shall remain in full force and effect.