

October 2017: Unauthorized Online Sales Update and FAQs

Mary Kay continues to take aggressive measures to address the sale of *Mary Kay*[®] products on unauthorized online retail sites such as Amazon and eBay. The Mary Kay Legal Support Team's presentation at Seminar, *Mary Kay's Celebrity Feud*, emphasized the Company's commitment to combating this issue, and making you aware of our efforts.

This update highlights the scope of these efforts, provides a status of progress made, and specific actions that currently are being taken. The Company uses internal and external resources that continuously monitor websites for *Mary Kay*[®] products being sold through unauthorized sellers, and takes action to remove them.

Each month, we proactively and aggressively pursue enforcement against more than 200 eBay, Amazon and other unauthorized sellers, including the top sellers on these platforms. We are consistently enhancing our processes and implementing new solution strategies. This will make our detection and removal of these unauthorized sales more proactive, effective, and exhaustive. Our aggressive efforts will ensure that Mary Kay's direct sales business model continues to offer you and the generations to come a gratifying retail selling opportunity.

The following **Frequently Asked Questions** (FAQs) detail the Company's progress during the 2016-2017 Seminar year, and provide answers to many common questions we receive on this topic. Please consider sharing this information with your team, unit and/or area members. Given the serious consequences for independent sales force members who participate in activities that involve *Mary Kay*[®] products being sold through unauthorized channels, we want everyone to be informed.

Q: What progress has Mary Kay made to remove *Mary Kay*[®] products offered for sale through unauthorized websites during the 2016-2017 Seminar year?

Our aggressive online takedown strategies continue to show great results. We have had an almost 70% success rate in removing unauthorized storefronts we've pursued during the past Seminar year. This has amounted to the removal of more than 62,000 *Mary Kay*[®] products that unauthorized sellers kept in inventory; nearly 16,000 unauthorized Mary Kay listings and over \$1 million worth of *Mary Kay*[®] products from the Internet. Unfortunately, many of these listings were the cause for Mary Kay to terminate over 800 sales force members' Agreements, and we have filed several lawsuits against these former Beauty Consultants for fraud and/or breach of contract.

Q: What does the Company do when unauthorized sellers are discovered to be active Beauty Consultants?

As you know, the sale of *Mary Kay*[®] products or the supply of products to be sold via unauthorized channels like eBay and Amazon, and in flea markets, is a serious violation of the Independent Beauty Consultant, Independent Sales Director and Independent National Sales Director Agreements. When we identify active sales force members as unauthorized sellers or who are directly or indirectly supplying product for sale, the Company immediately terminates

their Agreement(s) without warning. ***Mary Kay has a zero tolerance policy for sales force members who participate in unauthorized sales activities.***

We will continue to file lawsuits for breach of contract and/or fraud against former sales force members who do not immediately comply with our requests to remove their listing; and to permanently refrain from selling or supplying products to be sold online or through other unauthorized channels.

Q: Why does Mary Kay prohibit sales force members from selling *Mary Kay*[®] products on the internet?

Because this activity undermines the Company's direct sales model on which the Mary Kay opportunity was created. Through the direct sales model, you offer more than just products through your Mary Kay business. You also provide the knowledge, personal touch, and golden rule service that allow you to build long-term relationships with your customers.

This prohibition against online sales is also vital to protect consumers of *Mary Kay*[®] products and the *Mary Kay*[®] brand. The Company cannot ensure the safety, quality or authenticity of *Mary Kay*[®] products purchased through unauthorized channels. And products purchased through unauthorized channels are not eligible for the *Mary Kay*[®] Satisfaction Guarantee.

Q: Where are unauthorized sales addressed in the Independent Beauty Consultant Agreement?

Section A.4 of the Independent Beauty Consultant Agreement provides that you agree not to sell or display *Mary Kay*[®] products in or to "public, retail or service establishments of any kind (***including internet retail or auction sites***)." This prohibition extends to the sale of products on internet retail sites such as Amazon and eBay or other unauthorized channels such as flea markets, *even after the termination of their Agreement with Mary Kay.*

Q: What should I tell sales force members or potential new team members about products listed for sale in unauthorized channels such as Amazon and eBay?

Let them know that Mary Kay has a zero tolerance policy for Beauty Consultants who participate in unauthorized sales or the supply of products to be sold on online platforms such as eBay or Amazon, and even in flea markets.

When the Company identifies active Independent Beauty Consultants as unauthorized sellers, or who are directly or indirectly supplying product for sale, the Company immediately terminates their Agreement(s) without warning because it is a *serious* violation of their Agreement(s). The Company is *serious* about protecting your business, our direct sales business model and the Mary Kay Opportunity for future generations. Therefore, the Company will continue to file lawsuits for fraud and/or breach of contract against those former Independent Beauty Consultants who do not comply with our requests to remove their listings and permanently refrain from such activity.

You can also share that it's only a matter of time before the Company discovers a Beauty Consultant's involvement if they choose to participate in such activities. Also, products purchased through unauthorized channels are not eligible for the *Mary Kay*[®] Satisfaction Guarantee.

Q: What does it mean to be a “direct seller”?

A direct seller can generally be defined as an individual who engages in the sale of a product or service, person-to-person, away from a fixed retail location. Based on this definition, it is clear that you cannot set up a retail store in a shopping mall or set up a booth at a flea market.

But what about sales on the internet? The rule remains the same. Sales of products on any website that acts as a fixed retail site (such as eBay, Amazon, Mercari, Poshmark, Craig’s List and similar sites) fall outside of the direct sales definition and are prohibited under the terms of your Mary Kay Independent Beauty Consultant Agreement (“Agreement”). Given how important the direct sales model has been to the growth of the Company and the success of your Mary Kay businesses, the Company is committed to protecting your status as a direct seller. Technology has added new complexities and creates confusion for some regarding how new online tools and services fit with a direct selling business.

Q: Why is Mary Kay a direct selling company?

When starting this company in 1963, our founder, Mary Kay Ash, brought with her over 25 years of experience in direct sales. She knew the benefits that a direct sales business could offer and wanted to share that unlimited opportunity with women everywhere. She also knew that in order for this dream to become a reality, her company would need to offer top-quality products that would be easy to sell. More than 50 years later, the company Mary Kay Ash built is continuing to do just that – providing open-ended opportunities to women around the world and high-quality products that customers love. While times have changed and advances in technology have made our lives very different, the fabulous products and personal connection and contact that can be offered to customers through a Mary Kay Independent Beauty Consultant continues to make the Mary Kay business strong.

Q. What distinguishes Mary Kay from other direct selling companies and competitors, besides the top-quality *Mary Kay*[®] products?

YOU – the Independent Beauty Consultant – and the knowledge, personal touch and golden rule service that you bring to your business, as well as the long-term relationships you build with your customers as their personal beauty advisor.

Q: How can I utilize the internet to promote my Mary Kay business but still comply with my Agreement?

You can still have a vibrant online presence for your Mary Kay business by following the Company’s Social Media Guidelines and a *Mary Kay*[®] Personal Web Site. The *Mary Kay*[®] Personal Web Site is a beautifully branded, standardized online tool that allows your customers to easily communicate with you about the products they are interested in purchasing. And, when it is combined with other approved tools and services, it can offer a convenient online experience for you and your customers. *Mary Kay*[®] Personal Web Sites are offered by the Company and were designed to provide you an online tool that is *not* a fixed retail location. Therefore, a *Mary Kay*[®] Personal Web Site is currently the only approved method to assist you in facilitating your sales online.

Q: Why is there an exception for *Mary Kay*[®] Personal Web Sites? Aren't these online retail sites?

A *Mary Kay*[®] Personal Web Site is not an online retail store. Instead, it is one of the many communication tools Mary Kay has made available to you to interact with your customers. *Mary Kay*[®] Personal Web Sites are intended to supplement, not replace, your personal interaction with your customers, and provide access to the products you offer 24-hours a day. While a *Mary Kay*[®] Personal Web Site may help facilitate communication between a customer and a Beauty Consultant about a potential purchase, the purchase itself is processed by the Beauty Consultant off the *Mary Kay*[®] Personal Web Site, such as through the Beauty Consultant's Propay[®] account.

Q: I promote *Mary Kay*[®] products on my Facebook[®] Business Page. Is this a violation of my Agreement?

Absolutely not. A Facebook[®] business page is a great way to promote your Mary Kay business and the products you sell by providing a link to your *Mary Kay*[®] Personal Web Site. Or, have them contact you directly to facilitate the purchase of the products your customers wish to buy.

Q: What should I tell people who say they are buying *Mary Kay*[®] products online through these unauthorized websites?

You can educate them about the pitfalls of buying *Mary Kay*[®] products from strangers since *Mary Kay*[®] products are only authorized to be sold by active Mary Kay Independent Beauty Consultants. First, by purchasing through unauthorized websites, they do not receive the personalized service you can provide to them as their Independent Beauty Consultant. Second, if they purchase products from an unauthorized website, there is no guarantee of quality, authenticity or safety of the products. They have no way of knowing if the products are counterfeit, expired, or have been opened, used and/or stored properly to prevent damage.

Finally, by purchasing from you, their Independent Beauty Consultant, they can be assured that they will receive high-quality, authentic and safe products. And they will be able to take advantage of the *Mary Kay*[®] Satisfaction Guarantee, if necessary.

Q: I didn't know I couldn't sell *Mary Kay*[®] products online. What should I do? Will my Agreement be terminated?

If you have been involved in selling or supplying *Mary Kay*[®] products to be sold online or at flea markets, you should report in writing such activity immediately to Mary Kay's Legal Support Team. You can email your written report to legalsupport@mkcorp.com. While this is certainly a serious matter, coming forward on your own will positively influence how the Company responds to the situation. You should be prepared to share with the Legal Support Team where, and under what name, you have been selling or supplying *Mary Kay*[®] products online. You will also need to provide evidence that you have deleted your online store or removed all *Mary Kay*[®] products. The Company will require you to sign an agreement that you will never sell *Mary Kay*[®] products online in the future to avoid legal action. Any such reports will need to be proactively reported by you *before* the Company discovers your involvement.

Q: Can I sell *Mary Kay*[®] products on the internet after the termination of my Independent Beauty Consultant Agreement?

No. Section A.4 of your Agreement makes it clear that the obligation not to sell products on the internet or through other unauthorized channels “survives the termination” of the Agreement. If you sell *Mary Kay*[®] products online after the termination of your Agreement, the Company may file a legal action against you. The Company has already filed several legal actions this year against former Beauty Consultants for selling products on the internet.

Q: I have made the decision to end my *Mary Kay* business and I have products leftover. Since I can't sell these products online, what should I do?

You can always sell these products directly (*i.e.*, not through an unauthorized internet retail site) to your existing customers and should consider offering them a discount. You can also take advantage of *Mary Kay*'s Product Repurchase Policy, if the products are eligible. The policy provides that the Company will repurchase, upon termination of your Independent Beauty Consultant Agreement, at ninety percent (90%) of your original net cost, original and unused Section 1 products, provided such items were purchased by you from the Company within one (1) year prior to return. To initiate a repurchase, you should contact the Company to obtain a Request for Repurchase form by calling 800-272-9333; press 1 for English or 2 for Spanish; then press 9 followed by 2 for the Repurchase Department.

Should you have any other questions, feel free to contact the *Mary Kay* Legal Support Team at (972) 687-5777 or via email at legalsupport@mkcorp.com. We encourage you to share this information with your area, unit and/or team members. This Unauthorized Internet Sales article can be found on *Mary Kay InTouch*[®], on the Legal page under the Resources tab.