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* These statements have not been evaluated by the Food and Drug Administration. These products are not intended to diagnose, treat, cure, or prevent any disease.



Introducing Shakleekids™ - Supersmart. Supersafe. Supernutritious.
Open Order 5/1

Behold the powers of Shakleekids Mighty Smart and Incredivites! These dietary supplements are made with supersafe ingredients that bring out the best in kids, like rad vision, smart noggins, and a rockin immune system. *



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Shakleekids Incredivites is the first kids chewable multivitamin in the U.S. with lactoferrin, a protein that helps busy bodies' immune systems stay supercharged. Packed with 23 essential nutrients, it's one of the most comprehensive supplements available - with 600IU of vitamin D to support strong bones and teeth, and 100% of the daily value for vitamins C and E per serving. *

#20002 <http://www.shaklee.net/mimc/>

Note: Vita-Lea® Ocean Wonders™ will continue to be available.



Mighty Smart™

Shakleekids Mighty Smart is scientifically formulated with a power-packed blast of ultra-pure DHA. Essential for early brain development, this omega-3 fatty acid has been shown to support mighty memory, mad concentration, and fierce mind skills. Star-K Certified.

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P & R

Statement of Privileges and Responsibilities of Shaklee Family Members

Your official document governing the relationship between the Field and Shaklee U.S., Inc.

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INTRODUCTION

The *Statement of Privileges and Responsibilities of Shaklee Family Members (P&R)* is an important part of the contract between Shaklee U.S., Inc. (the “Company”) and each Shaklee Family Member. It sets forth the policies and procedures that govern the way the Shaklee Home Office and Shaklee Family Members work together. This document outlines the privileges you, as a Shaklee Family Member can expect from the Company, and the responsibilities the Company expects you to assume. Please read this document carefully.

DEFINITIONS AND TERMS

Business Group

A Business Leader's First, Second, Third, and Fourth Level Business Leaders.

Business Group Volume (BGV)

The total Personal Group Volumes of one's Business Leaders, four (4) levels deep, plus one's own Personal Group Volume.

Business Leader

Any Shaklee Independent Distributor appointed to the rank of Director, Coordinator, Senior Coordinator, Executive Coordinator, Key Coordinator, or Master Coordinator.

First Level Business Leader

The first distributorship qualified for and maintaining Director rank or higher, down any sponsorship line.

Pay Downline Direct Program (PDD)

An option available to Shaklee Business Leaders whereby Shaklee will pay bonuses directly to qualified Distributors and Associates in the Business Leader's Personal Group.

Personal Group

All one's downlines, down to, but excluding, one's Business Leaders and their respective Sponsorship Groups.

Personal Volume (PPV)

The total PV of one's purchases of Shaklee products for a given month, plus transfers received and minus transfers out.

Personal Group Volume (PGV)

The total Personal Volume of the members of one's Personal Group, plus one's own Personal Volume. PGV includes the PGV of a breakout in the month of appointment.

Purchase Volume (PV)

A nonmonetary point value specified by Shaklee for each product on which Shaklee pays bonuses. The PV for each Shaklee product is listed in the Shaklee Confidential Price List and may change from time to time as product prices change.

Senior Business Leader

With respect to any given Business Leader, the first Business Leader above him or her in the sponsorship line.

Shaklee Family Member

Anyone who has submitted a properly completed *Shaklee Member Application* or *Shaklee Distributor Application for Corporations, Partnerships, and Limited Liability Companies*, and whose application has been accepted by Shaklee U.S., Inc. Membership/Distributorship below the rank of Business Leader must be renewed annually.

Shaklee Independent Distributor

Any person who has signed a *Shaklee Member Application* or *Shaklee Distributor Application for Corporations, Partnerships, and Limited Liability Companies* and provided their Social Security Number (SSN) or Individual Taxpayer Identification Number (ITIN).

Sponsorship Group

All Shaklee Family Members down to the newest recruit in all sponsorship lines extending from and below any given Shaklee Independent Distributor.

Sponsorship Line

The sequence of sponsor-recruit relationships that is created when Shaklee Independent Distributors sponsor new recruits into Shaklee. A sponsorship line extends above or upward from each new recruit in the following sequence to include all individuals in a single sponsorship line:

- New recruit;
- Immediate sponsor of the new recruit;
- Sponsor of the immediate sponsor of the new recruit, and so on.

In the case of resignations, terminations or Shaklee-approved reorganizations to a new sponsorship line, the following sequence of events and relationships occurs and is referred to as a “roll-up”:

- Shaklee removes the departed Shaklee Family Member from their sponsorship line;
- That sponsorship line closes up; and
- Those who were sponsored directly by the departed Shaklee Independent Distributor now consider the sponsor of the departed Shaklee Independent Distributor to be their immediate sponsor.

Status Review Board

Shaklee management employees assigned to receive, review, and decide complaints alleging breaches of the P&R.

Titles

Appointed Title – Any of the rank titles achieved with the necessary requirements at the time of appointment.

Paid As Title – The title for which a Shaklee Independent Distributor meets all requirements and the level at which bonuses are paid.

Unencumbered Group Volume

Personal Group Volume excluding the Personal Group Volume of a First Level Director in the month of appointment.

Chapter I

Ranks and Requirements

Member

Any person who signs a Shaklee Member Application and pays the Membership fee. Members are eligible to receive pricing discounts. Members may sponsor other Members and sell Shaklee products after they provide Shaklee with their Social Security Number or Individual Taxpayer Identification Number. Members are not eligible to receive bonuses or other compensation until they become Distributors.

Distributor

In order to become a Distributor, a Member must:

- Provide a Social Security Number or an Individual Taxpayer Identification Number;
- Achieve 250 Personal Group Volume monthly.

Distributors may sell Shaklee products and are eligible to earn a Volume Bonus of up to 12% on their Personal Group Volume.

Associate

A title established to recognize Distributors as they work toward becoming Directors. Associates are eligible for a Volume Bonus of up to 12% on their Personal Group Volume.

A Distributor may be appointed to Associate at the discretion of the upline Business Leader when the Distributor achieves 1000 Personal Group Volume, including 100 Personal Volume, monthly.

Director

To be appointed to and paid as a Director, one must meet the following requirements:

- Achieve 4500 Personal Group Volume cumulatively over a three-consecutive-month period, including 2000 Personal Group Volume in the final month of qualification, and including 100 Personal Volume per month,

OR

- Achieve 3000 Personal Group Volume in a single month, including 100 Personal Volume

Volume for the final month of qualification must be on record with Shaklee (a PV transfer will satisfy this requirement). Volumes for other months of the qualifying period must either be on record with Shaklee or must be documented on the *Director Appointment Form*.

Stacked Directors

In the case of a Director breaking out under another Director who will be appointed in the same month (Stacked Appointment), the new Director above in the sponsorship line must have a minimum of 1250 Unencumbered Group Volume, i.e., not including the Personal Group Volume of the new Director(s) below, in each month of the qualification period.

Other Director Requirements

Directors must also:

- Demonstrate regular leadership, guidance, and service to their Personal Groups by applying their best efforts toward promoting Shaklee products and the Shaklee opportunity and by supporting the ideals of the Shaklee philosophy.
- Maintain accurate sponsorship records.
- Operate bona fide, independent Directorships without continued reliance on other Business Leaders for maintenance of rank.
- Adhere to, and enforce the compliance of all members of their Personal Groups with Shaklee policies as outlined in this *P&R*, the *Shaklee Member Application*, the *Shaklee Distributor Application for Corporations, Partnerships, and Limited Liability Companies*, Shaklee publications, and administrative letters to the Field, including any amendments to any of these documents that may be adopted from time to time. Business Leaders doing business in Canada must adhere to, and enforce the compliance of all members of their Personal Groups with, Shaklee policies as outlined in official Shaklee Canada publications.

Shaklee may reject a Director appointment if the applicant:

- Exhibits poor leadership attributes;
- Has not complied, or refuses to comply, with the provisions of this *P&R*; or
- Has engaged in conduct that may adversely affect the reputation of Shaklee or Shaklee Members.

Although Business Leaders may share the expense of office space and one Business Leader may help another through temporary difficulties (but not on a continuing or indeterminate basis), Business Leaders may not prop up a sham or “paper” Business Leader through diverted orders or other devices. “Paper” Business Leaders are those who are Business Leaders in name only and do not actively operate their Shaklee businesses but allow other Business Leaders to sustain and direct their sales leadership functions. This prohibition applies to all Business Leader ranks.

The Appointment Process

Business Leaders may choose to have Shaklee automatically appoint their Personal Group members to Distributor, Associate, or Director as they meet the requirements for those titles. Alternatively, they may choose to notify Shaklee of each appointment to be made. When an automatic appointment option is selected, Shaklee will make an appointment to Distributor, Associate, or Director when all requirements for that title have been met.

- Business Leaders may choose to have all appointments to Distributor and Associate made automatically by Shaklee, or not.
- Business Leaders may separately choose to have all appointments to Director made automatically, or not.
- A new Director will be assumed to choose the same automatic appointment options as their Business Leader of record, and must notify Shaklee if they wish to change these options.
- Business Leaders who choose not to have appointments made automatically must notify Shaklee of any appointments to be made.
 - Shaklee must receive notification of appointments to Distributor or Associate no later than the last business day of the calendar month for which the appointment is to be effective.
 - Shaklee must receive notification of appointments to Director via a completed *Director Appointment Form* no later than the fourth business day of the month following the month for which the appointment is to be effective.
- Business Leaders may change their automatic appointment options. Notification must be received by Shaklee no later than the fourth working day following the end of the month for which the change will be effective.

All appointments to Distributor, Associate, and Director are effective retroactive to the first day of the month in which qualifications are completed.

When a prospective Director meets all requirements for appointment, with all required volume reflected on Shaklee's records, and requests appointment to Director on a completed *Director Appointment Form*, Shaklee will make the appointment. If the Business Leader of record does not agree that the appointment should be made, the Business Leader may request that the Status Review Board (SRB) review the appointment.

Rank Maintenance

Requirements for maintenance of Director rank are as follows:

- 2000 Personal Group Volume per month, including 100 Personal Volume.
- In the month in which one appoints a First Level Director, one must have 1250 Unencumbered Group Volume, (i.e., 1250 Personal Group Volume not including the Personal Group Volume of the new Director).
- A Business Leader must return their Personal Group Volume to 2000 in the month following the appointment of a First Level Director.

PV Makeups

Business Leaders who fall short of the requirements to fully qualify for rank will receive an automatic 100 PV order in either of the following circumstances:

- Personal Group Volume is within 100 PV of the volume required to fully qualify for rank.
- Personal Volume is less than the required 100 PV.

A Business Leader in a Volume Grace Month will be issued an automatic 100 PV makeup if the Business Leader has less than 100 Personal Volume and has at least 250 Personal Group Volume.

Volume Grace Month (VGM)

Business Leaders may have one Volume Grace Month (VGM) within a rolling 12-month period. The rolling 12-month period restarted for all Business Leaders effective October 1, 2002. The grace month will be given automatically if needed.

New Directors may have two Volume Grace Months within the first year after their original appointment, but must have a minimum of 1000 Personal Group Volume in at least one of the two Volume Grace Months. The new Director is then eligible for one Volume Grace Month in a rolling 12-month period beginning with the 13th month following the original appointment.

A Director in a Volume Grace Month counts as a Business Leader for purposes of the upline Business Leaders' qualifications.

Grandfathering

Business Leaders who met all volume requirements and were qualified as of September 30, 2002, will retain SN pricing on Shaklee products through September 30, 2003, even if they do not maintain rank, so long as they continue to maintain 1250 Personal Group Volume per month. They will also be automatically reinstated to Director title by achieving 2000 Personal Group Volume (including 1250 Unencumbered Group Volume) in a single month.

Retitling

If a Business Leader does not meet rank maintenance requirements and has already used any available Volume Grace Months, the Business Leader will be retitled to Associate effective retroactive to the beginning of the month in which maintenance requirements were not met.

To be reinstated as a Director, the former Business Leader must meet qualifications for appointment as described in the "Appointment to Director" section of this *P&R*.

Shaklee reserves the right to retitle a Business Leader regardless of the PV requirements if, in Shaklee's assessment, a Business Leader fails to fulfill other qualifications and responsibilities of leadership, as explained in this *P&R*.

In the month of retitling, Shaklee will pay the retitled Business Leader and Personal Group directly if the Senior Business Leader participates in the PDD Program. Otherwise Shaklee will pay the Senior Business Leader, and the Senior Business Leader will be responsible for paying bonuses to the retitled Business Leader and Personal Group.

Unjust Enrichment

Shaklee has established a time limit to prevent the Leadership Bonuses on established Business Leaders from being paid to new Directors who intervene in the sponsorship line above the established Business Leaders, or to reappointed Directors who have not provided leadership to their Business Leaders for a long time.

Any potential Director in a sponsorship line between an upline Business Leader and a First Level Business Leader must qualify and be appointed to the rank of Director within one year of the most recent appointment date of the First Level Business Leader in order to be entitled to the Leadership Bonus on that First Level Business Leader. The newly appointed Director must maintain rank as a

Director for six consecutive months in order to retain continuing rights to Leadership Bonuses.

Failure to achieve Business Leader rank in 12 months, or to maintain rank for six consecutive months, will result in the permanent loss of sponsorship rights and rights to Leadership Bonuses on the First Level Business Leader and their Sponsorship Group. The sponsorship line will be permanently broken above the First Level Business Leader (including any retitled Business Leaders who have been retitled for less than 12 months) and will be reconnected under the next eligible upline sponsor.

If a retitled Business Leader is reappointed to Director rank less than 12 months after that Business Leader's last retitling date, they will begin receiving Leadership Bonuses for which they are qualified immediately after reappointment, but must maintain rank as a Director for six consecutive months in order to retain rights to Leadership Bonuses and sponsorship rights.

Regaining Rank

To be reinstated as a Director, the former Director must meet the qualifications for Director outlined in Chapter I of this *P&R*.

If a former Director had an outstanding Accounts Receivable (A/R) balance at the time of retitling, upon reappointment they will be placed on No Personal Check (NPC) status, until the balance is paid in full.

Reappointment to Director may be conditioned upon repayment of, or upon agreement to repay, any outstanding A/R balance — on terms that are satisfactory to Shaklee. Shaklee reserves the right to rescind any appointment where such agreement is not made.

Coodinator Ranks

Coordinator

To be appointed to and paid as a Coordinator, one must be a qualified Director with a minimum of one First Level Business Leader.

Senior Coordinator

To be appointed to and paid as a Senior Coordinator, one must be a qualified Director with a minimum of:

- Two First Level Business Leaders, and
- 15,000 monthly Business Group Volume.

Executive Coordinator

To be appointed to and paid as an Executive Coordinator, one must be a qualified Director with a minimum of:

- Three First Level Business Leaders, and
- 25,000 monthly Business Group Volume.

Key Coordinator

To be appointed to and paid as a Key Coordinator, one must be a qualified Director with a minimum of:

- Four First Level Business Leaders, and
- 50,000 monthly Business Group Volume.

Master Coordinator

To be appointed to and paid as a Master Coordinator, one must be a qualified Director with a minimum of:

- Six First Level Business Leaders, and
- 100,000 monthly Business Group Volume.

All Coordinator Ranks

Appointments to the rank of Coordinator and higher will be made retroactive to the beginning of the first month for which Shaklee determines qualifications have been met.

Coordinator ranks, which include Coordinators, Senior Coordinators, Executive Coordinators, Key Coordinators, and Master Coordinators, carry the highest levels of privilege and responsibility under the Shaklee Compensation Plan. Shaklee will appoint only those candidates who, in Shaklee's assessment:

- Exemplify loyalty to Shaklee;
- Provide the superior leadership and service required of the rank.

In keeping with the above qualifications, no Coordinator of any rank may operate another direct selling business or be a distributor, employee, or consultant for another direct selling company.

Business Leader Appointed Titles

Business Leaders as of September 30, 2002 are grandfathered at the Appointed Title held as of September 30, 2002, for a period of one year (until 9/30/03). Thereafter, the Business Leader must be "paid as" their Appointed Title at least once in a rolling 12-month period. Otherwise, the Business Leader will be retitled to the then current Paid As Title.

Chapter 2

Bonuses and Benefits

PV is the basis both for measuring qualifications and for calculating bonuses.

Volume Bonuses

To be bonus eligible, one must be a Distributor or higher and eligible to be paid directly by the Company. In addition, one must have a minimum of 100 Personal Volume. Volume Bonuses are paid net of Volume Bonuses paid to Distributors and Associates in one's Personal Group.

The maximum Volume Bonus percentage that a Distributor or Associate may qualify for is 12%. A Business Leader in a Volume Grace Month will receive the Volume Bonus percentage appropriate to their actual Personal Group Volume.

In the two months following the appointment of a First Level Business Leader, the Senior Business Leader's Volume Bonus percentage will be the greater of:

- The percentage qualified for based on current month Personal Group Volume.

OR

- The percentage qualified for based on the average Personal Group Volume during the three-month period ending with the appointment of the new Director.

The special formula above applies when the Senior Business Leader has met the rank maintenance requirements of Chapter 1. If the Senior Business Leader is in a Volume Grace Month, their Volume Bonus percentage will be determined based on their current month Personal Group Volume.

Volume Bonus Schedule

Personal Group Volume	Bonus %
250–499	4%
500–999	8%
1000–1999	12%
2000–2499	16%
2500–2999	20%
3000–3999	24%
4000–4999	28%
5000–6999	30%
7000–9999	32%
10,000 and higher	34%

Individual Bonus Policies

If a Business Leader chooses not to participate in the Pay Downline Direct (PDD) program, they should know that bonuses for Shaklee Independent Distributors below the rank of Director are suggested only. As an independent businessperson, the Business Leader is free to choose not to adhere to the Volume Bonus schedule when paying bonuses to Distributors and Associates in their Personal Group. However, ethical conduct requires that all Business Leaders make their individual bonus policies clear to prospective Distributors at the outset so that people interested in becoming Distributors will not be misled into assuming that their Business Leader will pay bonuses in accordance with the Shaklee Personal Bonus Schedule. Shaklee suggests that Business Leaders state **in writing** their individual policies concerning bonuses, price tiers, and eligibility for price differential.

A promise to pay a bonus is a contractual commitment that Business Leaders must honor by prompt payment.

Leadership Bonuses

Performance Requirements

A Business Leader must meet all rank maintenance requirements to be eligible for Leadership Bonuses. A Business Leader in a Volume Grace Month (VGM) is not eligible to earn Leadership Bonuses.

Shaklee reserves the right to withhold some or all of the Leadership Bonuses paid to a Business Leader on any downline Business Leaders when that Business Leader has failed to fulfill their leadership responsibilities. Other remedies may be applied for failure to fulfill the responsibilities of a Shaklee Leadership position, including retitling of rank or termination, as provided in the Business Policies Chapter.

At Shaklee’s discretion, bonuses will not be reassigned to any upline Business Leader if the Business Leader from whom they are withheld has an overdue Accounts Receivable balance.

Leadership Bonus Schedule

Paid As Title	First Levels	Business Group Volume	1 st Levels	2 nd Levels	3 rd Levels	4 th Levels
Coordinator	1	NA	7%	5%		
Senior Coordinator	2	15,000	7%	6%		
Executive Coordinator	3	25,000	7%	6%	4%	
Key Coordinator	4	50,000	7%	6%	5%	3%
Master Coordinator	6	100,000	7%	6%	5%	4%

Benefits of Distributorship

In addition to receiving certain Shaklee publications, Shaklee Independent Distributors are eligible to qualify for:

- Appointment to Director;
- Volume Bonuses (paid by the upline Business Leader or Shaklee, as elected by the Business Leader).
- Participation in promotions and incentive programs announced from time to time in Shaklee publications.
- Attendance at various seminars, conferences and conventions, as announced by the Company from time to time.
- Periodic mailings of the Shaklee catalog throughout the year.
- A 10% discount for online purchases through our site hosted by CatalogCity.

Business Leaders are eligible to:

- Qualify for bonuses to be paid directly by Shaklee
- Attend periodic and varied seminars, conferences, and conventions. If an event has qualifications, the qualifications for these events will vary according to the nature of the program and the location; Shaklee will inform Business Leaders of qualifications and other details as appropriate.
 - Convention attendance is a privilege, not a right. Shaklee reserves the right to determine whether a Business Leader has satisfied the qualifications for a given convention or travel incentive. Participation of any Business Leader will be at Shaklee's sole discretion.
- Participate in additional incentive programs announced from time to time in Shaklee publications.
- Receive recognition in Shaklee publications and at Shaklee conventions.
- Utilize the survivorship benefits, as explained in the section on "Survivorship."

Chapter 3

Business Policies

General Sales Policies

- Shaklee sells its products directly to all Shaklee Business Leaders and to those Members, Distributors, and Associates who choose to order directly from Shaklee. Shaklee credits the appropriate account with the PV for the orders placed directly with Shaklee. Those Shaklee Family Members who do not order directly from Shaklee may purchase their products from their Distributor, Associate, or Business Leader of record.
- A Shaklee Independent Distributor may not sell, or ship products directly from the Company by means of temporary address changes, to Shaklee Family Members who were sponsored outside their Personal Group without an agreement with the Business Leader of record to ensure that the PV is transferred to the Business Leader of record (or, if the Business Leader of record is participating in the Pay Downline Direct Program, to the Shaklee Family Member).
- All Shaklee Independent Distributors are free to sell to any retail customer who is not sponsored into Shaklee, even if another Shaklee Independent Distributor is supplying the customer.
- All Shaklee Independent Distributors are free to resell Shaklee products at any price they choose. The prices that Shaklee publishes are suggested only, and Shaklee Independent Distributors are free to determine for themselves the prices they charge when reselling products from their inventory.

PV Transfers

- Business Leaders may not transfer any PV amounts out of their account in any given month that would bring their volume below the level required for them to maintain rank.
- Business Leaders may transfer any amount of PV to any of their downline Business Leaders in a given month, provided that a transfer is not for purposes of maintaining a “paper” Business Leader.
- Business Leaders may not transfer more than 500 PV total to any other Business Leader in a given month. PV transfers above 500 per month must have prior Home Office approval.
- Excluding PV transfers from uplines, Business Leaders may not receive more than 1000 PV total from all other Business Leaders in any given month.
- Business Leaders may transfer to members of their Personal Groups only if they are participating in the PDD Program.
- Transfers from non-Business Leaders to Business Leaders are not permitted, except in exceptional situations and with Home Office approval.
- Distributors and Associates may transfer to another Shaklee Family Member in their Personal Group if their Business Leader of record participates in the PDD Program, and if the Distributor or Associate has sufficient Personal PV.

- Any misuse of the PV transfer to circumvent sponsorship or leadership requirements, such as maintaining “paper” Business Leaders, is a breach of the P&R.
- PV credits for all sales in any given month to a Member or Distributor in another Business Leader’s Personal Group must be transferred to the purchasing Member or Distributor if they participate in the PDD Program, or directly to the Member’s upline Business Leader if not.

Export/Import Policy

Shaklee U.S., Inc. products have been specifically formulated, manufactured, and labeled to comply with U.S. regulatory requirements. They are **NOT** formulated or labeled to comply with the laws of foreign countries. Likewise, the Shaklee products formulated, manufactured, and labeled to comply with the laws of foreign countries, including Canada, do not necessarily comply with U.S. regulatory requirements. Accordingly, **no Shaklee Independent Distributor may export Shaklee U.S., Inc. products for sale to any other country, nor may any Shaklee Independent Distributor import Shaklee products from another country for sale in the United States.**

Specifically, this means that Shaklee Independent Distributors may not directly sell or promote Shaklee products for sale outside the United States. Further, no Shaklee Independent Distributor may sell or promote Shaklee products indirectly through another person or firm for sale outside the United States.

In the event that a Shaklee Independent Distributor breaches this provision and sells a Shaklee U.S., Inc. product outside the United States, such product will not be covered by the applicable Shaklee guarantee or warranty. Accordingly, any Shaklee Independent Distributor selling Shaklee U.S., Inc. products outside the United States is solely responsible for the products and any related customer complaints or claims.

International Sponsoring

Shaklee offers the opportunity to participate in the International Sponsoring Program (ISP). (For details, call Field Support and ask for an *International Sponsoring Form*, or download it from the Business Reference Library at shaklee.net.) In order to participate in the ISP, you must be a Shaklee Independent Distributor in good standing and comply with two sets of rules: 1) The local compensation plan including the *Statement of Privileges and Responsibilities of Shaklee Family Members (P&R)*, or equivalent document, as published and amended from time to time, of the country in which the Shaklee Independent Distributor is sponsored, and 2) Shaklee Corporation rules governing ISP as issued from time to time.

Product Refund and Return

The Shaklee Guarantee

Shaklee Independent Distributors must honor the Shaklee Guarantee by providing immediate refunds (or exchanges) on sales of personal use quantities (unit sales) to consumers dissatisfied with the products. (The Shaklee Guarantee does not apply to product purchased for resale. See Inventory Returns below.) AirSource and BestWater® products are covered by separate warranties rather than by the Shaklee Guarantee.

Shaklee Independent Distributors should refund the full purchase price to their customer before obtaining reimbursement of the price they paid from Shaklee. Shaklee will process returns under the Guarantee provided Business Leaders submit a Product Experience Report (PER) by phone or mail. Applicable price differential and PV will be reversed and deducted from the uplines of record making the transaction revenue neutral for all parties.

If the purchase price of the returned products is greater than \$75, the product must be returned to Shaklee before credit is issued. A Product Return Authorization number must be obtained from Shaklee for these returns, and the customer is responsible for paying the shipping cost on the return.

Inventory Returns

To obtain refunds for inventory returns (as opposed to consumer refunds under the Shaklee Guarantee), Shaklee Independent Distributors must resign their distributorships. Business Leaders must accept return of product inventory from Shaklee Independent Distributors in their Personal Group as long as the products:

- Are in good, salable condition. Products for return must not be past their expiration date, if applicable, or the shelf life of the products. They must have been purchased less than two (2) years before the date of return in the case of Shaklee products, and less than one (1) year before the date of return in the case of AirSource products.
- Are unopened, with seals and labels intact, in the case of Shaklee products, or in new and unused condition in the case of AirSource products.
- Show a printed expiration date on the label (if applicable) that is three or more months after the date of return.

Business Leaders may deduct from a refund any bonuses paid to the Shaklee Independent Distributor on the returned inventory and a reasonable handling charge **not to exceed 10% of the price paid. The Business Leader of record must make the refund within 30 days after Shaklee acknowledges the resignation.**

Business Leaders must resign their distributorships in order to return their inventory to Shaklee. Shaklee will deduct from the refund the bonuses paid to the resigned Business Leader on the returned inventory, as well as a 10% handling charge.

If a Business Leader of record does not accept return of inventory upon resignation of a Distributor in their Personal Group, the inventory may be returned to Shaklee, which will make the refund and charge the Business Leader's account.

AirSource Inventory Return

In the event that the Business Leader of record does not have sufficient funds available to make a refund within 30 days, they may submit within 15 days of receipt of resignation a signed *Shaklee Return of AirSource Inventory Payment Agreement* to Shaklee. (The form is available in the shaklee.net Business Forms Library.) The payment agreement will include the amount of credit to be issued to the resigning Distributor and the amount to be charged to the account of the Business Leader of record. All documentation of bonuses paid, such as canceled checks, must be submitted with the form. Shaklee will send a refund check to the resigning Distributor, and the Business Leader of record will have the appropriate

amount deducted from their account on a monthly basis, plus a 1% per month fee on the unpaid balance until the balance is paid in full. If a Business Leader's monthly bonus is not sufficient to cover the agreed to amount, any amount still owing will be added to the next month's charges.

If a Business Leader does not accept return of inventory from a Distributor in their Personal Group or fails to submit a *Return of Inventory Payment Agreement*, such that Shaklee accepts the inventory and makes the refund, Shaklee will charge the full amount to the Business Leader, applying any excess of the amount refunded over the bonus due the Business Leader in each successive month until the amount of the refund is paid in full. In addition, Shaklee will charge a service fee of 1% per month and an interest charge of 1% per month (or the maximum allowed by law if less than 1%) on the unpaid balance until paid in full.

Business Leaders must resign their distributorships in order to return inventory to Shaklee. Shaklee will deduct from the refund the bonuses paid to the distributorship credited with the sale of the returned inventory, as well as a 10% handling charge.

Fees and Charges

When Shaklee receives a notice from its bank that a check has been returned for insufficient funds after the first deposit attempt, a fee equal to 2% of the face amount of the returned check (\$15 minimum) will be added to the Business Leader's Accounts Receivable (A/R) balance and the Business Leader will be placed on No Personal Checks (NPC) status. The Business Leader's Bonus Statement will show the 2% fee.

Shaklee reserves the right to place Shaklee Family Member accounts on extended or permanent NPC status if they repeatedly fail to maintain sufficient funds on hand to cover issued checks. Shaklee also reserves the right to verify bank balances on large orders.

When a Shaklee Family Member has an A/R balance that exceeds the bonus earned, the excess A/R balance is carried forward to the next month, and Shaklee will charge the account a 1% fee on the overdue amount or the maximum fee allowed by law, whichever is less.

Direct Selling Rules

The Shaklee opportunity, products, and trademarks are designed specifically for direct selling. Accordingly, Shaklee Independent Distributors may not sell or promote the sale of Shaklee products to or from retail stores, or Internet auction sites, either directly or through third parties. Shaklee Independent Distributors may not advertise on TV, radio, computer bulletin boards (e.g., CompuServe, Internet, etc.), electronic shopping malls, electronic kiosks, or the like. However, a Shaklee Independent Distributor who has entered into a shaklee.net agreement and paid the shaklee.net fee may promote their Shaklee business on their shaklee.net web site in accordance with the terms and conditions of the shaklee.net agreement.

Exclusive Shaklee Training Centers

Shaklee Independent Distributors may choose to have a Shaklee Training Center under the following rules:

- A Shaklee Training Center must look like an office, not a store, and it must be used exclusively for Shaklee business (no other products may be displayed). You may display Shaklee products, but product displays must be screened from outside view.
- In your center, you may sell Shaklee products to Shaklee Family Members in your Personal Group, to prospects attending Shaklee sales meetings, and to people enrolled in training classes conducted there.
- You may place an authorized Shaklee sign, purchased at your own expense, which bears your Shaklee tradename and the Independent Distributor logo, on the exterior of your Training Center (no other signs may be displayed). No deviation from these guidelines or specifications is acceptable without written authorization from Shaklee:
 - The sign must not exceed 24 inches by 48 inches in dimension.
 - It must contain one or more of the Shaklee Independent Distributor Logo, the AirSource Independent Distributor Logo, and/or the BestWater® Logo, with the registered trademark symbol (®) included to the right of each logo. (The Shaklee corporate logo may NOT be displayed on any sign.)
 - The sign may include only the name, DBA name, address, e-mail address and/or telephone number of the Shaklee Independent Distributor.
 - The authorized sign may be placed in a window or on a door of your training center; it may not be part of a freestanding display.
 - Neon lights or other types of lighting may not be used on the sign.

Non-exclusive Commercial Locations

A commercial facility that is not used exclusively for Shaklee business may not serve as a training center. To avoid being classified as a prohibited retail store, your commercial business location must comply with the following:

- No Shaklee products (other than products in use) may be displayed in areas accessible to walk-in traffic, and no signs containing the Shaklee tradenames, trademarks, or logos may be displayed in or outside the facility.
- You may sell Shaklee products in the commercial facility only to members of your own Personal Group and only in an area that is totally separate from other commercial activities.
- You may sell products to enrolled members of health and exercise clubs and patients of physicians and other health care professionals as long as no Shaklee products are displayed in the lobby or other public rooms accessible to nonmembers or nonpatients. If merchandise other than Shaklee products is displayed at the club or at the health care professional's office, no Shaklee product displays whatsoever are allowed on the premises.

Other Locations

Shaklee Independent Distributors may display and demonstrate Shaklee products and distribute Shaklee sales literature at county and state fairs, business and job opportunity fairs, and the like as long as the appearance of the display upholds Shaklee's quality image. Shaklee products may not be sold to the public at these locations, but products may be displayed and free product samples given.

Ethical Business Practices

Shaklee Independent Distributors have the responsibility to uphold the reputation of Shaklee products and the Shaklee opportunity by conducting their businesses in a lawful and ethical manner.

This policy is stated in the following cardinal rule, which all Shaklee Family Members must observe:

No product claims or compensation plan claims may be made other than those authorized in the P&R, Shaklee publications, product literature, labels, and/or the Shaklee Compensation Plan and related materials.

Shaklee Independent Distributors have a responsibility to be familiar and comply with the currently effective provisions of the Compensation Plan, as outlined in the P&R, and other current policies announced in Shaklee publications.

Unauthorized Claims and Practices

- Unauthorized claims include any verbal statements, printed or electronic material, or audio or video recordings used to promote the sale of Shaklee products or the Shaklee opportunity that are unsubstantiated by, or inconsistent with, the product claims, usage directions, and Compensation Plan provisions published by Shaklee.
- Because Shaklee nutritional products are not drugs, no Shaklee Family Member may make any unauthorized claim that Shaklee nutritional products are useful in the treatment or cure of any disease or health-related condition.
- No Shaklee Family Member may make any statement that disparages or in any way damages the reputation of Shaklee or Shaklee products.
- Unauthorized compensation plan practices or misrepresentations of the compensation plan, such as exaggerated earnings claims and encouraging front-end loading, are strictly prohibited. Front-end loading is the practice of urging new or inexperienced Shaklee Independent Distributors to purchase more product inventory than they can reasonably be expected to sell within a reasonable period of time. When you make earnings claims, you must disclose average annual earnings by rank for the most recent calendar year, or such other period of time as published by Shaklee.
- Shaklee prohibits the practice of paying “headhunting” fees. This is a monetary reward or fee paid by a Shaklee Independent Distributor to a person or agency when a potential Shaklee Family Member who the person or agency has introduced to the Shaklee Independent Distributor joins or attains a certain level in Shaklee. The Shaklee compensation plan stipulates that all rewards and bonuses are ultimately based on the sale of Shaklee products, and paying a fee for assistance in recruiting someone is contrary to this policy and a misrepresentation of the compensation plan.
- Shaklee does not review or approve literature prepared by Shaklee Independent Distributors. Therefore, materials and statements published by Shaklee Independent Distributors that imply approval or endorsement by Shaklee are prohibited.
- Shaklee Independent Distributors may distribute literature (newspaper or magazine articles, health newsletters, reputable studies on nutrition, etc.) relating

dietary supplements to disease or health-related conditions only if the following criteria are met and the literature is printed in its entirety. (As always, copyright law applies.)

- It is not false or misleading.
 - It does not specifically promote the Shaklee brand.
 - It presents a balanced view of the available scientific evidence.
 - It does not attach other information, such as your Shaklee business card or name.
- Shaklee Independent Distributors may not sell products that are damaged, reworked, or past their expiration date.
 - Shaklee Independent Distributors will be held responsible for unauthorized claims made at their meetings by their guest speakers, including doctors or other health care professionals.

Product Liability Insurance

Shaklee Corporation provides indemnification and defense coverage for Shaklee Independent Distributors against claims for accidental injury or property damage arising from defects in Shaklee products after sale. However, Shaklee product liability insurance will not protect you if you:

- Make any product representation or warranty not authorized by Shaklee in current Company publications, Company literature, or product labels.
- Distribute product sales literature or sales aids that are not published by Shaklee Corporation, are not current, or advocate unauthorized claims or uses regarding the products. (Shaklee Corporation does not approve literature or sales aids written or produced by Shaklee Independent Distributors.)
- Sell products or distribute samples of products that have been repackaged or removed from their original containers.
- Make any physical or chemical change to the product or change its label.

Unfair Business Activity

Direct Selling Companies

- No Shaklee Independent Distributor may commingle their Shaklee business, in any way, with that of another direct selling company. This includes:
 - Promoting the products of another direct selling company to Shaklee Family Members.
 - Soliciting Shaklee Family Members to join another direct selling company.
 - Selling Shaklee and non-Shaklee products together.
 - Using the Shaklee name or meetings in any manner to promote the opportunity or products of another direct selling company.
- In addition, once a Shaklee Independent Distributor attains the rank of Coordinator or above, such Business Leader may not have any involvement with another direct selling company, including sponsoring anyone into another direct selling company or promoting the products or opportunity of another direct selling company to anyone.

Non-Direct Selling Companies

Shaklee Independent Distributors are free to sell products of non-direct selling companies. To do so, the following requirements must be observed:

- Shaklee products and literature must be kept separate from non-Shaklee items to avoid confusion between different companies' product lines and sales literature.
- Shaklee Independent Distributors must not use the Shaklee trade names, trademarks, service marks, Shaklee goodwill, a Shaklee Business Leadership position, a Shaklee sales meeting, a Shaklee convention, or anything relating to Shaklee to promote the products or services of another company.

Doing Business on the Internet

The purpose of Shaklee's Internet policy is to encourage responsible and professional use of electronic communication, to maintain a level playing field for all Shaklee Independent Distributors, and to ensure compliance with regulatory requirements.

Although there are additional provisions elsewhere in this *P&R* that apply to conducting business on the Internet, such as making unauthorized claims for Shaklee products, the following provisions apply specifically to the Internet:

- Shaklee Independent Distributors may not use the Shaklee name, product names, or trademarks for any business other than their Shaklee business on either their shaklee.net site, or their own independent site.
- Shaklee Independent Distributors may not use Shaklee trademarks on any Internet site open to the public other than their shaklee.net web site, unless it is password protected utilizing a password that cannot be determined by individuals seeking to enter the site who have not been personally invited.
- Shaklee Independent Distributors may not use the Shaklee name, product names, or trademarks on banner ads, postings on message boards, on online auction sites, e.g., Ebay, within e-mail addresses (unless it is the e-mail address assigned to your Personal Web Site, e.g., myhealth@shaklee.net), or web page URLs, meta tags, or other web site locators.
- Shaklee Independent Distributors may not send unsolicited e-mails (spam) to any person(s) with whom they have no prior relationship.
- Shaklee Independent Distributors can link to other sites from their shaklee.net web site in accordance with the rules established in the shaklee.net agreement.
- Shaklee Independent Distributors may link their independent web site to their shaklee.net site if they do not mention the Shaklee name, product names, or trademarks on their independent site unless that site is password protected.
- Shaklee Independent Distributors may not advertise, list, or refer to the price of Shaklee products on their shaklee.net web sites or their independent site with the exception of the Suggested Retail Price or, with enrollment as a Member, MN price.
- Shaklee Independent Distributors may not sell or facilitate the sale of any web sites or pages that include the Shaklee name, product names, or trademarks.
- Shaklee Independent Distributors may not use any term or mark in their Internet address that may cause others to believe their web site is owned by

Shaklee Corporation or any of its subsidiaries or divisions; nor may Shaklee Independent Distributors use any term, name, or mark in the Internet address that may cause the public to believe they are dealing with Shaklee Corporation or any of its subsidiaries or divisions.

- Shaklee reserves the right to suspend or permanently remove any shaklee.net web site that breaches the *P&R* and/or Internet Guidelines.

For any issues regarding lack of compliance with these guidelines, send an e-mail to netviolations@shaklee.com.

Advertising Policy

Recruitment Advertising

- Ads may not imply that the Shaklee opportunity involves a salaried position; offers employment with Shaklee Corporation; or guarantees a stated income, profit, or benefit. The Shaklee name may be used in the body of the ad, but then the words “Shaklee Independent Distributor” must be used in conjunction with your name.
- Ads may not misrepresent the Shaklee compensation plan.
- If you choose to identify yourself in the ad, you must state that you are a Shaklee Independent Distributor and provide your phone number, town, city, or area. No commercial address may be listed unless it is that of an authorized Shaklee Training Center.

Product Advertising

- Only ads prepared by Shaklee may carry Shaklee trade names, trademarks, service marks, or copyrighted material. However, you may use “Shaklee Independent Distributor,” the Shaklee Independent Distributor Logo, the AirSource Independent Distributor Logo and/or the Best Water Logo in ads you prepare.
- If you use an authorized product ad provided by Shaklee, you must run it without alterations.
- Shaklee does not restrict blind ads so long as the ad does not use Shaklee trade names, trademarks, service marks, product names, or copyrighted materials.
- You must not represent any ads you place (including Shaklee authorized ads) as being placed by Shaklee Corporation or any of its subsidiaries or divisions.
- If you create your own ads, you are responsible for ensuring that the resulting ad is not unlawful or misleading.

Catalog Advertising

Shaklee Independent Distributors may not advertise in a catalog that also advertises the products of other direct selling companies, or if the catalog is produced by a single retail outlet. They may advertise in a catalog that features advertisements for other, non-direct selling company products if the Shaklee Independent Distributor determines that any customer responding to the ad is not a Shaklee Family Member in another group.

Design Guidelines

Two closely related symbols, or logos, are used to identify Shaklee:

- The Shaklee Corporate Logo, for use by the corporation only, and
- The Shaklee Independent Distributor logo, authorized for use by Shaklee Independent Distributors.

Both of these logos are registered trademarks of Shaklee Corporation. Misusing these or any other Shaklee trademark breaches this P&R.

Using Shaklee Copyrighted Material

You may reproduce Shaklee copyrighted material only when permission is specifically granted on the material, or if the material is accompanied by a written notice from Shaklee specifically granting you permission to reproduce it.

Copyrighted material must be reproduced in full and without alterations of any kind.

All copies of any copyrighted material you reproduce with permission must also include the copyright notice that appears on the original (for example: "©2003 Shaklee Corporation").

Trademark Guidelines

The tradename "Shaklee", the Shaklee Independent Distributor logos and most other Shaklee trademarks and service marks are federally registered. Shaklee Independent Distributors are authorized to use them, as long as they comply with the rules and guidelines in this section.

- Shaklee trademarks are proper adjectives and should be followed by generic terms. The trademarks should be capitalized completely, used with initial caps and quotes, or with initial caps. For example, it would be appropriate to state the trademark in any of the following three ways, along with the generic term: VITA-LEA or Vita-Lea or "Vita-Lea" Multivitamin and Multimineral Supplement.
- Shaklee trademarks should be marked with the appropriate symbol to indicate trademark status, i.e., the trademark should be followed by TM, or ® as shown in the *Shaklee Product Guide*.
- Shaklee trademarks should not be pluralized. For example, it would be incorrect to say "Take two VITA-LEAS." Rather, you should say, "Take two VITA-LEA tablets." Shaklee trademarks should not be used in possessive form, e.g., "Instant Protein's good taste" should be "the good taste of Instant Protein Drink Mix."
- To avoid confusion with the Shaklee Internet address, www.Shaklee.com, the tradename "Shaklee" or any variation of "Shaklee," such as "Shak," "Shakl," "Shakle" or "Shaq," may not be included in your e-mail address.
- Shaklee reserves the right at all times to withdraw permission to use or display the Shaklee trade name, trademarks, service marks, Shaklee Independent Distributor Logo:
 - If Shaklee guidelines governing their style and appearance are not met;
 - If Shaklee determines that a usage adversely affects the reputation or interests of Shaklee Independent Distributors or Shaklee Corporation or any of its divisions or subsidiaries, or
 - If the user ceases to be a Shaklee Independent Distributor.

Logo Usage Guidelines

The Shaklee Independent Distributor Logo and the AirSource Independent Distributor Logo are trademarked representations of the Company, our products, and our philosophy. When using these logos in printed materials, you must follow the explicit Logo Usage Guidelines designed to preserve the distinctiveness of the logos and ensure their proper usage. The Logo Usage Guidelines are available online at Shaklee.net.

Chapter 4

Shaklee Membership Policies

Membership Eligibility

To be eligible to become Shaklee Family Members in the United States or U.S. territories, individuals must meet all of the following requirements:

- Be at least 18 years of age.
- Reside in the United States or U.S. territories.
- Provide Shaklee with a valid Social Security Number (SSN), Individual Taxpayer Identification Number (ITIN), Driver's License Number, or State Identification Number. Providing an SSN or ITIN is required for the new Member to become a Distributor.
- Complete a *Shaklee Member Application*. Shaklee accepts Member Applications online, as well as by phone, fax, or mail. Applications submitted by phone are temporary only and must be followed with a signed application by mail or fax within 30 days, or the Membership will be canceled.
- A Member who initially applies using a Driver's License or State Identification Card Number must supply a SSN or ITIN in order to become a Distributor. The SSN or ITIN may be provided by phone, fax, or mail. If provided by phone, Shaklee must receive written confirmation within 30 days.

Shaklee also will accept applications from business entities when they file a *Shaklee Distributor Application for Corporations, Partnerships, and Limited Liability Companies* by mail or fax (phone applications cannot be accepted).

- Business entities must provide a Federal Employer Identification Number (FEIN) as well as the names, addresses, Social Security Numbers, and signatures of all of the partners, guarantors, or officers of the entity. A copy of the IRS notice of FEIN must accompany the application.
- In addition, the business agrees to indemnify and hold Shaklee harmless from any claims brought against Shaklee for products or services of any company other than those of Shaklee U.S., Inc.

Once the applicant(s) sign a *Shaklee Member Application* or *Shaklee Distribution Application for Corporations, Partnerships, and Limited Liability Companies*, the sponsor must complete and forward it to Shaklee within 30 days.

Shaklee reserves the right to reject any application when Shaklee determines that acceptance of the application is not in the best interests of Shaklee and/or Shaklee Family Members.

Shaklee Family Members who join using an ITIN are subject to the following provisions:

- The IRS notice of ITIN must accompany the application.
- The first time a returned check is received for insufficient funds from a Shaklee Family Member with an ITIN, they will be immediately placed on extended No Personal Check status.
- Any single order of \$3,000 or more must be paid for before any product is shipped.

- If a combined distributorship is formed by a Shaklee Independent Distributor with an ITIN and a Shaklee Independent Distributor with a valid SSN, the Shaklee Independent Distributor with the valid SSN will be considered the primary member with the primary number. The same holds true for a husband and wife team; if one has an ITIN and the other a valid SSN, the SSN will be primary.

Status of Shaklee Independent Distributorships

Every Shaklee Independent Distributor is self-employed. As an independent businessperson, a Shaklee Independent Distributor is free to conduct business in the ethically principled manner they deem best, subject to the conditions and responsibilities set forth in Company publications.

Shaklee Independent Distributors are not Shaklee employees and may not imply that they represent, or are employees or agents of, Shaklee Corporation or any of its divisions or subsidiaries, or that their place of business is owned by or operated by, or for, Shaklee Corporation or any of its divisions or subsidiaries. Shaklee will not approve any proposed change in the status of a distributorship if it is or becomes part of any attempt to circumvent any provision of the *P&R*.

One Sponsorship Position

- No Shaklee Family Member can be sponsored in more than one sponsorship position at a given time. All Shaklee Family Members must comply with the *P&R* rules governing reorganizations, resignation waiting periods, and survivorship in order to change their sponsorship.
- If a Shaklee Family Member has duplicate sponsorship records on file with Shaklee, the later records normally will be canceled, and the Shaklee Family Member will be assigned the sponsorship position of the earliest valid record, regardless of any difference in ranks.
- Those sponsored under a Shaklee Independent Distributor with an invalid duplicate record may individually choose one of two options:
 - 1) Move to the sponsorship line under the earliest valid record.
 - 2) Remain in their current sponsorship line.
- Shaklee Family Members are not permitted under any circumstances to simultaneously operate, directly or indirectly, through any arrangement or device, two different Shaklee Distributorships/Memberships in different sponsorship positions.

Change in Distributor Status

- **Marriage:** In keeping with the Shaklee rule that a husband and wife cannot hold separate sponsorship positions, they must choose which one of them will transfer to the distributorship of the other, while leaving the transferring spouse's sponsorship group behind. If for some reason a dispute should arise over the choice of sponsorship lines, Shaklee reserves the right to decide each case independently.

- **Divorce:** When any Shaklee Independent Distributor with a Business Leader title or Sponsorship Group divorces, it is necessary to submit to Shaklee a copy of the first page of the divorce decree and a copy of any other page indicating a division of the business, along with the *Shaklee Dissolution of Marriage Form* signed by both the former husband and wife, indicating which Shaklee Independent Distributor will keep the title.

Compliance with Shaklee Policies

Shaklee Family Members must be in compliance with the current provisions of the *P&R*, and other current policies announced in Shaklee publications in order to retain their distributorships in good standing. Breach of the provisions of any of the publications listed above by any Shaklee Family Member will be deemed a breach of their contract with Shaklee and may result in the suspension or withdrawal of any one or more of the ranks, privileges, benefits, or bonuses (including Leadership Bonuses), conventions, and special incentives appropriate to remedy the breach. Failure to comply with these provisions and policies may also result in the immediate termination of the membership or distributorship for breach of contract.

These remedies are in addition to any other legal remedies available to Shaklee, including preliminary and permanent injunctive relief, to prevent a breach of the provisions of these publications.

The Shaklee Status Review Board (SRB), formed to review and resolve breach of contract issues, will determine the appropriate remedy for any breach based upon the facts of each particular situation. Shaklee Independent Distributors may request reconsideration of any SRB decision they believe is in error by sending a letter to Field Administration stating the reasons why they believe the decision is incorrect. Shaklee Independent Distributors may appeal any decision of the SRB by sending a letter to the President and CEO of Shaklee Corporation stating the reasons why they believe the decision was incorrect.

Shaklee will continue to use the history of the *P&R* and the interpretations provided in the past as guidance in enforcing the provisions of this *P&R*.

Shaklee Policy Review

Shaklee reserves the right, with a minimum of 30 days' notice, to modify all or part of its compensation plan, including, but not limited to, this *P&R*. All provisions of the compensation plan, including the *P&R*, shall be governed by the laws of the State of California. If disputes involving Shaklee policies arise and Shaklee determines that a policy decision is required, any decision Shaklee makes will be final and binding upon all parties.

To protect Field morale from the disruption of old, continuing controversies, Shaklee normally will decline to act on Field complaints concerning distributors' alleged breaches of the *P&R* if more than two years have elapsed from the date of the breach to the date of the complaint. Any complaints must be submitted to Shaklee in writing by a person or persons who have first-hand knowledge of the facts.

Chapter 5

Reorganizations

Sponsorship Reorganizations

Shaklee does not recommend that Shaklee Family Members, regardless of their rank, move from one sponsorship line to another (except by means of responsoring after resigning and fulfilling the waiting period).

If all other alternatives have been exhausted, and movement is necessary, the following rules must be observed. Shaklee will not under any circumstances approve a request for reorganization that does not have all the required signatures. All reorganization requests must be accompanied by a \$50 fee to cover administrative costs.

Internal Reorganization (Movement within a Business Leader's Personal Group)

Single: This encompasses the movement of one Shaklee Independent Distributor or Member **only**.

- The Shaklee Independent Distributor or Member must apply to Shaklee for reorganization by signing and submitting a *Reorganization Application*, which is also signed by the Shaklee Family Member's current Business Leader of record and current sponsor.

Multiple: This encompasses the movement of **more than one** Shaklee Family Member, or one Shaklee Independent Distributor and Personal Group within the Business Leader's Personal Group.

- The Shaklee Independent Distributor or Member must apply to Shaklee for reorganization by signing and submitting a *Reorganization Application*, which is also signed by the Shaklee Family Member's Business Leader of record, and any intervening Shaklee Independent Distributors between the Shaklee Independent Distributor or Member and the Business Leader of record.

External Reorganization (Movement outside a Business Leader's Personal Group)

Single: This encompasses the movement of one Shaklee Independent Distributor or Member **only** from the Personal Group of one Business Leader to that of another.

- The Shaklee Independent Distributor or Member must apply to Shaklee for reorganization by signing and submitting a *Reorganization Application*. The application must also be signed by the Shaklee Independent Distributor's or Member's current Business Leader of record, the current sponsor, the next three (3) upline Business Leaders, and the new Business Leader of record.

Multiple: This encompasses the movement of more than one Shaklee Independent Distributor or Member, or one Shaklee Independent Distributor and Personal Group from one Business Leader's Personal Group to that of another.

- The Shaklee Independent Distributor or Member must apply to Shaklee for reorganization on behalf of himself and his Personal Group by signing and submitting a *Reorganization Application*. The application must also be signed by the current Business Leader of record, the next three (3) upline Business Leaders, any intervening Shaklee Independent Distributors between the Shaklee Independent Distributor and the current Business Leader of record, and the new Business Leader of record.

Sponsor Reorganization

A Business Leader may move a Shaklee Family Member whom they have personally sponsored, under another Shaklee Independent Distributor in their Sponsorship Group provided:

- The Business Leader completes a *Sponsor Reorganization Application*. No fee is required.
- The Business Leader submits the *Sponsor Reorganization Application* to Shaklee within three months of sponsoring the Shaklee Family Member.
- If the Shaklee Family Member originally applied by phone, the hardcopy application has been received by Shaklee.

This reorganization option is open only to Business Leaders. The three-month period will be determined based on the entry date on file in Shaklee's records.

Reorganization of Directors with Sponsorship Line Movement

Requests for reorganization of Directors and above, with or without Sponsorship Group, will be permitted under the following circumstances:

- Approval of the four upline Business Leaders, and
- Approval of the Status Review Board.

If the reorganization will include the Business Leader's Sponsorship Group, Shaklee will give courtesy notification of the proposed reorganization to the Director's downline Business Leaders.

If the proposed reorganization will result in an increase in Paid As Title, Shaklee may withhold the new Paid As Title for a period of up to one year. This includes eligibility to earn bonuses at the new rank.

Reorganization and Purchase/Sale Violations

Actively soliciting or encouraging any Shaklee Family Member to move from one Personal Group to another disrupts morale and undermines the growth of stable Personal Groups. Accordingly, Shaklee Independent Distributors may not abuse the reorganization or buy/sale process by engaging in such activities as using nominal "paper" distributorships, soliciting Shaklee Family Members to move to another group, withholding Member or Distributor Applications, or using other subterfuges to circumvent sponsorship lines.

Purchase/Sale of a Distributorship

Shaklee Distributorships may be bought and sold. At the completion of any sale, the Shaklee Independent Distributor who buys a business will assume the sponsorship position and responsibility for the purchased business and group, while the seller will relinquish the sponsorship position, the responsibility, and group.

All purchase/sale transactions are subject to approval by Shaklee. Shaklee also requires that a copy of the purchase/sale document(s) be attached to the *Replacement Distributor Form*, along with a fee of \$50 to cover administrative costs.

Requirements

- The buyer must be an Associate or above to acquire a distributorship below the rank of Coordinator, and a Director or above to acquire a distributorship at or above the rank of Coordinator. The buyer must have held their current rank for a minimum of six months prior to acquiring another business.
- The seller, if a Business Leader, must have held their Business Leader rank for a minimum of one (1) year prior to the sale. The seller must offer their Senior Business Leader the first opportunity to acquire the distributorship and must provide Shaklee with written evidence of that offer. If the Senior Business Leader refuses the offer, the seller may then offer the business to any other Shaklee Independent Distributor of appropriate rank on comparable terms.
- Shaklee reserves the right to deny approval of a sale to any Business Leader who previously approved the reorganization of any Shaklee Family Members into the Personal Group of the distributorship that they propose to acquire. Any other reorganizations, terminations or resignations submitted near the time of the sale may be reviewed as part of the proposed sale.
- If the buyer wishes to take their Personal Group with them, this must be indicated on the *Replacement Distributor Form* and is subject to approval by Shaklee, the buyer's current Business Leader of record, the next three (3) upline Business Leaders, and the seller's Business Leader of record, in addition to the signature(s) of any intervening Shaklee distributorships between the buyer and the current Business Leader of record. If the buyer does not take their Personal Group, the buyer must sign an agreement not to solicit members of their former Personal Group to move with them.
- The seller has the option of remaining active (without group) as a Shaklee Family Member under the buyer and cannot be reappointed to the rank of Director without prior approval of Shaklee. The seller also has the option to resign. Any former Business Leader who has sold their business and resigned must receive the approval of Shaklee in order to responsor.
- After approval of the purchase, the buyer will assume the rank of the seller. Typically, Shaklee requires a reasonable waiting period (normally one year) before the rank of Executive Coordinator, Key Coordinator, or Master Coordinator, and eligibility for bonuses at those Paid As Titles, is granted.
- No buyer may begin to operate the seller's business or assume any sponsorship rights until they receive an approved and processed copy of the *Replacement Distributor Form*.

Chapter 6

Terminations

A Shaklee Family Member's relationship with Shaklee may be terminated by one of three procedures:

- Resignation;
- Non-renewal;
- Termination for Breach of Contract.

Shaklee Independent Distributors who terminate lose all rights related to their sponsorship groups, and members of the sponsorship groups move a step up in their respective sponsorship lines. Upon termination, all rights, privileges, and benefits of their status end, including sponsorship rights in Shaklee, bonuses, and authorization to sell Shaklee products and to use Shaklee trademarks. These rights may not be transferred.

Resignation

To resign, Shaklee Family Members must submit written notification to Shaklee that includes the signatures of those resigning and, in the case of a distributorship, the names of the members of the distributorship who wish to remain active.

Shaklee will send the resigning Shaklee Family Members an acknowledgment letter indicating the effective termination date (with a copy forwarded to the Shaklee Family Member's Business Leader of record). In any instance where a Business Leader is resigning, Shaklee will make every effort to give advance notice to the upline Business Leader.

Shaklee will not allow a partial resignation of a distributorship if any member of the distributorship is in violation of the *P&R*.

For the purpose of resignation and reactivation, a husband and wife team will be treated as one Distributorship or Membership, regardless of the fact that only one spouse may have become or may remain a Shaklee Family Member.

Responsoring After Resignation

- Resigned Members, Distributors, and Associates may not responsor under a new sponsor for six months after their effective termination date.
- Former Business Leaders who have been retitled for more than one year at the time of resignation may not responsor under a new sponsor for six months after their effective termination date.
- Former Business Leaders retitled for less than one year at the time of resignation are ineligible to responsor under a new sponsor for one year after their effective termination date, but in no event to exceed 18 months from the date of retitling.

- Resigned Members and Independent Distributors wishing to reactivate under the same sponsor and Business Leader may do so without a waiting period by submitting a new *Shaklee Member Application* or *Shaklee Distributor Application for Corporations, Partnerships, and Limited Liability Companies*.

Shaklee reserves the right to deny future Shaklee Membership status to any terminated Shaklee Family Members who engage in Shaklee activities (including assisting another Shaklee Family Member in their Shaklee business), or who represent themselves as Shaklee Family Members while they are not on record with Shaklee as authorized Shaklee Family Members.

Business Leaders who have arranged and/or approved transfers of Members, Distributors, or Associates from their Personal Group to that of another before resigning or changing their own sponsorship position will not be permitted to re-sponsor into the Personal Group of the same Business Leader into which the former group members were transferred.

Termination for Non-Renewal

Renewal is annual. Renewal must be made by the date specified by Shaklee each year to insure continuity of Member benefits. If renewal does not occur by the required time, the Membership/Distributorship will be terminated.

Shaklee Family Members below the rank of Director, who do not renew their Membership/Distributorship annually will be treated as if they had resigned and the same waiting periods will apply as if they had resigned.

Termination for Breach of Contract

Termination for breach of contract may result from engaging in activities detrimental to Shaklee, including any of the following:

- Violating the terms of the *Shaklee Member Application* or *Shaklee Distributor Application for Corporations, Partnerships, and Limited Liability Companies*.
- Violating the provisions of the *P&R*.
- Failing to meet the responsibilities of Business Leadership, as described in this *P&R* and other Shaklee publications.
- Engaging in conduct that damages the reputation of Shaklee or Shaklee Family Members, including, but not limited to, conviction of a felony.
- Violating the provisions of official Shaklee Canada publications when doing business in Canada.

Members or Distributorships terminated for breach of contract may not re-sponsor without special review and approval by Shaklee.

Chapter 7

Combined Distributorships

Status of Combined Distributorships — DBAs, Partnerships, Corporations, and Limited Liability Companies (LLCs)

- Partnerships, corporations, or Limited Liability Companies operating Shaklee distributorships must consist exclusively of Active Partners or Active Guarantors residing in the U.S.
- Each Active Partner/Guarantor in a combined distributorship will be held personally responsible for the actions of the distributorship. Regardless of the number of individuals who make up a distributorship, Shaklee treats each distributorship, including combined distributorships, as one entity for all purposes.
- The actions of any member of a combined distributorship bind all other members as well as the distributorship entity itself. Shaklee holds the distributorship entity responsible for any breaches of the contract provisions governing Shaklee distributorships.

Types

Business entities, whether DBAs, partnerships, corporations, or Limited Liability Companies, may sponsor as Shaklee Distributors using the appropriate application form (available from Shaklee). In addition, Shaklee Independent Distributors residing in the U.S. may form general partnerships, Distributor corporations, or Limited Liability Companies. They also may adopt DBA (Doing Business As) names for their businesses. All members of a Shaklee U.S., Inc. combined distributorship must reside in the U.S.

- Shaklee recommends that corporations be formed only after distributors consult their attorney and a tax advisor in their state. Applications for acceptance as a corporate distributorship must be submitted on the appropriate form (available on the shaklee.net member center).
- Individual qualified Shaklee Independent Distributors must guarantee the performance of corporate distributorships or Limited Liability Companies upon forming a combined distributorship.
- Only spouses, Active Partners, or Active Guarantors of a corporation or Limited Liability Company can be sponsored in the sponsorship position occupied by a combined distributorship. The owners, officers, and directors of an existing business entity that sponsors as a Shaklee Distributor must guarantee the performance of the distributorship.

Provisions

- The members are responsible for ensuring that the partnership agreement, articles of incorporation, or Limited Liability Company documentation complies with applicable state laws.

- Other than as stated in this *P&R*, Shaklee will not review, approve, or become a party to any distributor agreements.
- Applicants must have a current Federal Employer Identification Number (FEIN) from the Internal Revenue Service and provide a copy of the IRS notice to Shaklee.
- A fee of \$50, made payable to Shaklee, is required to cover administrative costs.
- Proposed members of a combined distributorship who are in different sponsorship lines must first apply for reorganization before a combined distributorship may be requested.
- Shaklee reserves the right to reject any proposed combined distributorship name that is not acceptable to Shaklee.

Additional Members

Shaklee will recognize additional members residing in the U.S. (Active Partners or Active Guarantors) joining the partnership or distributor corporation only in the following limited circumstances:

- When the new member of the distributorship is an adult (18 years or older) and is the son, daughter, or spouse of a current Active Partner or Active Guarantor.
- When the new member of the distributorship has held the rank of Distributor or higher in the same sponsorship line, either immediately above or below the distributorship, for a minimum of six months.

Shaklee holds members of a combined distributorship, as well as the combined distributorship entity itself, equally responsible for the actions of the other members of the combined distributorship, regardless of any separate agreements the members may have made.

Special Review

Special review and approval by Shaklee are required:

- When two or more Business Leaders wish to combine their businesses to form a partnership, Limited Liability Company, or corporate distributorship.
- When any new member is added to an Executive, Key, or Master Coordinatorship.

Shaklee reserves the right to reject or rescind approval of any transactions involving combined distributorships that are designed to circumvent or have the effect of circumventing Shaklee Sponsorship Lines or any provisions of the *P&R*.

Dissolution

Requests for dissolution of combined distributorship entities must:

- Be submitted in writing to Shaklee on the *Dissolution of Combined Distributorship* form and include the signatures of all departing and remaining members of the distributorship on record with Shaklee; and
- Be accompanied by a \$50 fee to cover administrative costs.

If more than one former member of the distributorship is to remain active in Shaklee, the request must indicate:

- Which First Level Shaklee Family Members each former member will retain.
- Which one of the former members is to retain any Business Leader rank held by the distributorship entity. Only one former member may retain the rank and all of its associated benefits. First Level Shaklee Family Members will be moved with Sponsorship Groups intact.

Requests for deleting a member or members from a combined distributorship must:

- Be submitted in writing to Shaklee on the *Deletion of Members from a Combined Distributorship* form and include the signatures of all members being deleted; and
- Be accompanied by a \$50 fee to cover administrative costs

If the member being deleted from the combined distributorship is the one who originally applied for the FEIN, then the combined distributorship must be dissolved and reformed with a new FEIN.

Parallel Sponsorship Lines

When a combined distributorship is dissolved, any remaining former spouse, Active Partners, or Active Guarantors (“members”) will be separated into parallel sponsorship lines directly beneath the sponsor of the former husband-and-wife team or distributorship entity.

Former members of the distributorship who want to obtain an exception to the parallel sponsorship rule and reorganize vertically in the Sponsorship Line, one above the other, must first obtain approval in writing from the four (4) upline Business Leaders affected and then apply to Shaklee for a waiver of the parallel sponsorship rule.

If the person leaving a combined distributorship is the adult child of a member of the distributorship, the parallel rule will be automatically waived and the adult child will be placed vertically in the Sponsorship Line, directly below the parents’ distributorship. Only the adult child — or children, if a husband-and-wife team — will be moved. They may not take any additional Shaklee Family Members with them unless they submit a completed *Reorganization Application*.

Special Review

Shaklee reserves the right to review and determine dissolutions of Executive, Key, and Master Coordinatorships individually as an exception to the provisions of this section when deemed in the best interest of all members and Shaklee.

If all former members of a distributorship entity on record with Shaklee cannot agree on the dissolution terms, Shaklee will require an order from a court or binding arbitration decision that specifies which one retains the rank and how the First Level Shaklee Family Members are to be divided.

Chapter 8

Survivorship

Without a properly drafted trust or will (or contract in those states which permit disposition of assets upon death by contract), a distributorship automatically terminates upon the death of the last individual Shaklee Independent Distributor (or, in the case of a combined distributorship, the last surviving partner, or Active Guarantor).

Survivorship requires careful planning. Shaklee recommends you consult with a local estate-planning attorney.

Survivorship Options

Business Leaders may assure continuing bonus payments and avoid termination of sponsorship rights by choosing one of the following options:

- Adding one or more Active Partners or Active Guarantors to a Distributorship, as explained in combined distributorships;
- Transfer by will or contract (where permitted by state law); or
- Transfer by trust. A Business Leader may transfer a distributorship during his or her lifetime to a revocable *inter vivos* trust (i.e., a living trust, or during the Business Leader's lifetime) of which the Business Leader is the beneficiary. Upon the Business Leader's death the distributorship may be transferred to a testamentary trust (i.e., at time of death). A testamentary trust may be desirable where the Business Leader's heirs are minors who are disqualified from operating a Shaklee distributorship until they reach majority.

Shaklee will refer to a will (or contract) and/or a testamentary trust only upon the death of the last surviving member of the distributorship.

Requirements

Transfer of a Business Leader's distributorship by trust or will (or contract) requires compliance with the following:

- The creator of the trust or will (or contract) must be a Business Leader in good standing at the time (or, in the case of a deceased Business Leader, immediately prior to the time) that the distributorship is transferred.
- The beneficiaries of a testamentary trust or will (or contract) must be one or more of the following: a Shaklee Independent Distributor in the upline or downline of the distributorship in question who is qualified to purchase the business as provided in the Purchase/Sale chapter, or the spouse, child, grandchild, parent, or sibling of the Business Leader (or deceased Business Leader) whose distributorship is to be transferred. If the beneficiary of a will is a minor, a custodian or a guardian must be appointed until the beneficiary reaches the age of majority. Any adult may be appointed to serve as a custodian or a guardian. The beneficiaries of an *inter vivos* trust must be the Business Leaders whose business is to be transferred.

- The term of the trust, custodianship, or guardianship shall not be perpetual and shall not continue beyond the date necessary to protect the interests of those beneficiaries who are unable to act for themselves legally, such as minor children or incompetent persons who require assistance in the conduct of business affairs.
- The trust instrument or contract must preclude the beneficiaries from assigning any beneficial interest in the trust.
- The trust must conduct only the business of a Shaklee distributorship and no other.
- The trustee of the trust may be either an individual or a corporation.
- An heir, beneficiary, trustee, custodian, or guardian must qualify as a Shaklee Independent Distributor and operate the distributorship within 60 days of the date of death. Shaklee reserves the right to hold all bonuses in reserve during this period.
- At the time of transfer, each individual heir, beneficiary, trust, custodian, or guardian must meet the Shaklee Family Member eligibility requirements as provided in the "Eligibility" section, and agree to perform all the obligations and responsibilities of a Shaklee Business Leader as set forth in the *P&R* and other Shaklee publications then existing and as amended from time to time.
- An heir, beneficiary, trustee, custodian, or guardian may not be in more than one sponsorship position at a given time (except under the limited circumstances provided in the next bullet). In the event an heir, beneficiary, trustee, custodian, or guardian is already a Shaklee Family Member at the time of the death of the transferor Business Leader, the heir, beneficiary, trustee, custodian, or guardian must inform Shaklee in writing within 30 days of their sponsorship position of choice. Any other Sponsorship Group will roll up in its sponsorship line. In the absence of such communication, Shaklee will determine the appropriate sponsorship position.
- In the event of the death of the last member of a distributorship with surviving children who are minors, Shaklee will permit the guardian(s) to be Business Leader(s) in another sponsorship position under the following limited conditions:
 - There is a prior written agreement between the distributorship and the guardian that provides for the continuation of the Shaklee business and the disposition of bonuses during the minority of the children.
 - The guardianship must begin before a minor child or children turn(s) eighteen (18) years of age, and may not continue past the time one child reaches the age of twenty-five (25) years.
 - The two distributorships must be operated separately and the guardian may not commingle them in any way.
- A Business Leader may not transfer by trust or will (or contract) less than the Business Leader's entire interest in the Shaklee distributorship. If more than one beneficiary or heir is named, all must receive an equal ownership interest in the Shaklee distributorship.
- Shaklee reserves the right to determine after transfer the continuing eligibility of a trust, heir, or beneficiary for rank and convention privileges previously granted the distributorship.

Registration of Trusts and Wills

In the case of a trust:

- Before a Shaklee Distributorship is transferred to a trust, the trustee must sign and file an *Application for Shaklee Distributor Authorization (Trust)*.
- A copy of the trust instrument must accompany the application, and the trustee must file with Shaklee any amendment or other document that varies the terms of the trust within 30 days of the change.
- When the grantor (creator of the trust) dies, a copy of the death certificate must be filed with Shaklee. Shaklee will also accept a copy of the obituary from a newspaper of general circulation or a letter from a family member notifying us of the date of death.
- A \$50 administrative fee must accompany an Application.

In the case of a will (or contract where permitted by state law):

- The testator may either attach a certified copy of the will (or contract) to the *Application to Register a Will*, or the beneficiaries may provide a copy at the time of death. If a will is provided with the application, the testator (or contracting party) must promptly file with Shaklee any amendment or other document which varies the terms of the will (or contract).

Failure to Plan for Survivorship

In the absence of a trust or will (or contract) filed with Shaklee, the distributorship will terminate upon the death of the last member of the distributorship, and the members of the Business Leader's Sponsorship Group will roll up in the sponsorship line.

However, the personal representative of a Business Leader who has not complied with the terms of this chapter shall have 90 days from the date of death to sell the distributorship to a Shaklee Independent Distributor as specified in the Purchase/Sale section.

In the event of a conflict between the listing of any members of a distributorship with Shaklee and a trust or will (or contract), and in the absence of an order of a court having jurisdiction of the matter, Shaklee reserves the right to resolve the conflict. Shaklee's decision shall be final and binding.