

STATEMENT
of
POLICIES
and
PROCEDURES

SECTION 1 - CORPORATE MISSION STATEMENT

The vision is to become the leading Internet Solution Provider on the World Wide Web by marrying high tech products and services with high touch individuals creating a net lifestyle for the masses.

SECTION 2 - INTRODUCTION

2.1 Policies and Compensation Plan Incorporated into Independent Distributor Agreement

These Policies and Procedures, in their present form and as amended at the sole discretion of Net Lifestyles, Inc. (hereafter "Net Lifestyles" or the "Company"), are incorporated into, and form an integral part of, the Net Lifestyles Independent Distributor Agreement. Throughout these Policies, when the term "Agreement" is used, it collectively refers to the Net Lifestyles Independent Distributor Application and Agreement, these Policies and Procedures, the Net Lifestyles Marketing and Compensation Plan, and the Net Lifestyles Business Entity Application (if applicable). These documents are incorporated by reference into the Net Lifestyles Independent Distributor Agreement (all in their current form and as amended by Net Lifestyles). It is the responsibility of each Independent Distributor (hereafter "Distributor") to read, understand, adhere to, and ensure that he or she is aware of and operating under the most current version of these Policies and Procedures. When sponsoring a new Distributor, it is the responsibility of the sponsoring Distributor to provide the most current version of these Policies and Procedures and the Net Lifestyles Marketing and Compensation Plan to the applicant prior to his or her execution of the Independent Distributor Agreement.

2.2 Purpose of Policies

Net Lifestyles is a direct sales company that markets telecommunication and Internet-related products and services through Independent Distributors. It is important to understand that your success and the success of your fellow Distributors is dependent upon the integrity of the men and women who market our products and services.

To clearly define the relationship that exists between Distributors and Net Lifestyles, and to explicitly set a standard for acceptable business conduct, Net Lifestyles has established the Agreement.

Net Lifestyles Distributors are required to comply with all of the Terms and Conditions set forth in the Agreement which Net Lifestyles may amend at its sole discretion from time to time, as well as all federal, state, provincial, territorial, and local laws governing their Net Lifestyles business and their conduct. Because you may be unfamiliar with many of these standards of practice, it is very important that you read and abide by the Agreement. Please review the information in these Policies and Procedures carefully. It explains and governs the relationship between you, as an independent contractor and the Company. If you have any questions regarding any policy or rule, do not hesitate to seek an answer from anyone in your upline or Net Lifestyles.

2.3 Changes to the Agreement

Because federal, state, provincial, territorial and local laws, as well as the business environment, periodically change, Net Lifestyles reserves the right to amend the Agreement and its prices in its sole and absolute discretion. By signing the Independent Distributor Agreement, a Distributor agrees to abide by all amendments or modifications that Net Lifestyles elects to make. Amendments shall be effective upon notice to all Distributors that the Agreement has been modified. Notification of amendments shall be published in official Net Lifestyles materials. The Company shall provide or make available to all Distributors a complete copy of the amended provisions by one or more of the following methods: (1) posting on the Company's official web site; (2) electronic mail (e-mail); (3) fax-on-demand; (4) voice mail system broadcast; (5) inclusion in Company periodicals; (6) inclusion in product orders or bonus checks; or (7) special mailings. The continuation of a Distributor's Net Lifestyles business or a Distributor's acceptance of bonuses or commissions constitutes acceptance of any and all amendments.

2.4 Delays

Net Lifestyles shall not be responsible for delays or failures in performance of its obligations when performance is made commercially impracticable due to circumstances beyond its reasonable control. This includes, without limitation, strikes, labor difficulties, riot, war, fire, death, curtailment of a party's source of supply, or government decrees or orders.

2.5 Policies and Provisions Severable

If any provision of the Agreement, in its current form or as may be amended, is found to be invalid, or unenforceable for any reason, only the invalid portion(s) of the provision shall be severed and the remaining terms and provisions shall remain in full force and effect and shall be construed as if such invalid, or unenforceable provision never comprised a part of the Agreement.

2.6 Waiver

The Company never gives up its right to insist on compliance with the Agreement and with the applicable laws governing the conduct of a business. No failure of Net Lifestyles to exercise any right or power under the Agreement or to insist upon strict compliance by a Distributor with any obligation or provision of the Agreement, and no custom or practice of the parties at variance with the terms of the Agreement, shall constitute a waiver of Net Lifestyles' right to demand exact compliance with the Agreement. Waiver by Net Lifestyles can be effected only in writing by an authorized officer of the Company. Net Lifestyles' waiver of any particular breach by a Distributor shall not affect or impair Net Lifestyles' rights with respect to any subsequent breach, nor shall it affect in any way the rights or obligations of any other Distributor. Nor shall any delay or omission by Net Lifestyles to exercise any right arising from a breach affect or impair Net Lifestyles' rights as to that or any subsequent breach.

The existence of any claim or cause of action of a Distributor against Net Lifestyles shall not constitute a defense to Net Lifestyles' enforcement of any term or provision of the Agreement.

SECTION 3 - BECOMING AN INDEPENDENT DISTRIBUTOR

3.1 Requirements to Become an Independent Distributor

To become a Net Lifestyles Independent Distributor, each applicant must:

- Be of the age of majority in his or her state of residence;
- Reside in the United States or U.S. Territories;
- Have a valid Social Security or Federal Tax ID number;
- Purchase an Net Lifestyles Starter Kit (not applicable in North Dakota);
- Submit a properly completed (originals only - no copies) and signed Independent Distributor Application and Agreement to Net Lifestyles; and
- Have five (5) Customers in his or her marketing organization.

The company reserves the right to reject any applications for a new Distributor or applications for renewal.

3.2 New Distributor Registration by Telephone or Fax

A Sponsor or the potential new Distributor may call the Net Lifestyles home office during regular business hours to receive a temporary Distributor Identification Number ("DIN") and temporary authorization for a new Distributor. (See the front of the Independent Distributor Application and Agreement for phone numbers and appropriate business hours.) The caller must be able to provide all necessary Independent Distributor Agreement information over the telephone or fax. A new Distributor Starter Kit may be ordered at this time using a valid credit card. A Starter Kit will be provided to the new Distributor.

The new Distributor's DIN and authorization will be valid for 30 days, pending receipt of the completed and signed original Independent Distributor Application and Agreement by Net Lifestyles. Once the original Independent Distributor Application and Agreement is received at the Net Lifestyles Home Office, the new Independent Distributor Agreement will be extended to one full year from the date on which the DIN was issued.

If the new Independent Distributor Application and Agreement is not received within the temporary 30-day time period, the temporary authorization shall expire, the DIN will be canceled, and the Independent Distributor Application and Agreement will be automatically terminated.

3.3 Distributor Benefits

Once an Independent Distributor Application and Agreement has been accepted by Net Lifestyles, the benefits of the Marketing and Compensation Plan and the Independent Distributor Agreement are available to the new Distributor. These benefits include the right to:

- Retail Net Lifestyles products or resell services, and profit from these sales;
- Purchase Net Lifestyles products at the Distributor price;
- Participate in the Net Lifestyles Marketing and Compensation Plan (receive bonuses and commissions, if eligible);
- Sponsor other individuals Distributors into the Net Lifestyles business, develop Customers, and thereby build a marketing organization and progress through the Net Lifestyles Marketing and Compensation Plan; Receive periodic Net Lifestyles literature and other Net Lifestyles communications;

- Participate in Net Lifestyles-sponsored support, service, training, motivational and recognition functions, upon payment of appropriate charges, if applicable; and
- Participate in promotional and incentive contests and programs sponsored by Net Lifestyles for its Distributors.

3.4 Renewal of Your Net Lifestyles Business

The term of the Independent Distributor Agreement is one year from the date of its acceptance by Net Lifestyles. Distributors must renew their Independent Distributor Agreement each year by paying an annual renewal fee of \$180.00 on or before the anniversary date of their Independent Distributor Agreement. If the renewal fee is not paid within 30 days after the expiration of the current term of the Independent Distributor Agreement, the Independent Distributor Agreement will be canceled. Distributors may elect to utilize the Automatic Renewal Program ("ARP"). Under the ARP, the renewal fee may be:

(a) deducted from the Distributor's bonus check for the anniversary month of the Independent Distributor Agreement; or

(b) charged to the Distributor's credit card or checking account.

SECTION 4 - OPERATING A NET LIFESTYLES BUSINESS

4.1 Adherence to the Net Lifestyles Marketing and Compensation Plan

Distributors must adhere to the terms of the Net Lifestyles Marketing and Compensation Plan as set forth in official Net Lifestyles literature. Distributors shall not offer the Net Lifestyles opportunity through, or in combination with, any other system, program, or method of marketing other than that specifically set forth in official Net Lifestyles literature. Distributors shall not require or encourage other current or prospective Customers or Distributors to participate in Net Lifestyles in any manner that varies from the program as set forth in official Net Lifestyles literature. Distributors shall not require or encourage other current or prospective Customers or Distributors to execute any agreement or contract other than official Net Lifestyles agreements and contracts in order to become a Net Lifestyles Distributor. Similarly, Distributors shall not require or encourage other current or prospective Customers or Distributors to make any purchase from, or payment to, any individual or other entity to participate in the Net Lifestyles Marketing and Compensation Plan other than those purchases or payments identified as recommended or required in official Net Lifestyles literature.

4.2 Advertising

4.2.1 In General

All Distributors shall safeguard and promote the good reputation of Net Lifestyles and its products. The marketing and promotion of Net Lifestyles, the Net Lifestyles opportunity, the Marketing and Compensation Plan, and Net Lifestyles products shall be consistent with the public interest, and must avoid all discourteous, deceptive, misleading, unethical or immoral conduct or practices.

To promote both the products and services, and the tremendous opportunity Net Lifestyles offers, Distributors must use the sales aids and support materials produced by Net Lifestyles. The rationale behind this requirement is simple. Net Lifestyles has carefully designed its products, product labels, Marketing and Compensation Plan, and promotional materials to ensure that each aspect of Net Lifestyles is fair, truthful, substantiated, and complies with the vast and complex legal requirements of federal and state provincial laws. If Net Lifestyles Distributors were allowed to develop their own sales aids and promotional materials (which includes Internet advertising), notwithstanding their integrity and good intentions, the likelihood that they would unintentionally violate any number of statutes or regulations affecting a Net Lifestyles business is almost certain. These violations, although they may be relatively few in number, would jeopardize the Net Lifestyles opportunity for all Distributors. Accordingly, Distributors must submit all written sales aids, promotional materials, advertisements, and other literature (including proposed Internet advertising) to the Ethics and Compliance Department for approval. Unless the Distributor receives specific written approval to use the material, the request shall be deemed denied.

Except as provided in this section, Distributors may not use or transmit unsolicited faxes, mass e-mail distribution, unsolicited e-mail, or "spamming" relative to the operation of their Net Lifestyles businesses. The terms "unsolicited faxes" and "unsolicited e-mail" mean the transmission via telephone facsimile or electronic mail, respectively, of any material or information advertising or promoting Net Lifestyles, its products, its compensation plan or any other aspect of the company which is transmitted to any person, except that these terms do not include a fax or e-mail: (a) to any person with that person's prior express invitation or permission; or (b) to any person with whom the Distributor has an established business or personal relationship. The term "established business or personal relationship" means a prior or existing relationship formed by a voluntary two-way communication between a Distributor

and a person, on the basis of: (a) an inquiry, application, purchase or transaction by the person regarding products offered by such Distributor; or (b) a personal or familial relationship, which relationship has not been previously terminated by either party.

If a Distributor desires to utilize an Internet web page to promote his or her business, he or she may do so through the company's official web site, using official Net Lifestyles templates.

4.2.2 Trademarks and Copyrights

Net Lifestyles will not allow the use of its trade names, trademarks, designs, or symbols by any person, including an Net Lifestyles Distributor, without its prior, written permission. Distributors may not produce for sale or distribution any recorded company events and speeches without written permission from Net Lifestyles nor may Distributors reproduce for sale or for personal use any recording of company-produced audio or video tape presentations.

4.2.3 Media and Media Inquiries

Distributors must not attempt to respond to media inquiries regarding Net Lifestyles, its products or services, or their independent Net Lifestyles business. All inquiries by any type of media must be immediately referred to Net Lifestyles' Public Relations Department. This policy is designed to assure that accurate and consistent information is provided to the public as well as a proper public image.

4.23 Business Entities

A corporation, partnership or trust (collectively referred to in this section as a "Business Entity") may apply to be an Net Lifestyles Distributor by submitting its Certificate of Incorporation, Partnership Agreement or trust documents (these documents are collectively referred to as the "Entity Documents") to Net Lifestyles, along with a properly completed Business Entity Registration form. An Net Lifestyles business may change its status under the same sponsor from an individual to a partnership, corporation or trust, or from one type of entity to another. There is a \$25.00 fee for each change requested, which must be included with the written request and the completed Independent Distributor Application and Agreement. The Business Entity Registration form must be signed by all of the shareholders, partners or trustees. Members of the entity are jointly and severally liable for any indebtedness or other obligation to Net Lifestyles.

4.4 Changes to the Net Lifestyles Business

4.4.1 In General

Each Distributor must immediately notify Net Lifestyles of all changes to the information contained on his or her Independent Distributor Application and Agreement. Distributors may modify their existing Independent Distributor Agreement (i.e., change Social Security number to Federal I.D. number, or change the form of ownership from an individual proprietorship to a business entity owned by the Distributor) by submitting a written request, a properly executed Independent Distributor Application and Agreement, and appropriate supporting documentation. There is a \$25.00 fee for each change requested, which must be included with the written request and the completed Independent Distributor Application and Agreement.

4.4.2 Addition of Co-Applicants

When adding a co-applicant (either an individual or a business entity) to an existing Net Lifestyles business, the Company requires both a written request as well as a properly completed Independent Distributor Application and Agreement containing the applicant and co-applicant's Social Security Numbers and signatures. To prevent the circumvention of Section 4.23 (regarding transfers and assignments of Net Lifestyles business), the original applicant must remain as a party to the original Independent Distributor Application and Agreement. If the original Distributor wants to terminate his or her relationship with the Company, he or she must transfer or assign his or her business in accordance with Section 4.23. If this process is not followed, the business shall be canceled upon the withdrawal of the original Distributor. All bonus and commission checks will be sent to the address of record of the original Distributor. Please note that the modifications permitted within the scope of this paragraph do not include a change of sponsorship. Changes of sponsorship are addressed in Section 4.4.3, below. There is a \$25.00 fee for each change requested, which must be included with the written request and the completed Independent Distributor Application and Agreement. Net Lifestyles may, at its discretion, require notarized documents before implementing any changes to a Net Lifestyles business. Please allow thirty (30) days after the receipt of the request by Net Lifestyles for processing.

4.4.3 Change of Sponsor

To protect the integrity of all marketing organizations and safeguard the hard work of all Distributors, Net Lifestyles strongly discourages changes in sponsorship. Maintaining the integrity of sponsorship is critical for the success of every Distributor and marketing organization. Accordingly, the transfer of a Net Lifestyles business from one sponsor to another is rarely permitted.

Requests for change of sponsorship must be submitted in writing to the Distributor Services Department, and must include the reason for the transfer. Transfers will only be considered in the following two (2) circumstances:

(a) In cases involving fraudulent inducement or unethical sponsoring, a Distributor may request that he or she be transferred to another organization with his or her entire marketing organization intact. All requests for transfer alleging fraudulent sponsoring practices shall be evaluated on a case by case basis.

(b) The Distributor seeking to transfer submits a properly completed and fully executed Sponsorship Transfer Form which includes the written approval of his or her all parties whose income will be affected by the transfer. Photocopied or facsimile signatures are not acceptable. All Distributor signatures must be notarized. The Distributor who requests the transfer must submit a fee of \$50.00 for administrative charges and data processing. If the transferring Distributor also wants to move any of the Distributors in his or her marketing organization, each downline Distributor must also obtain a properly completed Sponsorship Transfer Form and return it to Net Lifestyles with the \$50.00 change fee (i.e., the transferring Distributor and each Distributor in his or her marketing organization multiplied by \$50.00 is the cost to move an Net Lifestyles business.) Downline Distributors will not be moved with the transferring Distributor unless all of the requirements of this paragraph are met. Transferring Distributors must allow thirty (30) days after the receipt of the Sponsorship Transfer Forms by Net Lifestyles for processing and verifying change requests. Net Lifestyles will consider waiving the six-month waiting period under exceptional circumstances. Such requests for waiver must be submitted to Net Lifestyles in writing.

4.4.4 Cancellation and Re-application

A Distributor may legitimately change organizations by voluntarily canceling his or her Net Lifestyles business and remaining inactive (i.e., no purchases of Net Lifestyles products for resale, no sales of Net Lifestyles products, no sponsoring, no attendance at any Net Lifestyles functions, participation in any other form of Distributor activity, or operation of any other Net Lifestyles business) for six (6) full calendar months. Following the six-month period of inactivity, the former Distributor may reapply under a new sponsor.

4.5.1 Indemnification

A Distributor is fully responsible for all of his or her verbal and written statements made regarding Net Lifestyles products, services, and the Marketing and Compensation Plan which are not expressly contained in official Net Lifestyles materials. Distributors agree to indemnify Net Lifestyles and Net Lifestyles' directors, officers, employees, and agents, and hold them harmless from any and all liability including judgments, civil penalties, refunds, attorney fees, court costs, or lost business incurred by Net Lifestyles as a result of the Distributor's unauthorized representations or actions. This provision shall survive the termination of the Independent Distributor Agreement.

4.5.2 Income Claims

In their enthusiasm to sponsor prospective Distributors, some Distributors are occasionally tempted to make income claims or earnings representations to demonstrate the inherent power of network marketing. This is counterproductive because new Distributors may become disappointed very quickly if their results are not as extensive or as rapid as the results others have achieved. At Net Lifestyles, we firmly believe that the Net Lifestyles income potential is great enough to be highly attractive, without reporting the earnings of others.

Moreover, the Federal Trade Commission and several states have laws or regulations that regulate or even prohibit certain types of income claims and testimonials made by persons engaged in network marketing. While Distributors may believe it beneficial to provide copies of checks, or to disclose the earnings of themselves or others, such approaches have legal consequences that can negatively impact Net Lifestyles as well as the Distributor making the claim unless appropriate disclosures required by law are also made contemporaneously with the income claim or earnings representation. Because Net Lifestyles Distributors do not have the data necessary to comply with the legal requirements for making income claims, a Distributor, when presenting or discussing the Net Lifestyles opportunity or Marketing and Compensation Plan to a prospective Distributor, may not make income projections, income claims, or disclose his or her Net Lifestyles income (including the showing of checks, copies of checks, bank statements, or tax records). Hypothetical income examples that are used to explain the operation of the Marketing and Compensation Plan, and which are based solely on mathematical projections, may be made to prospective Distributors, so long as the Distributor who uses such hypothetical examples makes clear to the prospective Distributor(s) that such earnings are hypothetical.

4.5 Unauthorized Claims and Actions

4.7 Conflicts of Interest

4.7.1 Nonsolicitation

Net Lifestyles Distributors may participate in other direct selling or network marketing or multilevel marketing ventures (collectively "network marketing"), and Distributors may engage in selling activities related to non-Net Lifestyles products and services if they desire to do so. However, if a Distributor elects to participate in another network marketing opportunity, in order to avoid conflicts of interest and loyalties, Distributors are prohibited from Unauthorized Recruiting, which includes the following:

(a) During the term of this agreement, any actual or attempted recruitment or enrollment of Net Lifestyles Customers or Distributors for other network marketing business ventures, either directly or through a third party. This includes, but is not limited to, presenting or assisting in the presentation of other network marketing business ventures to any Net Lifestyles Customer or Distributor, or implicitly or explicitly encouraging any Net Lifestyles Customer or Distributor to join other business ventures. Because there is an extreme likelihood that conflicts will arise

if a Distributor operates two network marketing programs, it is the Distributor's responsibility to first determine whether a prospect is a Net Lifestyles Customer or Distributor before recruiting or enrolling the prospect for another network business venture.

(b) Following the cancellation of this Agreement, and for a period of six months thereafter, a former Distributor may not recruit any Net Lifestyles Distributor or Customer for another network marketing business if: 1) that Distributor or Customer was in the former Distributor's downline marketing organization; or 2) the former Distributor met, developed a relationship with, or gained knowledge of the Distributor or Customer by virtue of their mutual participation in Net Lifestyles.

(c) Producing or offering any literature, tapes or promotional material of any nature for another network marketing business which is used by the Distributor or any third person to recruit Net Lifestyles Customers or Distributors for that business venture;

(d) Selling, offering to sell, or promoting any competing non-Net Lifestyles products or services to Net Lifestyles Customers or Distributors. Any product or services in the same generic category as an Net Lifestyles product or service is deemed to be competing; e.g., Any web hosting product or service is in the same generic category as Net Lifestyles' web hosting products and services, and is therefore a competing product, regardless of differences in cost, quality, or individual attributes.

(e) Offering Net Lifestyles products or services, or promoting the Net Lifestyles Marketing and Compensation Plan, in conjunction with any non-Net Lifestyles products, services, business plan, opportunity, or incentive; or

(f) Offering any non-Net Lifestyles products, services, business plan, opportunity, or incentive at any Net Lifestyles meeting, seminar, launch, convention, or other Net Lifestyles function, or immediately following such event.

4.7.2 Downline Activity Reports

All Downline Activity Reports and the information contained therein are confidential and constitute proprietary information and business trade secrets belonging to Net Lifestyles. Downline Activity Reports are provided to Distributors in strictest confidence and are made available to Distributors for the sole purpose of assisting Distributors in working with their respective Downline Organizations in the development of their Net Lifestyles business. Distributors should use their Downline Activity Reports to assist, motivate, and train their downline Distributors. The Distributor and Net Lifestyles agree that, but for this agreement of confidentiality and nondisclosure, Net Lifestyles would not provide Downline Activity Reports to the Distributor. During any term of the Independent Distributor Agreement and for a period of five (5) years after the termination or expiration of the Independent Distributor Agreement between Distributor and Net Lifestyles, for any reason whatsoever, Distributor shall not, on his or her own behalf, or on behalf of any other person, partnership, association, corporation or other entity:

(a) Directly or indirectly disclose any information contained in any Downline Activity Report to any third party;

(b) Use the information to compete with Net Lifestyles or for any purpose other than promoting his or her Net Lifestyles business;

(c) Recruit or solicit any Distributor or Customer of Net Lifestyles listed on any report, or in any manner attempt to influence or induce any Distributor or Customer of Net Lifestyles, to alter their business relationship with Net Lifestyles; or

(d) Use or disclose to any person, partnership, association, corporation, or other entity any information contained in any Downline Activity Report.

Upon demand by the Company, any current or former Distributor will return the original and all copies of Downline Activity Reports to the Company.

4.8 Cross-Sponsoring

Actual or attempted cross sponsoring is strictly prohibited. "Cross sponsoring" is defined as the sponsoring of an individual who or entity that already has a current Customer or Independent Distributor Agreement on file with Net Lifestyles, or who has had such an agreement within the preceding six calendar months, within a different line of sponsorship. The use of a spouses or relative's name, trade names, DBAs, assumed names, corporations, partnerships, trusts, federal ID numbers, or fictitious ID numbers to circumvent this policy is prohibited. Distributors shall not demean, discredit or defame other Net Lifestyles Distributors in an attempt to entice another Distributor to become part of the first Distributor's marketing organization. This policy shall not prohibit the transfer of an Net Lifestyles business in accordance with Section 4.23.

4.9 Errors or Questions

If a Distributor has questions about or believes any errors have been made regarding commissions, bonuses, Downline Activity Reports, or charges, the Distributor must notify Net Lifestyles in writing within 60 days of the date of the purported error or incident in question. Net Lifestyles will not be responsible for any errors, omissions or problems not reported to it within 60 days.

4.10 Excess Inventory Purchases Prohibited

Distributors are not required to carry inventory of products or sales aids. Distributors who do so may find making retail sales and building a marketing organization somewhat easier because of the decreased response time in fulfilling customer orders or in meeting a new Distributor's needs. Each Distributor must make his or her own decision with regard to these matters. To ensure that Distributors are not encumbered with excess inventory that they are unable to sell, such inventory may be returned to Net Lifestyles upon the Distributor's cancellation pursuant to the terms of Section 8.2.

Net Lifestyles strictly prohibits the purchase of products in unreasonable amounts primarily for the purpose of qualifying for commissions, bonuses or advancement in the Marketing and Compensation Plan. Distributors may not purchase more inventory than they can reasonably resell or consume in a month nor may they encourage others to do so.

4.11 Governmental Approval or Endorsement

Neither federal nor state regulatory agencies or officials approve or endorse any direct selling or network marketing companies or programs. Therefore, Distributors shall not represent or imply that Net Lifestyles or its Marketing and Compensation Plan have been "approved," "endorsed" or otherwise sanctioned by any government agency.

4.12 Holding Applications or Orders

Distributors must not manipulate enrollments of new applicants, new Customers, or sales of products. All Independent Distributor Applications and Agreements, Customer Agreements, and product orders must be sent to Net Lifestyles within 72 hours from the time they are signed by a Distributor or placed by a customer, respectively.

All Distributors are required to provide their Social Security Number, Social Insurance Number, or a Federal Employer Identification Number to Net Lifestyles on the Independent Distributor Application and Agreement. Upon enrollment, the Company will provide a unique Distributor Identification Number to the Distributor by which he or she will be identified. This number will be used to place orders, and track commissions and bonuses.

4.14 Income Taxes

Every year, Net Lifestyles will provide IRS Form 1099 MISC (Non-employee Compensation) earnings statement to each U.S. resident who falls into one of the following categories:

- (a) Had earnings of over \$600 in the previous calendar year; or
- (b) Made purchases during the previous calendar year in excess of \$5,000.

Each Distributor is responsible for paying local, state/provincial, and federal taxes on any income generated as a Distributor. If a Net Lifestyles business is tax exempt, the Federal tax identification number must be provided to Net Lifestyles.

4.13 Identification

4.15 Independent Contractor Status

Distributors are independent contractors, and are not purchasers of a franchise or a business opportunity. The agreement between Net Lifestyles and its Distributors does not create an employer/employee relationship, agency, partnership, or joint venture between the Company and the Distributor. Distributors shall not be treated as an employee for his or her services or for Federal or State tax purposes. All Distributors are responsible for paying local, state, and federal taxes due from all compensation earned as a Distributor of the Company. The Distributor has no authority (expressed or implied), to bind the company to any obligation. Each Distributor shall establish his or her own goals, hours, and methods of sale, so long as he or she complies with the terms of the Independent Distributor Agreement, these Policies and Procedures, and applicable laws.

The name of Net Lifestyles and other names as may be adopted by Net Lifestyles are proprietary trade names, trademarks and service marks of Net Lifestyles. As such, these marks are of great value to Net Lifestyles and are supplied to Distributors for their use only in an expressly authorized manner. Use of Net Lifestyles name on any item not produced by the company is prohibited except as follows:

Distributor's Name

Independent Net Lifestyles Distributor

All Distributors may list themselves as an "Independent Net Lifestyles Distributor" in the white or yellow pages of the telephone directory under their own name. No Distributor may place telephone directory display ads using Net Lifestyles' name or logo. Distributors may not answer the telephone by saying "Net Lifestyles", "Net Lifestyles Incorporated", or in any other manner that would lead the caller to believe that he or she has reached corporate offices of Net Lifestyles.

4.16 Insurance

You may wish to arrange insurance coverage for your business. Your homeowners insurance policy does not cover business-related injuries, or the theft of or damage to inventory or business equipment. Contact your insurance agent to make certain that your business property is protected. This can often be accomplished with a simple "Business Pursuit" endorsement attached to your present homeowners policy.

4.17 International Marketing

Because of critical legal and tax considerations, including: compliance with foreign laws regarding the approval, registration or licensure of products or services; protection of intellectual property; compliance with customs, tax, and immigration laws; compliance with direct selling laws; product and income representations; and literature content and language requirements, Net Lifestyles must limit the resale of Net Lifestyles products and services, and the presentation of the Net Lifestyles

business to prospective customers and Distributors located within the United States and U.S. Territories. Moreover, allowing a few Distributors to conduct business in markets not yet opened by Net Lifestyles would violate the concept of affording every Distributor the equal opportunity to expand internationally.

Accordingly, Distributors are authorized to sell Net Lifestyles products and services, and sponsor Customers or Distributors only in the countries in which Net Lifestyles is authorized to conduct business, as announced in official company literature. Net Lifestyles products or sales aids cannot be shipped into or sold in any foreign country. Distributors may sell, give, transfer, or distribute Net Lifestyles products or sales aids only in their home country. In addition, no Distributor may, in any unauthorized country: (a) conduct sales, sponsoring or training meetings; (b) sponsor or attempt to sponsor potential customers or Distributors; or (c) conduct any other activity for the purpose of selling Net Lifestyles products, establishing a marketing organization, or promoting the Net Lifestyles opportunity.

4.18 Adherence to Laws and Ordinances

4.18.1 Local Ordinances

Many cities and counties have laws regulating certain home-based businesses. In most cases these ordinances are not applicable to Distributors because of the nature of their business. However, Distributors must obey those laws that do apply to them. If a city or county official tells a Distributor that an ordinance applies to him or her, the Distributor shall be polite and cooperative, and immediately send a copy of the ordinance to the Compliance Department of Net Lifestyles. In most cases there are exceptions to the ordinance that may apply to Net Lifestyles Distributors.

4.18.2 Compliance with Federal, State, Local Laws

Distributors shall comply with all federal, state, and local laws and regulations in the conduct of their businesses.

4.19 Minors

A person who is recognized as a minor in his/her state of residence may not be a Net Lifestyles Distributor. Distributors shall not sponsor or recruit minors into the Net Lifestyles program.

4.20 One Net Lifestyles Business per Distributor and per Household

A Distributor may operate or have an ownership interest, legal or equitable, as a sole proprietorship, partner, shareholder, trustee, or beneficiary, in only one Net Lifestyles business. No individual may have, operate or receive compensation from more than one Net Lifestyles business. Individuals of the same family unit may not enter into or have an interest in more than one Net Lifestyles Business. A "family unit" is defined as spouses and dependent children living at or doing business at the same address. Husbands and wives or common-law couples (collectively "spouses") who wish to become Net Lifestyles Distributors may have separate distributorships so long as one spouse is personally sponsored by the other.

An exception to the one business per Distributor rule will be considered on a case by case basis in cases of a Distributor receiving an interest in another business through inheritance. Requests for exceptions to policy must be submitted in writing to the Distributor Services Department.

4.20.1 Actions of Household Members or Affiliated Individuals

If any member of a Distributor's immediate household engages in any activity which, if performed by the Distributor, would violate any provision of the Agreement, such activity will be deemed a violation by the Distributor and Net Lifestyles may take disciplinary action pursuant to the Statement of Policies against the Distributor. Similarly, if any individual associated in any way with a corporation, partnership, trust or other entity (collectively "affiliated individual") violates the Agreement, such action(s) will be deemed a violation by the entity, and Net Lifestyles may take disciplinary action against the entity.

4.21 Re-packaging and Re-labeling Prohibited

Distributors may not re-package, re-label, or alter the labels on any Net Lifestyles products, sales aids, information, materials or programs in any way. Net Lifestyles products and sales aids must be sold in their original packaging only.

4.22 Requests for Records

Any request from a Distributor for copies of invoices, applications, downline activity reports, or other records will require a fee of \$1.00 per page per copy. This fee covers the expense of mailing and time required to research files and make copies of the records.

4.23 Sale, Transfer or Assignment of Net Lifestyles Business

Although an Net Lifestyles business is a privately owned, independently operated business, the sale, transfer or assignment of an Net Lifestyles business is subject to certain limitations. If a Distributor wishes to sell his or her Net Lifestyles business, the following criteria must be met:

(a) Protection of the existing line of sponsorship must always be maintained so that the Net Lifestyles business continues to be operated in that line of sponsorship.

(b) The buyer or transferee must be (or must become) a qualified Net Lifestyles Distributor. If the buyer is an active Net Lifestyles Distributor, he or she must first terminate his or her Net Lifestyles business simultaneously with the purchase, transfer, assignment or acquisition of any interest in the new Net Lifestyles business.

(c) Before the sale, transfer or assignment can be finalized and approved by Net Lifestyles, any debt obligations the selling Distributor has with Net Lifestyles must be satisfied.

(d) The selling Distributor must be in good standing and not in violation of any of the terms of the Agreement in order to be eligible to sell, transfer or assign a Net Lifestyles business.

Prior to selling a Net Lifestyles business, the selling Distributor must notify Net Lifestyles' Distributor Services Department of his or her intent to sell the Net Lifestyles business. No changes in line of sponsorship can result from the sale or transfer of a Net Lifestyles business.

4.24 Separation of a Net Lifestyles Business

Net Lifestyles Distributors sometimes operate their Net Lifestyles businesses as husband-wife partnerships, regular partnerships, corporations, or trusts. At such time as a marriage may end in divorce or a corporation, partnership or trust (the latter three entities are collectively referred to herein as "entities") may dissolve, arrangements must be made to assure that any separation or division of the business is accomplished so as not to adversely affect the interests and income of other businesses up or down the line of sponsorship. If the separating parties fail to provide for the best interests of other Distributors and the Company, Net Lifestyles will involuntarily terminate the Independent Distributor Agreement.

During the pendency of a divorce or entity dissolution, the parties must adopt one of the following methods of operation:

(a) One of the parties may, with consent of the other(s), operate the Net Lifestyles business pursuant to an assignment in writing whereby the relinquishing spouse, shareholders, partners or trustees authorize Net Lifestyles to deal directly and solely with the other spouse or non-relinquishing shareholder, partner or trustee.

(b) The parties may continue to operate the Net Lifestyles business jointly on a "business-as-usual" basis, whereupon all compensation paid by Net Lifestyles will be paid in the joint names of the Distributors or in the name of the entity to be divided as the parties may independently agree between themselves.

Under no circumstances will the Downline Organization of divorcing spouses or a dissolving business entity be divided. Similarly, under no circumstances will Net Lifestyles split commission and bonus checks between divorcing spouses or members of dissolving entities. Net Lifestyles will recognize only one Downline Organization and will issue only one commission check per Net Lifestyles business per commission cycle. Commission checks shall always be issued to the same individual or entity. In the event that parties to a divorce or dissolution proceeding are unable to resolve a dispute over the disposition of commissions and ownership of the business, the Independent Distributor Agreement shall be involuntarily canceled.

If a former spouse or a former entity affiliate has completely relinquished all rights in their original Net Lifestyles business, they are thereafter free to sponsor under any sponsor of their choosing, so long as they meet the waiting period requirements set forth in Section 4.4.4. In such case, however, the former spouse or partner shall have no rights to any Distributors in their former organization or to any former retail customer. They must develop the new business in the same manner, as would any other new Distributor.

4.25 Slamming

Slamming is defined as the switching or transfer of a third party's long distance service to another long distance carrier without authorization. Slamming is absolutely prohibited. If a Distributor "slams" any third party, he or she shall be liable to, and indemnify, Net Lifestyles for any fines Net Lifestyles incurs as a result of the complaint (including fees imposed by any governmental agencies), any fee or charges associated with returning the third party to its original long distance carrier, reimbursement of the outstanding long distance charges of the slammed third party, any attorney's fees incurred by Net Lifestyles, as well as all of the sanctions available pursuant to Section 9.1.

4.26 Sponsoring

All active Distributors in good standing have the right to sponsor and sponsor others into Net Lifestyles. Each prospective Customer or Distributor has the ultimate right to choose his or her own Sponsor. If two Distributors claim to be the Sponsor of the same new Distributor or Customer, the Company shall regard the first application received by the Company as controlling.

4.27 Succession

Upon the death or incapacitation of a Distributor, his or her business may be passed to his or her heirs. Appropriate legal documentation must be submitted to the Company to ensure the transfer is proper. Accordingly, a Distributor should consult an attorney to assist him or her in the preparation of a will or other testamentary instrument. Whenever a Net Lifestyles business is transferred by a will or other testamentary process, the beneficiary acquires the right to collect all bonuses and commissions of the deceased Distributor's marketing organization provided the following qualifications are met. The successor(s) must:

- (a) Execute an Independent Distributor Agreement;
 - (b) Comply with terms and provisions of the Agreement; and
 - (c) Meet all of the qualifications for the deceased Distributor's status.
- (d) Bonus and commission checks of a Net Lifestyles business transferred pursuant to this section will be paid in a single check jointly to the devisees. The devisees must provide Net Lifestyles with an "address of record" to which all bonus and commission checks will be sent;

(e) If the business is bequeathed to joint devisees, they must form a business entity and acquire a federal taxpayer Identification number. Net Lifestyles will issue all bonus and commission checks and one 1099 to

4.27.1 Transfer Upon Death of a Distributor

To effect a testamentary transfer of an Net Lifestyles business, the successor must provide the following to Net Lifestyles: (1) an original death certificate; (2) a notarized copy of the will or other instrument establishing the successor's right to the Net Lifestyles business; and (3) a completed and executed Independent Distributor Agreement.

4.27.2 Transfer Upon Incapacitation of a Distributor

To effect a transfer of an Net Lifestyles business because of incapacity, the successor must provide the following to Net Lifestyles: (1) a notarized copy of an appointment as trustee; (2) a notarized copy of the trust document or other documentation establishing the trustee's right to administer the Net Lifestyles business; and (3) a completed Independent Distributor Agreement executed by the trustee.

4.28 Telemarketing

The marketing of goods and services by telephone is regulated by the Federal Trade Commission, and State and local governments. For the purposes of these Policies and Procedures, telemarketing is defined as a telephone call made by a telephone solicitor to the residence or business of a consumer for the purpose of soliciting the sale or lease of any products or services to the person or business called. A telephone solicitor is defined as any natural person (including Net Lifestyles Independent Distributors), or any firm, organization, partnership, association or corporation who makes or causes to be made a telemarketing call (as defined above), including, but not limited to calls made by use of automatic dialing-announcing devices and/or automated telephone solicitation equipment. Telemarketing does not include telephone calls personally made by Net Lifestyles Independent Distributors to persons or businesses with whom the Distributor had a business or personal relationship that was in existence to the date of the telephone call. Because telemarketing is highly regulated and scrutinized by regulatory authorities, Distributors and those acting on behalf of Net Lifestyles Distributors, must thoroughly familiarize themselves and adhere to the numerous federal, state, and local legal requirements associated with telemarketing. The failure to do so may result not only in disciplinary sanctions pursuant to Section 9.1, but also subject violators to federal and state civil and criminal sanctions.

4.49 Use of the Net Lifestyles Voice-Mail System

Net Lifestyles maintains a voice-mail system for use by Distributors. This system is a tool to communicate with your downline, to promote the sale of Net Lifestyles products and services and the Net Lifestyles opportunity. Under no circumstances shall a Distributor use the Net Lifestyles voice-mail system to promote the sale of any non-Net Lifestyles products or services or any non-Net Lifestyles program or opportunity.

SECTION 5 - RESPONSIBILITIES OF DISTRIBUTORS

5.1 Change of Address or Telephone

To ensure timely delivery of products, support materials, and commission checks, it is critically important that the Net Lifestyles' files are current. Street addresses are required for shipping since UPS cannot deliver to a post office box. Distributors planning to move should send their new address and telephone numbers to Net Lifestyles' Corporate Offices to the attention of the Distributor Services Department. To guarantee proper delivery, two weeks advance notice must be provided to Net Lifestyles on all changes.

5.2 Continuing Development Obligations

5.2.1 Ongoing Training

Any Distributor who sponsors another Distributor into Net Lifestyles must perform a bona fide assistance and training function to ensure that his or her downline is properly operating his or her Net Lifestyles business. Distributors must have ongoing contact and communication with the Distributors in their Downline Organizations. Examples of such contact and communication may include, but are not limited to: newsletters, written correspondence, personal meetings, telephone contact, voice mail, electronic mail, and the accompaniment of downline Distributors to Net Lifestyles meetings, training sessions, and other functions. Upline Distributors are also responsible to motivate and train new Distributors in Net Lifestyles product knowledge, effective sales techniques, the Net Lifestyles Marketing and Compensation Plan, and compliance with Company Policies and Procedures. Communication with and the training of downline Distributors must not, however, violate Section 4.2 (regarding the development of Distributor-produced sales aids and promotional materials).

Distributors must monitor the Distributors in their Downline Organizations to ensure that downline Distributors do not make improper product or business claims, or engage in any illegal or inappropriate conduct. Upon request, every Distributor should be able to provide documented evidence to Net Lifestyles of his or her ongoing fulfillment of the responsibilities of a Sponsor.

5.2.2 Increased Training Responsibilities

As Distributors progress through the various levels of leadership, they will become more experienced in sales techniques, product knowledge, and understanding of the Net Lifestyles program. They will be called upon to share this knowledge with lesser-experienced Distributors within their organization.

5.2.3 Ongoing Sales Responsibilities

Regardless of their level of achievement, Distributors have an ongoing obligation to continue to personally promote sales through the generation of new customers and through servicing their existing customers.

5.3 Nondisparagement

Net Lifestyles wants to provide its independent Distributors with the best products, compensation plan, and service in the industry. Accordingly, we value your constructive criticisms and comments. All such comments should be submitted to the our Distributor Services Department via e-mail (ds@netlifestyles.com). Remember, to best serve you, we must hear from you! While Net Lifestyles welcomes constructive input, negative comments and remarks made in the field by Distributors about the Company, its products, or compensation plan serve no purpose other than to sour the enthusiasm of other Net Lifestyles Distributors. For this reason, and to set the proper example for their downline, Distributors must not disparage Net Lifestyles, other Net Lifestyles Distributors, Net Lifestyles' products, the Marketing and Compensation plan, or Net Lifestyles' directors, officers, or employees. The disparagement of Net Lifestyles, other Net Lifestyles Distributors, Net Lifestyles' products, the Marketing and Compensation plan, or Net Lifestyles' directors, officers, or employees constitutes a material breach of these Policies and Procedures.

5.4 Providing Documentation to Applicants

Distributors must provide the most current version of the Policies and Procedures and the Compensation Plan to individuals whom they are sponsoring to become Distributors before the applicant signs an Independent Distributor Agreement. Additional copies of Policies and Procedures can be acquired from Net Lifestyles.

5.5 Reporting Policy Violations

Distributors observing a Policy violation by another Distributor should submit a written report of the violation directly to the attention of the Net Lifestyles Compliance Department. Details of the incidents such as dates, number of occurrences, persons involved, and any supporting documentation should be included in the report.

SECTION 6 - SALES REQUIREMENTS

6.1 Sales

The Net Lifestyles Marketing and Compensation Plan is based upon the sale of Net Lifestyles products and services to end consumers. Distributors must fulfill personal and Downline Organization retail sales requirements (as well as meet other responsibilities set forth in the Agreement) to be eligible for bonuses, commissions and advancement to higher levels of achievement. The following sales requirements must be satisfied for Distributors to be eligible for commissions:

(a) Distributors must satisfy the Personal Sales Volume and Group Sales Volume requirements to fulfill the requirements associated with their rank as specified in the Net Lifestyles Marketing and Compensation Plan. "Personal Sales Volume" includes purchases made by the Distributor and purchases made by the Distributor's personally sponsored Customers. Group Sales Volume shall include the total Sales Volume of all Distributors in his or her marketing organization.

(b) At least 70% of a Distributor's total monthly personal sales volume must be sold to personal Customers.

(c) Distributors must develop or service at least five Customers every month.

6.2 Sales Receipts

If a sale constitutes a "door-to-door" sale (defined below), a Distributor must provide his or her retail customer with two copies of an official Net Lifestyles sales receipt at the time of the sale. These receipts set forth the Customer Satisfaction Guarantee for Net Lifestyles products, as well as any consumer protection rights afforded by federal or state law. Distributors must maintain all retail sales receipts for a period of two years and furnish them to Net Lifestyles at the company's request. Records documenting the purchases of Distributors' Customers will be maintained by Net Lifestyles.

If a sale qualifies as a "door-to-door" sale, Distributors must ensure that the following information is contained on each sales receipt:

- (1) The date of the transaction;
- (2) The date (not earlier than the third business day following the date of the transaction) by which the buyer may give notice of cancellation; and
- (3) Name and address of the selling Distributor;

Remember that customers must receive two copies of the sales receipt. In addition, Distributors who make "door-to-door" sales must orally inform the buyer of his or her cancellation rights

For the purposes of these Policies and Procedures, a "door-to-door" sale means a sale or contract for sale of products with a purchase price of \$25 or more, in which the buyer's agreement or offer to purchase is made at a place other than the place of business of the seller (e.g., sales at the buyer's residence or at facilities rented on a temporary or short-term basis, such as hotel or motel rooms, convention centers, fairgrounds and restaurants, or sales at the buyer's workplace). "Door-to-door" sales do not include a transaction:

- (1) Made pursuant to prior negotiations in the course of a visit by the buyer to a retail business establishment having a fixed permanent location where the products are exhibited for sale on a continuing basis; or
- (2) Conducted and consummated entirely by mail or telephone, and without any other contact between the buyer and the seller or its Distributor prior to delivery of the products or performance of the services.

SECTION 7 - BONUSES AND COMMISSIONS

7.1 Bonus and Commission Qualifications

A Distributor must be active and in compliance with the Agreement to qualify for bonuses and commissions. So long as a Distributor complies with the terms of the Agreement, Net Lifestyles shall pay commissions to such Distributor in accordance with the Marketing and Compensation plan. The minimum amount for which Net Lifestyles will issue a check is \$15.00. If a Distributor's bonuses and commissions do not equal or exceed \$15.00, the company will accrue the commissions and bonuses until they total \$15.00. A check will be issued once \$15.00 has been accrued.

7.2 Adjustment to Bonuses and Commissions

7.2.1 Adjustments for Returned Products

Distributors receive bonuses and commissions based on the actual sales of products and services to end consumers. When a product is returned to Net Lifestyles for a refund or is repurchased by the Company, the bonuses and commissions attributable to the returned or repurchased product(s) will be deducted, in the month in which the refund is given, and continuing every pay period thereafter until the commission is recovered, from the Distributors who received bonuses and commissions on the sales of the refunded products.

7.2.2 Other Deductions

Net Lifestyles will deduct from all bonus and commission checks a data processing fee of \$.01 per line for downline genealogy reports sent to Distributors.

7.3 Unclaimed Commissions and Credits

Distributors must deposit or cash commission and bonus checks within six months from their date of issuance. A check that remains uncashed after six months will be void. After a check has been voided, Net Lifestyles will attempt to notify a Distributor who has an uncashed check by sending a monthly written notice to his or her last known address identifying the amount of the check and advising that the Distributor can request that the check be reissued. There shall be a \$15.00 charge for reissuing a check, and a \$10.00 fee for each notice that is sent to the Distributor. These charges shall be deducted from the balance owed to the Distributor.

Customers or Distributors who have a credit on account must use their credit within six months from the date on which the credit was issued. If credits have not been used within six months, Net Lifestyles shall attempt to notify the Distributor or Customer on a monthly basis, by sending written notice to the last known address, advising the Distributor or Customer of the credit. There shall be a \$10.00 charge for each attempted notification. This charge shall be deducted from the Distributor's or Customer's credit on account.

SECTION 8 - PRODUCT GUARANTEES, RETURNS AND INVENTORY REPURCHASE

8.1 Product Guarantee

Net Lifestyles offers a 100% thirty day money-back satisfaction guarantee (less shipping charges) to all Customers and Distributors regarding its products and sales aids.

A retail customer who makes a purchase of \$25.00 or more has three business days (72 hours) after the sale or execution of a contract to cancel the order and receive a full refund consistent with the cancellation notice on the order form. When a Distributor makes a sale or takes an order from a retail customer who cancels or requests a refund within the 72 hour period, the Distributor must promptly refund the customer's money as long as the products are returned to the Distributor in substantially as good condition as when received. Additionally, Distributors must orally inform customers of their right to rescind a purchase or an order within 72 hours, and ensure that the date of the order or purchase is entered on the order form. All retail customers must be provided with two copies of an official Net Lifestyles sales receipt at the time of the sale. The back of the receipt provides the customer with written notice of his or her rights to cancel the sales agreement.

8.2 Return of Inventory and Sales Aids by Distributors

Upon cancellation of a Distributor's Agreement, the Distributor may return inventory and sales aids for a refund if he or she is unable to sell or use the merchandise. A Distributor may only return products and sales aids purchased by him or her that are in resalable condition.

Upon receipt of the products and sales aids, the Distributor will be reimbursed 90% of the net cost of the original purchase price(s), less shipping charges. If the purchases were made through a credit card, the refund will be credited back to the same account. The company shall deduct from the reimbursement paid to the Distributor any commissions, bonuses, rebates or other incentives received by the Distributor which were associated with the merchandise that is returned.

8.3 Procedures for All Returns

The following procedures apply to all returns for refund, repurchase, or exchange:

(a) All merchandise must be returned by the Distributor or customer who purchased it directly from Net Lifestyles.

(b) All products to be returned must have a Return Authorization Number, which will be obtained by calling the Distributor Services Department. This Return Authorization Number must be written on each carton returned.

(c) The return is accompanied by:

- i a completed and signed Consumer Return Form;
- ii a copy of the original dated retail sales receipt; and
- iii the unused portion of the product in its original container.

(d) Proper shipping carton(s) and packing materials are to be used in packaging the product(s) being returned for replacement, and the best and most economical means of shipping is suggested. All returns must be shipped to Net Lifestyles shipping pre-paid. Net Lifestyles does not accept shipping-collect packages. The risk of loss in shipping for returned product shall be on the Distributor. If returned product is not received by the Company's Distribution Center, it is the responsibility of the Distributor to trace the shipment.

(e) If a Distributor is returning merchandise to Net Lifestyles that was returned to him or her by a personal retail customer, the product must be received by Net Lifestyles within ten (10) days from the date on which the retail customer returned the merchandise to the Distributor, and must be accompanied by the sales receipt the Distributor gave to the customer at the time of the sale.

No refund or replacement of product will be made if the conditions of these rules are not met.

SECTION 9 - DISPUTE RESOLUTION AND DISCIPLINARY PROCEEDINGS

9.1 Disciplinary Sanctions

Violation of the Agreement, these Policies and Procedures, or any illegal, fraudulent, deceptive or unethical business conduct by a Distributor may result, at Net Lifestyles' discretion, in one or more of the following corrective measures:

- (a) Issuance of a written warning or admonition;
- (b) Requiring the Distributor to take immediate corrective measures;
- (c) Imposition of a fine, which may be withheld from bonus and commission checks;
- (d) Loss of rights to one or more bonus and commission checks;
- (e) Net Lifestyles may withhold from a Distributor all or part of the Distributor's bonuses and commissions

during the period that Net Lifestyles is investigating any conduct allegedly violative of the Agreement. If a Distributor's business is canceled for disciplinary reasons, the Distributor will not be entitled to recover any commissions withheld during the investigation period.

- (f) Suspension of the individual's Independent Distributor Agreement for one or more
- (g) Involuntary termination of the offender's Independent Distributor Agreement;
- (h) Any other measure expressly allowed within any provision of the Agreement or which Net Lifestyles deems practicable to implement and appropriate to equitably resolve injuries caused partially or exclusively by the Distributor's policy violation or contractual breach;
- (i) In situations deemed appropriate by Net Lifestyles, the Company may institute legal proceedings for monetary and/or equitable relief.

9.2 Grievances and Complaints

When a Distributor has a grievance or complaint with another Distributor regarding any practice or conduct in relationship to their respective Net Lifestyles businesses, the complaining Distributor should first report the problem to his or her Sponsor who should review the matter and try to resolve it with the other party's upline sponsor. If the matter cannot be resolved, it must be reported in writing to the Distributor Services Department at the Company. The Distributor Services Department will review the facts and attempt to resolve it. If it is not resolved, it will be referred to the Dispute Resolution Board for final review and determination.

9.3 Dispute Resolution Board

The purpose of the Dispute Resolution Board is to: (1) review appeals of disciplinary sanctions; and (2) review matters between Net Lifestyles Distributors. After the response or settlement instituted by Distributor Services has been denied or otherwise remains unresolved, the Dispute Resolution Board reviews evidence, deliberates, and responds to current outstanding issues on a collective basis.

A Distributor may submit a written request for a telephonic or in-person hearing within seven business days from the date of: (1) the written notice by Net Lifestyles of disciplinary action; or (2) the written decision of Distributor Services regarding disputes between Distributors. All communication with Net Lifestyles and the Distributor seeking resolution of a dispute must be in writing. It is within the DRB's discretion whether a claim is accepted for review. If the DRB agrees to review the matter, it shall schedule a hearing within thirty days of receipt of the Distributor's written request. All evidence (e.g., documents, exhibits, etc.) that a Distributor desires to have considered by the DRB must be submitted to Net Lifestyles no later than seven business days before the date of the hearing. The Distributor shall bear all of the expenses related to his or her attendance and the attendance of any witnesses he or she desires to be present at the hearing. The decision of the Dispute Resolution Board will be final and subject to no further review. During the pendency of the claim before the DRB, the Distributor waives his or her right to pursue arbitration or any other remedy.

Following issuance of a sanction, the disciplined Distributor may appeal the sanction to the Dispute Resolution Board ("DRB"). Distributor's appeal must be in writing and received by the Company within 15 days from the date of Net Lifestyles' cancellation notice. If the appeal is not received by Net Lifestyles within the 15 day period, the sanction will be final. The Distributor must submit all supporting documentation with his or her appeal correspondence. If the Distributor files a timely appeal of cancellation, the DRB will review and reconsider the cancellation, consider any other appropriate action, and notify the Distributor in writing of its decision.

9.4 Arbitration

Any controversy or claim arising out of or relating to the Agreement, or the breach thereof, shall be settled by arbitration administered by the American Arbitration Association under its Commercial Arbitration Rules, and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. If a Distributor files a claim pay periods; or counterclaim against Net Lifestyles, he or she may only do so on an individual basis and not with any other Distributor or as part of a class or consolidated action. Distributors waive all rights to trial by jury or to any court. All arbitration proceedings shall be held in the City of Minneapolis, Minnesota, unless the laws of the state in which a Distributor resides expressly require the application of its laws, in which case the arbitration shall be held in the capital of that state. There shall be one arbitrator, an attorney at law, who shall have expertise in business law transactions with a strong preference being an attorney knowledgeable in the direct selling industry, selected from the panel which the American Arbitration Panel provides. Each party to the arbitration shall be responsible for its own costs and expenses of arbitration, including legal and filing fees. The decision of the arbitrator shall be final and binding on the parties and may, if necessary, be reduced to a judgment in any court of competent jurisdiction. This agreement to arbitration shall survive any termination or expiration of the Agreement. Nothing in these Policies and Procedures shall prevent Net Lifestyles from applying to and obtaining from any court having jurisdiction a writ of attachment, a temporary injunction, preliminary injunction, permanent injunction or other relief available to safeguard and protect Net Lifestyles' interest prior to, during or following the filing of any arbitration or other proceeding or pending the rendition of a decision or award in connection with any arbitration or other proceeding.

9.5 Governing Law, Jurisdiction and Venue

Jurisdiction and venue of any matter not subject to arbitration shall reside in Hennepin County, State of Minnesota unless the laws of the state in which a Distributor resides expressly require the application of its laws. The Federal Arbitration Act shall govern all matters relating to arbitration. The law of the State of Minnesota shall govern all other matters relating to or arising from the Agreement unless the laws of the state in which a Distributor resides expressly require the application of its laws.

SECTION 10 - ORDERING

10.1 Purchasing Net Lifestyles Products

Each Distributor should purchase his or her products directly from Net Lifestyles. If a Distributor purchases products from another Distributor or any other source, the purchasing Distributor will not receive the personal sales volume that is associated with that purchase.

10.2 General Order Policies

On mail orders with invalid or incorrect payment, Net Lifestyles will attempt to contact the Distributor by phone, and/or mail to try to obtain another payment. If these attempts are unsuccessful after five working days the order will be returned unprocessed. No C.O.D. orders will be accepted. Net Lifestyles maintains no minimum order requirements. Orders for products and sales aids may be combined.

10.3 Shipping and Back Order Policy

Net Lifestyles will normally ship products and sales aids within three days from the date on which it receives an order. Net Lifestyles will expeditiously ship any part of an order currently in stock. If, however, an ordered item is out-of-stock, it will be placed on back order and sent when Net Lifestyles receives additional inventory. Distributors will be charged and given Personal Sales Volume on back ordered items unless notified on the invoice that the product has been discontinued. Net Lifestyles will notify Distributors and Customers if items are back-ordered and are not expected to ship within 30 days from the date of the order. An estimated shipping date will also be provided. Back ordered items may be canceled upon a Customer's or Distributor's request. Customers and Distributors may request a refund, credit on account, or replacement merchandise for canceled back orders. If a refund is requested, the Distributor's Personal Sales Volume will be decreased by the amount of the refund in the month in which the refund is issued.

10.4 Confirmation of Order

A Distributor and/or recipient of an order must confirm that the product received matches the product listed on the shipping invoice, and is free of damage. Failure to notify Net Lifestyles of any shipping discrepancy or damage within thirty days of shipment will cancel a Distributor's right to request a correction.

SECTION 11 - PAYMENT AND SHIPPING

11.1 Deposits

No monies should be paid to or accepted by a Distributor for a sale to a personal retail customer except at the time of product delivery. Distributors should not accept monies from retail customers to be held for deposit in anticipation of future deliveries.

11.2 Returned Checks

All checks returned by a Distributor's bank for insufficient funds will be re-submitted for payment. A \$25.00 returned check fee will be charged to the account of the Distributor. After receiving a returned check from a customer or a Distributor, all future orders must be paid by Credit Card, money order or cashier's check. Any outstanding balance owed to Net Lifestyles by a Distributor for NSF checks and returned check fees will be withheld from subsequent bonus and commission checks.

11.3 Restrictions on Third Party Use of Credit Cards and Checking Account Access

Distributors shall not permit other Distributors or Customers to use his or her credit card, or permit debits to their checking accounts, to sponsor or to make purchases from the company.

11.4 Sales Taxes

In designing the Net Lifestyles opportunity, one of our guiding philosophies has been to free Distributors from as many administrative, operational, and logistical tasks as possible. In doing so, Distributors are free to concentrate on those activities that directly affect their incomes, namely product sales and customer acquisition. To these ends, Net Lifestyles relieves Distributors of the burdens of collecting and remitting sales taxes, filing sales tax reports, and keeping records relative to sales taxes.

By virtue of its business operations, Net Lifestyles is required to charge sales taxes on most purchases of tangible items and certain intangibles made by Distributors and Customers, and remit the taxes charged to the respective states. Accordingly, Net Lifestyles will collect and remit sales taxes on behalf of Distributors, based on the suggested retail price of the products or sales aids, according to applicable tax rates in the state or province to which the shipment is destined. If a Distributor has submitted, and Net Lifestyles has accepted, a current Sales Tax Exemption Certificate and Sales Tax Registration License, sales taxes will not be added to the invoice and the responsibility of collecting and remitting sales taxes to the appropriate authorities shall be on the Distributor. Exemption from the payment of sales tax is applicable only to orders which are shipped to a state or province for which the proper tax exemption papers have been filed and accepted. Applicable sales taxes will be charged on orders that are drop-shipped to another state/province. Any sales tax exemption accepted by Net Lifestyles is not retroactive.

The taxability of products and sales tax rates differ by state. Additionally, an increasing number of local taxes (county and city) are being initiated throughout the country. This could result in a disparity in what Net Lifestyles charges a Distributor and what the Distributor in turn can charge a retail customer depending upon where the sale occurs. The difference should be brought to the attention of Net Lifestyles Distributor Services Department for adjustment. Distributors must provide date of sale, state, county, city and rate of tax where sold, total retail sales and the amount of the additional tax due, or credit due. It is the responsibility of each Distributor to know what products are taxable and at what rate. If you have questions regarding taxability and rates, contact your state or local department of revenue for assistance.

SECTION 12 - INACTIVITY AND CANCELLATION

12.1 Effect of Cancellation

So long as a Distributor remains active and complies with the terms of the Independent Distributor Agreement and these Policies and Procedures, Net Lifestyles shall pay commissions to such Distributor in accordance with the Marketing and Compensation Plan. A Distributor's bonuses and commissions constitute the entire consideration for the Distributor's efforts in generating sales and all activities related to generating sales (including building a downline organization). Following a Distributor's non-renewal of his or her Independent Distributor Agreement, cancellation for inactivity, or voluntary or involuntary cancellation of his or her Independent Distributor Agreement (all of these methods are collectively referred to as "cancellation"), the former Distributor shall have no right, title, claim or interest to the marketing organization which he or she operated, or any commission or bonus from the sales generated by the organization. Distributors waive any and all claims to property rights in the downline organization which they may have. Following a Distributor's cancellation of his or her Independent Distributor Agreement, the former Distributor shall not hold himself or herself out as an Net Lifestyles Distributor and shall not have the right to sell Net Lifestyles products or services. A Distributor whose Independent Distributor Agreement is canceled shall receive commissions and bonuses only for the last full pay period he or she was active prior to cancellation (less any amounts withheld during an investigation preceding an involuntary cancellation).

12.2 Involuntary Cancellation

A Distributor's violation of any of the terms of the Agreement, including any amendments that may be made by Net Lifestyles in its sole discretion, may result in any of the sanctions listed in Section 9.1, including the involuntary cancellation of his or her Independent Distributor Agreement. Cancellation shall be effective on the date on which written notice is mailed, return receipt requested, to the Distributor's last known address, or when the Distributor receives actual notice of cancellation, whichever occurs first.

12.3 Voluntary Cancellation

A participant in this network marketing plan has a right to cancel at any time, regardless of reason. Cancellation must be submitted in writing to the company at its principal business address. The written notice must include the Distributor's signature, printed name, address, and Distributor I.D. Number.

12.3.1 Non-renewal

A Distributor may also voluntarily cancel his or her Independent Distributor Agreement by failing to renew the Agreement on its anniversary date.

SECTION 13 - DEFINITIONS

Active Customer

A Customer who purchases any Net Lifestyles services or products for the subject calendar month.

Active Distributor

A Distributor who satisfies the minimum Personal Sales Volume requirements, as set forth in the Net Lifestyles Marketing and Compensation Plan, to ensure that he or she is eligible to receive bonuses and commissions.

Active Rank

The term "active rank" refers to the current rank of a Distributor, as determined by the Net Lifestyles Marketing and Compensation Plan, for any calendar month. To be considered "active" relative to a particular rank, a Distributor must meet the criteria set forth in the Net Lifestyles Marketing and Compensation Plan for his or her respective rank. (See the definition of "Rank" below)

Agreement

The contract between the Company and each Distributor includes the Independent Distributor Application and Agreement, the Net Lifestyles Policies and Procedures, the Net Lifestyles Marketing and Compensation Plan, and the Business Entity Form (where appropriate), all in their current form and as amended by Net Lifestyles in its sole discretion. These documents are collectively referred to as the "Agreement."

Cancel

The termination of a Distributor's business. Cancellation may be either voluntary, involuntary, through non-renewal or inactivity.

Commissionable Products/Services

All Net Lifestyles products and services on which commissions and bonuses are paid. Starter Kits and sales aids are not commissionable products

Company

The term "Company" as it is used throughout the Agreement means Net Lifestyles, Inc.

Downline

See "Marketing Organization" below.

Downline Activity Report

A monthly report generated by Net Lifestyles that provides critical data relating to the identities of Distributors, sales information, and enrollment activity of each Distributor's Marketing Organization. This report contains confidential and trade secret information which is proprietary to Net Lifestyles.

Downline Leg

Each one of the individuals sponsored immediately underneath you and their respective marketing organizations represents one "leg" in your marketing organization.

End Consumer

A person who purchases Net Lifestyles products for the purpose of personally consuming them rather than for resale to someone else.

Generation

The term "generation" refers to the position a National Vice President holds relative to another National Vice President in the upline or downline. Hence, a National Vice President may have any number of "generations" of National Vice President as in the example below. A first generation National Vice President may be several levels of Distributors down in a downline. "Level" refers to the position relative to sponsor order. "Generations" are dynamic and are based on qualification whereas levels are static.

NVP "X"

Distributor

NVP "A"

First generation to NVP "X"

Distributor

Distributor

NVP "B"

Second generation to NVP "X"

Group Sales Volume

The commissionable value of Net Lifestyles products generated by a Distributor's Marketing Organization. (Distributor Kits and sales aids have no Sales Volume.)

Immediate Household

Heads of household and dependent family members residing in the same house.

Level

The layers of downline Customers and Distributors in a particular Distributor's Marketing Organization. This term refers to the relationship of a Distributor relative to a particular upline Distributor, determined by the number of Distributors between them who are related by sponsorship. For example, if A sponsors B, who sponsors C, who sponsors D, who sponsors E, then E is on A's fourth level.

Marketing Organization

The Customers and Distributors sponsored below a particular Distributor.

Official Net Lifestyles Material

Literature, audio or video tapes, and other materials developed, printed, published and distributed by Net Lifestyles to Distributors.

Personal Production

Moving product to an end consumer for personal use.

Personal Sales Volume (PSV)

The commissionable value of services and products sold in a calendar month: (1) by the Company to a Distributor; and (2) by the Company to the Distributor's personally sponsored Customers.

Rank

The "title" that a Distributor has achieved pursuant to the Net Lifestyles Marketing and Compensation Plan.

Recruit

For purposes of Net Lifestyles' Conflict of Interest Policy (Section 4.7), the term "recruit" means actual or attempted solicitation, enrollment, encouragement, or effort to influence in any other way, either directly or through a third party, another Net Lifestyles Distributor or Customer to sponsor or participate in another multilevel marketing, network marketing or direct sales opportunity. This conduct constitutes recruiting even if the Distributor's actions are in response to an inquiry made by another Distributor or Customer.

Resalable

Products and sales aids shall be deemed "resalable" if each of the following elements is satisfied: 1) they are unopened and unused; 2) packaging and labeling has not been altered or damaged; 3) the product and packaging are in a condition such that it is a commercially reasonable practice within the trade to sell the merchandise at full price; 4) products are returned to Net Lifestyles within one year from the date of purchase; 5) the product expiration date has not elapsed; and 6) the product contains current Net Lifestyles labeling. Any merchandise that is clearly identified at the time of sale as nonreturnable, discontinued, or as a seasonal item, shall not be resalable.

Retail Customer

An individual who purchases Net Lifestyles products from a Distributor.

Retail Profit

The difference between the wholesale price of products and the retail price a Distributor receives for products when they are resold.

Sponsor

A Distributor who enrolls a Customer or another Distributor into the Company, and is listed as the Sponsor on the Independent Distributor Application and Agreement. The act of enrolling others and training them to become Distributors is called "sponsoring."

Starter Kit

A selection of Net Lifestyles training materials and business support literature that each new Independent Marketing Distributor -- is required to OR may purchase --. The Starter Kit is sold to Distributors at the Company's cost.

Suggested Retail Price (SRP)

The price at which Net Lifestyles suggests Distributors sell a particular product or service to retail customers. Notwithstanding the SRP, Distributors are always free to resell Net Lifestyles products or services at any price they choose. Distributors may not alter the prices of products or services that Net Lifestyles sells directly to Customers.

Upline

This term refers to the Distributor or Distributors above a particular Distributor in a sponsorship line up to the Company. Conversely stated, it is the line of sponsors that links any particular Distributor to the Company.

D. Profit Generating Activities

With Net Lifestyles there are only a few activities that add a profit to your business and put money in your pocket. We call them "PGA's", otherwise known as profit generating activities. These activities are found on your PGAR. The most important action you can do today is one that will pay you. Once you've contacted everyone on day one, shown them the presentation on day two, and followed up with them on day three, the last thing you want to do now is stop. You must continue to do those same actions again and again. Use your capital from day two and three and begin filling the pipeline, completing the process, and tracking your activities.

E. Collect More Capital

Use the memory jogger to help you think of more people you know. You'll also want to refer to the yellow pages and alphabet to continue building your capital list at all times. Every time you meet someone ask for a business card or phone number so that you can add them to your list.

In this industry as in all mainstream industries you can keep your business going as long as you have capital. Therefore meeting new people and making friends is something you want to make a habit. This will enrich your life in more ways than just financially.

Who do you know that's a professional...

Athlete, speaker, trainer, coach, instructor, pilot, surgeon, pharmacist, dentist, designer, nutritionist, anesthetic, writer, actor/actress, singer, band member, podiatrist, stock broker, film director, heavy equipment operator, engineer, fisherman, hunter, horse trainer, cowboy, rancher, farmer, insurance adjuster, supervisor, antique dealer, lab technician, restaurant owner, lifeguard, promoter, manager, artist, auctioneer, apartment locator, dancer, attorney, sales person?

F. Track Your Activities

At the end of the day you will want to log all your Profit Generating Activities in your PGAR. This will keep you on track and help you in accomplishing all your goals.

G. Run The Calculator

Now that you've completed the process for building a Net Lifestyles business for a week it's very important that you enter all the correct data in the calculator and run the numbers. This is the most accurate way for you to see what produces the best results. The system to success with Net Lifestyles, Inc. is simple, but you must use this tracking method to keep you on target. Take this time and run the calculator!