FROM THE PRESIDENT

"ISSUES, QUESTIONS AND ANSWERS"

The First Installment of a Three-Part Series

By President & CEO James H. Ridinger

By the time you receive this issue of *PowerLine*, we will have concluded the 2003 International Convention and I am sure everyone will be focused on reaching the next level. I am also confident that it is clear now to everyone who attended the Convention that we have transformed ourselves into a one-to-one marketing company.

Market America is a product brokerage and Internet marketing company specializing in One-to-One Marketing and Mass Customization. There is no doubt that we lead the parade and provide the most powerful business opportunity available for average people! We have made our case. There is no doubt that Market America does things right, is the innovator and sets the example and pace for others to follow.

Since we opened our doors, there have been over 186 companies that have tried to emulate what we do, but have folded because they lacked the standards and requirements we have. With leadership comes criticism, but that just goes with the territory.

Any time you are out in front and winning, it will spawn competitive motives and criticism. The competition will always be chasing the leader. At the International Convention, I explained how, quite often, the potential chaos produced by such carping becomes like a toilet — it's important that we don't stick our head in it. However, it is equally important that we know the answers so that we are not in this position and can protect our people from these attacks by competitors.

When I discuss the answers to these criticisms with leaders, they often tell me that I need to put them in writing or on tape so everyone will have them and understand them. They have a point; you deserve them so you can be armed with the answers. Here is the first of a series of articles that addresses the issues, questions and answers. I will be cutting a tape entitled "It's in the Structure" that also addresses the issues, questions and answers.

Q: ***Why does the Company have so many requirements?***

A: The short answer is because it makes the business work and it results in lasting success for Distributors who follow the system and meet the requirements. It results in building a strong and profitable business that will last. When you compare Market America to any traditional business or even a franchise, there are relatively very few requirements. The problem arises when people look at the business as a game or "MLM deal" (meaning multilevel marketing which is a different type of business model). They quickly find that this is a real business that is built to last, and are disappointed that they cannot manipulate the "rules" in their favor.

From the very beginning, we modeled our program after franchising, which is a proven business system that provides standardization and uniformity. It features requirements for doing things in order to duplicate a consistent and successful result. What is wrong with that? We eliminated the requirements of large start-up costs and franchise fees as well as the requirement of paying a monthly royalty. In fact, we do the opposite: We pay you weekly on the business you develop.

Of course, a person who is asking this question is quick to come back and point out that there are a lot of MLM companies that don't have such stringent requirements. He or she claims it's easier. But, I have an answer: We don't compare ourselves to MLM companies or binary marketing companies because that is not the driving force behind our program. The driving force is One-to-One Marketing, rather than a recruiting game, selling positions or inventory loading people with a closet or garage full of products, which is the economic dynamic behind most MLM programs.

History has proven that this approach does not work, and literally hundreds of companies have failed as a result of it. A Distributor operating under this system loses his or her "residual" income and credibility and has to start over. It is exactly these types of practices that have given the MLM industry a less-than-desirable reputation.

We are concerned with building a strong organization of Independent UnFranchise® Owners and Distributors who manage Preferred Customers for whom we find products. They, in turn, repeatedly beat the door down for more products. Using One-to-One Marketing and Mass Customization facilitated by the Internet, we are changing the way people shop. Frankly, if you don't believe this, you don't belong in this business. That is who we are and what we do. We use networking as a means to expand distribution and to repeatedly duplicate this concept.

It seems that only people with MLM backgrounds question the requirements, so let me offer the explanation that they need to understand. I developed the basic design and tenets of the marketing and compensation plan over a period of three years, two of which were prior to starting Market America. For another three years, working hand in hand with Market America's Advisory Council, we fine-tuned it until we got it nearly perfect. The Plan had to be tested mathematically because it was not based strictly on finite mathematics where you paid out a fixed percentage at the end of the month and then all volume flushed and you started over again.

The revolutionary concepts of volume accrual from weekly and monthly pay cycles created an entirely new mathematical model, which involved actuarial mathematics. This was further complicated by the fact that multiple people received credit for volume that was accruing month-to-month and there was an infinite search, rather than paying on a fixed number of levels. Multiple centers and the re-entry provision to multiply income added another layer of intricacy to an already complex model. In a way, it is similar to models used in the insurance industry, where strict requirements qualify a policy and premiums are rated according to the risk.

The controlling factors in the Marketing Plan are requirements and production ratios. To be compensated and accrue volume, each individual must carry his or her own weight to produce a threshold amount of volume that is regenerated monthly. They must also duplicate that with two other people. If you have a growing number of passive people who are not contributing to growth or new volume, but who are able to earn checks from someone else's efforts and volume, you obviously would have more and more people earning on the same volume produced by others and on someone else's efforts. If that were permitted, common sense dictates that the payout would not be constant and, in fact, would grow to exceed 100%.

It took years of tracking and evaluating the numbers to come up with the mathematical production ratios and requirements to make the Plan work. In the beginning, I thought that people would just do what was required because it was part of the Basic Five. Unfortunately, we found that you couldn't count on people doing these things without being able to track and enforce it, which required elaborate computer programs as well as administration and communication systems.

Equally important were the legal and regulatory questions. This new Marketing Plan didn't fit the traditional mold and raised many new questions concerning "passivity" because of the accrual of volume and because multiple people got credit for the same volume. Passivity can trigger security law violations and place stress on the Plan's mathematics. There were also concerns about abuse of the program to sell positions rather than retailing product, which, if not properly controlled, could trigger pyramid or consumer protection questions. I worked with some of the most experienced lawyers in these areas of law and actually visited with 32 different regulators to determine what was "Safe Harbor." This was all part of the fabric and basic constitution of the program.

It became apparent that the same things that were problematic mathematically were also problematic legally. So by solving one problem, we simultaneously solved the other. The other interesting observation was that the same things that made the Plan sound mathematically and legally resulted in a stronger business for each Distributor and more repeat volume of the lines of sponsorship, which meant everyone would earn more residual income. The residual income would last because the Company was sound financially and legally. Residual income is only as powerful as your longevity.

So we set out on a mission to lead the parade as the "model" company. History would soon dictate that we were successful. Nearly 200 companies tried to copy our program. In fact, "binary" became the

hottest trend. But they did not have requirements, were not retail driven, and did not have regenerated volume which, in my opinion, is what makes a binary or binomial expansion plan truly powerful and more profitable than any other plan. Regenerated volume or the "retail coefficient," which we define as the amount of repeat sales in each BDC on a monthly basis, causes a compounding effect of more people earning more frequently on more centers because multiple people get credit for the same volume and the accrual of volume. Without this, you need to recruit exponentially larger numbers of people at the bottom of the matrix or genealogy in order for the people further up the line to keep earning. After a while they can't bring in enough new people and the program begins to unravel and people stop earning.

We were severely criticized by the industry and competitors for strictly enforcing the requirements. They would sell against us telling our Distributors that their programs were better. Just as we predicted from our mathematical models, their plans began to implode because the payout would grow beyond 100%. It became apparent that we were the only company that really understood what we were doing. The only other company that had a binary plan that lasted over eight years was USANA, and that company changed its marketing plan twice to cut the payout in half. Throughout all of this, our payout has remained constant, increasing proportionately with sales. We have never changed the payout structure and we have paid every check on time for over 11 years.

While this was going on, the industry received a huge wake-up call. Several legal cases defined what was acceptable and what was not. Among these cases were the Webster vs. Omnitrition class-action suit in the Ninth Circuit Appellate Court, the AuQuest case with the State of California and Monterey County suing AuQuest and bringing criminal charges against its officers, the FTC case against Jewelway, and the federal government case against Gold Unlimited, where they shut the program down and threw the principals in jail. A rash of regulatory actions followed in the wake of these cases, such as the Federal Government against Destiny Telecom and International Heritage. All this proved that what we were doing was right and absolutely necessary. The message was clear: You must retail product, and the majority of sales must come from those outside the program.

According to these rulings, not only did you have to base commissions on product retailing to a minimum of 70% non-program participants, but you had to monitor, document and enforce it (like our Form 1000). Of course, this was no problem for us because we were retail driven and had both retail activity and reporting requirements. These suits and regulatory actions also made it abundantly clear that one could not passively participate in a program. People had to demonstrate ongoing sales and supervisory functions and commissions were dependent upon their performance in program activities, otherwise the program would be considered a security. The bottom line is that nearly 200 companies that tried to copy some part of our program failed financially because of the math of their plans or they were put out of business by regulators because they did not do what Market America has always done since the beginning.

It's simply a matter of doing things right and building a real business built on bedrock rather than quicksand. That is why we have requirements and forms and enforce the policies. That is why we have thousands earning weekly checks.

Q: ***It seems like the Company keeps making record profits while more people are losing checks. Doesn't this show that the Company wants people to lose checks so the Company can make more?***

A. What convoluted thinking! First of all, people don't lose checks; they fail to meet the requirements to earn them. If a football player drops the ball in the end zone, he doesn't score a touchdown. He can blame it on anything he wants. Every game, every system, every business, and every marketing plan has rules and limiting factors.

Secondly, people are earning more than ever, there are more checks being paid than ever before, and the number goes up every month. So, I don't know where this notion even comes from.

Thirdly, the Company doesn't make more by people losing checks. This demonstrates a lack of understanding of the pay plan. Someone else got paid on that volume, and it's in the system for others who meet the requirements. The requirements have to be met by everyone within the required boundaries and time limits. When they don't meet them, they have not qualified to earn and they are out of the system to earn on that volume. But others have already earned, and there are those who have met requirements accruing that volume, so the notion that the Company does not pay on that volume is erroneous.

If everyone earned a check ($1,500) every week, the volume would be there to support it along with active Distributors who are sponsoring to activate and producing regenerated volume from customers. Problems occur when people beat the requirements and qualifications and undermine the system through multiple earnings on the same volume without legitimately meeting the volume, sponsoring, and activity requirements.

I think this concern refers to the fact that the Company's profits steadily increase on the financial statements, but the commission figure, as a percentage of gross revenue decreases. That doesn't mean we paid less in commission. The commission payout, as a percent of BV, remains constant; in fact, it went up slightly. Because we have more Distributors and more volume, the commission figure, as a percentage of gross revenue, went down. Remember, not all revenue is BV or commissionable volume. When you have twice the number of Distributors paying $69.95, there is more non-commission revenue. You also have sales aids, tapes, CDs and videos, Pro-Pack™, events, and other items in the gross figures that are not commissionable. So, if commissions — as a percentage of gross sales — didn't go down, something would be grossly wrong. Hooray! The Company managed to be more profitable than ever while it still paid out the highest commission compensation plan in the industry.

Amazing! How do we do it? It's called good management. We don't live in ivory towers. We don't take large salaries. Operations are highly automated. We buy right, and, as our volume increases, we negotiate better prices. We control expenses. We have very careful pricing procedures in place to make sure we maintain adjusted gross margins after the cost of commissions, sales and goods. At the same time, we make sure that we price products correctly to be competitive. We increase our profits by doing good business.

To think otherwise is ludicrous, as it is not supported by the facts. Do some people not want the Company to be profitable, or fiscally sound? There is an alternative; it's called bankruptcy! Forgive us, but we will just keep paying the high commissions and keep being profitable and sound. This is the truth — that's what frustrates our competitors and adversaries!

I believe in you,

JR Ridinger

JR Ridinger
President/CEO