

Lunch Money Investment Club

Operating Procedures

(Original: May 14, 2003

Last Update: September 20, 2006)

Article 1: The officers of this Partnership shall consist of a President, Vice President, Secretary and Treasurer. The term of office shall be for one (1) year. The same person shall not occupy an office for more than two consecutive terms, although they may hold the same office again after an absence of a minimum of one year.

Article 2: The officers shall be elected at the January meeting and shall assume office by the February meeting. It is our desire to keep the election process as simple and non-political as possible. Prior to the December meeting, any partner wishing to volunteer for an officer position must inform the President. The President will announce all candidates for office at the end of the December meeting. If there is more than one candidate for any position, then a secret ballot will be taken at the January meeting and the partner who received the most votes will be awarded the position. Absent partners may vote by proxy.

Article 3: The duties of the President shall be as follows:

- Preside over the monthly meetings.
- Initiate termination procedures against a partner as necessary according to section 18A of the Partnership Agreement.
- Notify new partners of their active status.
- See that resolutions passed by the partnership are carried out.
- Create the Audit Committee according to section 12A of the Partnership Agreement.
- Ensure that the educational program is properly carried out.
- Plan, generate and distribute club goals for the year by the February meeting.

Article 4: The duties of the Vice President shall be as follows:

- Assume the responsibilities of the President if he or she is unable to discharge them.
- Conduct that portion of the meeting dealing with stock selection, including counting of votes.
- Assign partners to monitor stocks.
- Maintain a "Pounce List" of high quality stocks to consider purchasing when the price moves into the buy range
- Store completed SSG's that initiated stock purchase decisions for every stock in the club's portfolio.

Article 5: The duties of the Secretary shall be as follows:

- Take minutes of each meeting and maintain a permanent record of all meetings.
- Maintain a list of the contact information of each partner.
- Maintain the waiting list for new partners.
- Email a copy of the minutes of each meeting to each partner no later than one (1) week after the meeting.
- Maintain and update the Partnership Agreement and the Operating Procedures.
- Store the original Partnership Agreement, Operating Procedures, bank and broker agreements

Article 6: The duties of the Treasurer shall be as follows:

- Keep a record of the Club's receipts and disbursements and partners' individual interests in the Club.
- Prepare monthly valuation reports and annual club-performance report.
- Receive and deposit partners' investments within 24 hours of a meeting.
- Perform the buying and selling of securities in accordance with the partnership's directions.
- Affect partner withdrawals and/or terminations.

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- Prepare annual tax returns and related partner K-1's.
- Store bank and broker statements and tax filings from previous years.
- Store all monthly valuation reports.

Article 7: The Partnership Agreement and Operating Procedures may be modified at any time by a super-majority vote of the partners, and evidence of acceptance will be recorded in the club minutes. Each modification to the Partnership Agreement will be written in the form of an addendum, separate from the original Partnership Agreement.

Article 8: The name of prospective partners shall be placed on the waiting list in the order in which they have been presented. As vacancies in the Club occur, new partners shall be accepted in the order they appear on the waiting list.

Article 9: Each partner shall be assigned to monitor one (1) or more stocks as the stocks are added to the portfolio. The portfolio shall never contain more than 20 stocks, or two (2) stocks per partner, whichever is less.

Article 10: A goal of our club is to grow our membership with the same care and scrutiny as we grow our portfolio. We will identify prospective partners who will be compatible and able to function as part of our team. A willingness to learn and an above-average desire to learn will outweigh any previous experience or education in investing. Prospective new partners must satisfy section 16 of the Partnership Agreement.

Article 11: Each partner must own the Investor's Toolkit Pro software (version 4 or higher) by I-Club Central (formerly Inve\$tWare Corp.) within one month of the time they become a partner, and have the use of a non-work computer to participate fully in the affairs of the club. Each partner is responsible for paying for his or her own annual Individual Membership to Better Investing and for the OPS database service.

Article 12: One of our goals is to create a portfolio of high quality stocks, with an eye towards long-term growth (3-5 years). In order to lower the risk, it is our intention to diversify by industry and company size. However, quality of the companies overrides diversification. Once the portfolio contains a minimum of six (6) stocks, no single industry may represent more than 30% of the value of the portfolio and a single stock shall stay within the following limits:

1. Stocks with an existing position – upper limit is 20% and lower limit is 2%
2. Incremental buy on existing stock – Upper limit is 12%
3. Stocks purchased new – lower limit is 4% or the investment available, whichever is less.

Article 13: January is the month of our Annual Meeting. This meeting will include a group lunch, presentation by the audit committee, a review of our portfolio and past goals, setting goals for the coming year, and the election of new officers.

Article 14: Each partner is expected to make every effort to attend every regularly scheduled meeting. Absences are posted in the club minutes and become part of the official record of the club. The absent partner is responsible for making arrangements with another partner to cover his or her responsibilities at the meeting.

Article 15: Since education is one of the primary purposes of our club, the President will plan monthly education meetings to keep all abreast of latest BI teachings. Partners are encouraged to present their ideas and requests to the President, who is in charge of carrying out the educational program.

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Article 16: No stock shall be purchased without members having had an opportunity prior to the meeting to complete a Stock Selection Guide.

Article 17: Many criteria will be used in the final determination of a stock purchase. However, we will strive to follow the NAIC criteria, which include:

1. A minimum of five years of financial history
2. Earnings are growing at or better than the rate of sales
3. P/E ratio equal to or less than its five-year average
4. Upside potential of 3:1 or better
5. Past performance and current events indicate that the stock will provide an average total annual return of at least 14.9% over the next three to five years.
6. Total debt is less than the industry average, preferably less than 33% of total assets

Article 18: No single reason shall be a determining factor for selling a stock. However, the following reasons will be used for discussion:

1. Adverse change in management
2. Declining profit margin
3. Deteriorating financial condition
4. Competition affecting profits
5. To balance the portfolio
6. To replace a stock with one of equal or higher quality and greater potential growth
7. Downside potential of .5:1 or less

Article 19: All decisions affecting the club and its assets will be decided by a vote. Each partner, regardless of his or her percentage of ownership in the club, will have an equal say in the voting process. All votes will be performed by an open showing of hands for or against an issue, except where noted elsewhere within the Partnership Agreement or the Operating Procedures.

Article 20: Any regularly scheduled monthly meeting only requires two partners be in attendance to be valid.

Article 21: Any partner who has not presented his monthly investment prior to the official adjournment of the monthly meeting will be assessed a \$10 late fee, which is not applied to purchasing units in the club. This late fee and monthly investment must be made prior to the end of the month or the late fee shall be withdrawn from the partner's account on the first of the following month.

Article 22: Any partner who causes the club to incur a fee outside of normal business expenses (i.e. a bounced check) is responsible for paying, or reimbursing the club, for said expense within 15 days of notification.

Article 23: For any unforeseen banking charges (e.g. overdraft) under \$25, the Treasurer has discretion on how to correct. For example the Treasurer can deposit additional personal funds to correct overdraft situation. The Treasurer will then record transactions and any follow-up action for review at the next club meeting.

For any unforeseen banking charges over \$25, the Treasurer must coordinate any corrective action with all club members via email. The Treasurer will then record transactions and any follow-up action for review at the next club meeting.