

ENAGIC



Policies and Procedures

for Enagic Independent Distributors

(last updated 2/16/2024)

MOST RECENT CHANGES

Page 13, changed one-year to 6 months in section 19



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Policies & Procedure For Global Enagic Distributors

1. The Company, Policies & Procedures, Distributor Handbook

Enagic USA, Inc., hereinafter the "Company," is a direct selling company marketing health products and other consumer products and services to the consumer through independent distributors. The policies and procedures herein are applicable to all independent distributors of the Company. Further, the published Enagic Distributor Handbook, as amended and published from time to time, is incorporated as a part of these policies and procedures, and the Enagic Distributor Agreement.

2. Distributor Qualifications

An independent Distributor is one who has completed a Company application and distributor agreement and has been accepted by the Company as an independent distributor. All independent distributors must be of legal age in the state in which they reside. The Company reserves the right to accept or reject anyone as an independent distributor.

Unless waived in writing by the Company upon application, the Company will consider a married couple as a single independent distributor. Husbands and wives may sponsor each other directly, but may not be sponsored in different lines. If the Company finds that the a spouse was sponsored in a different line by any reason, the Company reserves the right to change the status of the spouse from an independent distributor into a user, or transfer the distributorship to his or her upline.

Independent distributors are independent marketing representatives of the Company and are not to be considered purchasers of a franchise or a distributorship. The agreement between the Company and its independent distributors does not create an employer/employee relationship, agency, partnership, or joint venture. Independent distributors are independent contractors; they are free to enter into separate agreements with other independent distributors involving the conduct of their distributorships, subject only to the distributor agreement, policies and procedures and distributor handbook. Each independent distributor will hold harmless the Company from any claims, damages or liabilities arising out of his/her business practices. Independent distributors have no authority to bind the Company to any obligation. Each independent distributor is encouraged to set up his/her own hours and to determine his/her own method of sale, so long as he/she complies with the policies and procedures of the Company.

The company's program is built upon retail sales to the ultimate consumer. The

company also recognizes that independent distributors may wish to purchase products or services in reasonable amounts for their own personal or family use. For this reason, a retail sale for bonus purposes will include sales to non-participants, as well as sales to independent distributors for personal or family use which are not made for purposes of qualification or advancement. It is company policy, however, to strictly prohibit the purchase of product or large quantities of inventory in unreasonable amounts solely for the purpose of qualifying for bonuses or advancement in the marketing program. Independent distributors may not inventory load nor encourage others in the program to load up on inventory. Independent distributors must fulfill published personal and downline retail sales requirements, including requisite retail sales to non-participants, as well as supervisory responsibilities, to qualify for bonuses, overrides or advancements.

3. Transaction Submission Integrity

It is essential to the success of the Company, its independent distributors and customers that submissions of transactions to the Company maintain integrity of communication. It is to be expected that all transactions submissions to the Company, including, but not limited to, distributor applications, distributor communication, distributor financial transactions and consumer transactions, be submitted by the individual or entity involved in the transaction. Third party submission of any and all transactions submissions is prohibited. An independent distributor should not communicate any transactions submissions on behalf of another independent distributor, independent distributor applicant or customer. An independent distributor may not use his or her credit card or bank account on behalf of another individual or independent distributor, except as allowed for as an alternate payer. This rule is applicable to any and all forms of transactions submissions, including, but not limited to, online, telephone, fax, email, etc.

All Enagic Credit System (ECS) financed machines must be shipped to the buyer's home address. Alternate shipping* will no longer be accepted. For pick up of ECS financed machines, there will be an ID check. ECS machines must be picked up by the buyer or an existing independent distributor.

*Track your shipment using the tracking number provided. If more than 20 DAYS have elapsed since your purchase date, contact Enagic USA IMMEDIATELY by emailing support@enagic.com or by calling (424) 307-0005 during normal business hours. Enagic USA will not be responsible for any claims after 25 DAYS from the confirmed delivery date.

4. Business Conduct

In the conduct of business, the independent distributor will safeguard and promote the reputation of the products and services of the Company and will refrain from all conduct which might be harmful to such reputation of the Company or to the

discourteous, deceptive, misleading, unethical or immoral conduct or practices. An independent distributor will not interfere with, harass or undermine other independent distributors and, at all times, will respect the privacy of other independent distributors. An independent distributor must not disparage the Company, other independent distributors, Company products and/or services, the marketing and compensation plans, or Company employees. Violation of the above is grounds for termination.

5. Providing Sponsor Support

Any independent distributor, who sponsors other independent distributors, must fulfill the obligation of performing a bona fide supervisory, distributing and selling function in the sale and/or delivery of product to the ultimate consumer and in the training of those sponsored. Independent distributors must have ongoing contact, communication and management supervision with their sales organization. Examples of such supervision may include, but are not limited to: written correspondence, personal meetings, telephone contact, voice mail, electronic mail, training sessions, accompanying individuals to company training, etc. Independent distributors should be able to provide documentation to the Company of their ongoing fulfillment of sponsor responsibilities.

6. Taxes and Regulation

All independent distributors are personally responsible for paying local, state and federal taxes due on earnings from commissions or any other earnings generated as a seller of Company products and services, as well as any sales tax or use tax required by state or local authorities to be paid by or on behalf of distributor in connection with the purchase or sale of Company products and services. The Company does not perform any withholding nor is the firm responsible for unpaid taxes on behalf of independent distributors.

All independent distributors will comply with all state and federal laws and regulations governing the sale of Company products or services.

7. Advertising Correct Information

Independent distributors will not advertise, make statements or representations about Company products and services and/or marketing plans except as specifically approved, in writing, by the Company; such as its policies and procedures and/or any other official printed literature and publications. Independent distributors agree to make no false or fraudulent representations about the Company, the products, the Company compensation plan, or income potentials.

Independent distributors do not buy Enagic water treatment systems for resale. The independent distributor acts as an order taker to retail customers, or, orders an Enagic water treatment system for personal use in the capacity as a customer who is also an independent distributor. All Enagic water treatment systems are sold at Enagic specified prices. Independent distributor may not advertise for sale or sell an Enagic water treatment system that deviates from Enagic pricing or offer to provide a customer with a rebate or other consideration to facilitate a lower customer price for an Enagic water treatment system.

8. Trademarks, Trade Names, Advertising.

- (a) The name of the Company and other names as may be adopted by the Company are proprietary trade names and trademarks of the Company. As such, these marks are of great value to the Company and are supplied to independent distributors for use only in an expressly authorized manner. Independent distributors agree not to advertise Company products or services in any way other than the advertising or promotional materials made available to independent distributors by the Company. Independent distributors agree not to use any written, printed, recorded or any other material in advertising, promoting or describing the products or services or the Company marketing program, or in any other manner, any material which has not been copyrighted and supplied by the Company, unless such material has been submitted to the Company and approved in writing by the Company before being disseminated, published or displayed.
- (b) The independent distributor, as an independent contractor, is fully responsible for all of his/her verbal and written statements made regarding the products, services and/or marketing programs which are not expressly contained in writing in the current distributor agreement, advertising or promotional materials supplied directly by the Company. The independent distributor agrees to indemnify the Company and hold it harmless from any and all liability including judgments, civil penalties, refunds, attorney fees, court costs, lost business or claims incurred by the Company as a result of independent distributor's unauthorized representations.
- (c) The Company does not permit the use of its copyrights, designs, logos, trade names, trademarks, etc. without its prior written permission. Independent distributors may not use the Company logo in marketing or sales materials. Independent Distributors may only use the Distributor Logo specifically developed to demonstrate their status as an official "Enagic Independent Distributor". The Distributor Logo can be downloaded in the Distributor section of the Company website and may only be used by the Independent Distributor in their Distributorship. Trademarked terms such as Kangen Water® and Change YourWater... Change Your Life.® should be appropriately annotated. In addition

to general prohibitions on use of the Company trademarks or logos, the Company specifically prohibits the use of Company trademarks or logos in conjunction with the sale of any other non-Company products.

- (d) All Company materials, whether printed, on film, produced by sound recording, or on the internet, are copyrighted and may not be reproduced in whole or in part by independent distributors or any other person except as authorized by the Company. Permission to reproduce any materials will be considered only in extreme circumstances. Therefore, an independent distributor should not anticipate that approval will be granted.
- (e) An independent distributor may not produce, use or distribute any information relative to the contents, characteristics or properties of Company product or service which has not been provided directly by the Company. This prohibition includes but is not limited to print, audio or video media.
- (f) An independent distributor may not produce, sell or distribute literature, films or sound recordings which are deceptively similar in nature to those produced, published and provided by the Company. Nor may an independent distributor purchase, sell or distribute non-Company materials which imply or suggest that said materials originate from the Company.
- (g) Any display ads or institutional or trademark advertising copy, other than covered in the foregoing rules, must be submitted to the Company and approved in writing prior to publication.
- (h) All advertising, direct mailing, and display including promotional products such as DVDs, CDs, Brochures, Flyers, etc. must be approved in writing before being disseminated, published or displayed. Advertising on radio, TV, newspaper, magazine, and website except independent distributor's own Enagic Web System ("EWS") website is strictly prohibited.
- (i) No claims as to the therapeutic or curative properties about the products may be made. In particular, no independent distributor may make any claim that the Company products are intended to diagnose, treat, cure or prevent any disease. Such statements can be perceived as medical claims. Not only is this against Company policy, but it is also against the laws governed by the United States Food and Drug Administration, and the United States Federal Trade Commission. Pursuant to the policy of prohibition of medical, curative or treatment claims, the Company enumerates specific implementation of these policies which will include, but are not limited to:
 - (i) Independent distributors are prohibited from making medical, curative or treatment claims, whether expressed or implied;
 - (ii) Independent distributors are prohibited from using in all of their marketing materials and promotion any descriptions that are regarded as health or medical claims stating that Kangen Water® may alleviate, cure,

diagnose, prevent, relieve, or treat any medical condition, disease, ailment or malady;

(iii) Any violation of these guidelines will constitute grounds for disciplinary action, commission suspension and/or termination of distributor status.

(j) Sales of Marketing Materials and Trademark License Agreement: All independent distributors who plan to sell any additional products, including health and beauty related products, other than electrolysis water generator devices must receive prior approval from the Compliance Department of the Company. Each approved item must be specified on the contract called Enagic License Agreement. All independent distributors who have signed the contract must pay a 10% royalty fee based on the total monthly gross sales to the Company. Productions and sales of any marketing materials including DVDs recorded at any seminars without prior authorization from the Company are strictly prohibited in any circumstances. Distributors who violate this article are subject to suspension and/or termination without warning.

9. Internet and Website Policy

Independent distributors are prohibited from creating any independently-designed website relating to the Enagic business, or using any non-EWS current websites. Independent distributors are allowed to advertise on the internet through an approved EWS site (www.enagicwebsystem.com). All independent distributors are eligible to create a free EWS site for their Distributorship. Additional features and options are available for upgrade on the EWS registration site. This Company program allows independent distributors to choose from among Company home page designs that can be personalized with the independent distributor's message and his/her contact information. These websites link directly to the Company website giving the independent distributor a professional and Company-approved presence on the internet. Only these approved websites may be used by independent distributors. No independent distributor may independently design a website that uses the names, logos, product or service descriptions of the Company, nor may an independent distributor use "blind" ads on the internet making product or income claims which are ultimately associated with Company products, services or the Company's compensation plan. Independent Distributors using Company names, logos, trademarks, etc. on the internet or any other advertising medium, except as permitted by these policies and procedures will be subject to immediate discipline, including termination of distributor status.

10. Prohibition of Sales on Unauthorized Internet Sites.

An independent distributor is prohibited from selling or promoting Company products

on internet shopping sites, internet auction sites, and internet classified listings including, but not limited to eBay, Amazon, Alibaba, and Craigslist. Any violation of this article will constitute grounds for commission suspension and/or termination of distributor status.

All Warranties on Company products are limited and non-transferable. The Company disclaims all statutory and implied warranties to the extent permitted by law. Warranty benefits will extend only to the original purchaser unless express written permission has been provided by the Company. The product warranty is limited to the express terms of the Consumer Limited Warranty and the Extended Consumer Limited Warranty.

11. No Spam Policy

It is specific Company policy to prohibit unsolicited email (spamming) or information by facsimile relating to the Company's opportunity and products and services. The Company has a zero tolerance policy of spamming practices. Independent distributors who violate the Company's "no spam policy" are subject to termination, suspension or disciplinary action.

12. Retail Establishments

Company products or services may only be displayed and sold in retail establishments where the nature of the business is to make appointments with customers (such as salons, doctor's offices, and health clubs where appointments are made for personal training or classes are scheduled). The sale of such products or services within such retail facilities must be conducted by an independent distributor and must be preceded by a discussion where the independent distributor introduces the prospective client to the products or services and opportunity just as they would if they had met outside of the retail facility. Company produced literature, banners, or signage only may be displayed on a shelf, counter, or wall and must be displayed by itself. Products or services may not be sold from a shelf or taken from a display for purchase by a customer. Company products or services may not be sold in any retail establishment, even by appointment, if competitive products or services are sold in the establishment. From time to time, the Company may announce policies and rules that expand or contract restrictions on sales in retail establishments.

13. Prohibition on Affiliation with Other Water Treatment Marketing Companies.

(a) It would undermine the basic distributor relationship if independent distributors marketed competing water treatment, water filtration or alkaline water

conversion products. Therefore, so long as an independent distributor desires to maintain distributor status, he or she may not sell or market any water treatment, water filtration or alkaline water conversion products that are similar to the products sold by the Company.

- (b) 6A2-3 bonus is available only to independent distributors who are exclusive to the Company in direct selling/mlm business.

14. Prohibition of Sales of Kangen Water®

Sales of Kangen Water® or any other water produced from an Enagic® machine, directly or indirectly, is strictly prohibited. This prohibition includes all sales of Kangen Water® in which a person receives water, bottled or otherwise, from an Enagic® machine. No “donation”, “membership fee”, or other sum(s) may be collected for the distribution of Kangen Water®. Charging customers due to the use of electricity or the general usage of the machine is also prohibited. These are considered to be business expenses and should be paid by the independent distributor. Any violation of this article will constitute grounds for termination of distributor status.

Providing free Kangen Water® in bottled form to a prospective buyer is authorized. However, any labeling on the bottle or attached to the bottle, is strictly prohibited, as it may create confusion that the sample water is “bottled” or “for resale” (rather than a mere sampling provided person to person at no charge) in violation of state or local regulations regarding the “bottling” and/or sale of “bottled water”.

15. Trade Shows

With written authorization from the Company, Company products or services and opportunity may be displayed at trade shows by independent distributors. Request for participation in trade shows must be received in writing by the Company at least two weeks prior to the show. Written authorization from the Company must be received before participating in the trade show. Unless written authorization is secured from the Company, Company products or services and opportunity are the only products or services and/or opportunity that may be offered in the trade show booth. Only Company produced marketing materials may be displayed or distributed. No independent distributor may sell or promote the Company products or services or business opportunity at flea markets, swap meets, or garage sales.

16. Assigned Territory

Independent distributors are not assigned exclusive territories for marketing purposes, nor will any independent distributors imply or state that he/she does have an exclusive

territory. There are no geographic limitations on sponsoring independent distributors or selling product within the United States or its possessions or territories and any approved countries in which the Company is registered to do business.

17. International Sales

No independent distributor may export or sell directly or indirectly to others who export the Company's products, literature, sales aids or promotional material relating to the Company, its products or services or the Company's program from the United States or its possessions or territories to any other country. Independent distributors who choose to sponsor internationally may do so only in countries in which the Company or its parent company has registered to operate its business and must comply fully with the Rules of Operation of a Company distributorship in that country. Any violation of this rule constitutes a material breach of this contract and is grounds for immediate termination of the distributorship.

18. Change of Business Name

The Company reserves the right to approve or disapprove independent distributor's change of business names, formation of partnership, corporations, and trusts for tax, estate planning, and limited liability purposes. If the Company approves such a change, the organization's name and the names of the principals of the organization must appear on the distributor application agreement along with a social security number or federal identification number. It is prohibited to make change to attempt to circumvent or violate Company rules on raiding, solicitation, targeting, cross- sponsoring or interference.

19. Cancellation of Distributorship

The distributor agreement may be canceled at any time and for any reason by the independent distributor. All cancellations are accepted and effective as of the date the Company was notified in writing. As of the effective cancellation date, the independent distributor loses all privileges of leadership and downline organization, and is no longer eligible for any commissions, bonuses or prizes. He/she cannot advertise, sell or promote the Company products or purchase product from the Company.

The Company will consider an application to reinstate a "resigned independent distributor" 6 months after the Resignation Date. As part of the application, the former independent distributor must pledge to adhere to the existing requirements of the Distributor Agreement and Policies and Procedures. The Company reserves the right to

accept or reject, at its sole discretion, such application for reinstatement. The Company will also have the discretion to reinstate the former independent distributor at his/her former position or at a lesser placement as a condition to reinstatement.

20. Change to Product or Service Prices

The Company will be entitled to change product or service prices at any time and without notice, and to make changes in the statement of Policy and Procedures.

21. Cooling Off

Notwithstanding the Company's longer retail customer guarantee policy, all retail sales must comply with the FTC Three-Day Cooling Off Rule which requires statutory language and notice of cancellation on the retail sales receipt. The three-day right of cancellation must be orally explained to the customer and the customer must receive a copy of the notice of cancellation form.

22. Company's Signature Products

The signature product of the Company is one which involves water treatment relating to purification and adjustment of alkaline content. This signature product is fundamental to the branding and image of the Company. Therefore, although independent distributors are free to sell, within the guidelines of the Company's policies, products of third party vendors, an independent distributor will not, during the term of the distributorship, sell products which involve the Company's signature products, namely, products that involve water treatment relating to purification and adjustment of alkaline content. Violation of this provision may result in termination of the distributorship.

23. Prohibition on Raiding and Cross-Solicitation of Products or Other MLM and/or Business Opportunities

The Company takes seriously its responsibility to protect the livelihood of its sales forces and the hard work invested to build a sales organization. Raiding and solicitation actions in which independent distributors seek to raid and solicit other independent distributors in the sales organization to non-Company products and services and to other MLM/business opportunities, severely undermines the marketing program of the Company, interferes with the relationship between the Company and its sales force and destroys the livelihood of other independent distributors who have worked hard to

build their own business, the business of their sales and benefits they have earned by helping to build a sales organization. Therefore, independent distributors will not directly or indirectly sell to, nor solicit from, other independent distributors for or to any non-Company products or services, or in any way promote to other independent distributors business opportunities in marketing programs of other MLM or business opportunity companies at any time. The independent distributor will not engage in any recruiting or promotion activity that targets other independent distributors for opportunities or products of other direct selling companies or business opportunities, either directly or indirectly, by themselves or in conjunction with others, nor will an independent distributor participate, directly or indirectly, in interference, raiding or solicitation activity of independent distributors for other direct selling companies or business opportunities. Unless approved in writing by the Company, this prohibition includes sales or solicitation of non-Company products or services at meetings organized for Company sales, promotion, training recruitment, demonstration, etc. This prohibition on targeting, interference, soliciting and raiding will be in effect during the term of the distributor agreement and for a period of three (3) years after the termination of the distributor agreement. For the term of this agreement and for three (3) years after termination hereof, an independent distributor will not, directly or indirectly, recruit any independent distributors to join other direct sales or network marketing companies nor solicit, directly or indirectly, independent distributors to purchase services or products, or in any other way interfere with the contractual relationships between Company and its independent distributors.

Because of the unique nature and signature characteristic and association with the field of water treatment with the Company, and because of the inherent confusion and conflict that may occur, independent distributors may not engage in the representation or sale of water treatment systems offered by any other company.

24. Purchases for Inventory of Mandatory Sales Aids

If the independent distributor has purchased products for inventory purposes or mandatory sales aids while the distributor agreement was in effect, all products in a resalable condition then in possession of the independent distributor, which have been purchased within 90 days of cancellation, will be repurchased. The repurchase will be at a price of not less than ninety percent (90%) of the original net cost to the participant returning such goods, taking into account any sales made by or through such participant prior to notification to the Company of the election to cancel. Buyback is 12 months in Massachusetts, Maryland, Montana, Georgia, Louisiana, Wyoming, Texas, Oklahoma, Idaho, Utah, Washington and Puerto Rico. In addition, the Company will honor statutory mandated buyback requirements of every jurisdiction.

25. Vendor Confidentiality

The Company's business relationship with its vendors, manufacturers and suppliers is confidential. An independent distributor will not contact directly or indirectly, or speak to or communicate with any representative of any supplier or manufacturers of the Company except at a company sponsored event at which the representative is present at the request of the Company. Violation of this regulation may result in termination and possible claims for damages if the vendor/manufacturer's association is compromised by the distributor contact.

26. Commission Recuperation

The Company will be entitled to repayment of any commission previously paid on a sale of product/service if the product/service purchase is cancelled, reversed (eg. collections activity results in legal or further action), or a refund paid for a terminated purchase. The Company will recover the commission by adjustment on the distributor's next check payment. In the event that no commission is available for adjustment, the independent distributor who has received the commission will repay the commission paid on the "reversed sale" within 30 days of the Company's notice to repay.

All accounts with balances that have been unpaid for three (3) months or more will be transferred to the Collections Department. Any associated commissions for sales to these accounts will be reduced to 50% of the stated commission rate. Additional costs associated with further collections activity (such as legal costs) may be deducted from any eligible commission.

27. Downline Information Confidentiality

On a periodic basis, the Company will supply data processing information and reports to the independent distributor, which will provide information concerning the independent distributor's downline sales organization, product purchases and product mix. The independent distributor agrees that such information is proprietary and confidential to the Company and is transmitted to the independent distributor in confidence. The independent distributor agrees that he or she will not disclose such information to any third party directly or indirectly, nor use the information to compete with the Company directly or indirectly during or after the term of the distributor agreement. The independent distributor and the Company agree that, but for this agreement of confidentiality and nondisclosure, the Company would not provide the above confidential information to the independent distributor.

28. Privacy Policy

The Company collects information from independent distributors during the application procedure and from time to time as required for internal purposes such as compliance with state and federal laws and regulations. The Company also collects information through the use of “cookies” when on-line transactions are conducted through the Company’s website. The information collected may be used for, among other things, personalizing the independent distributor’s experience, improving the Company’s website and service, processing transactions, sending periodic correspondence and administering marketing initiatives. The Company implements a variety of security measures to maintain the safety of the information collected.

The Company does not sell or trade the information collected. The Company only shares information as permitted or required by law and with third-party vendors (eg. merchant card processing company) for our everyday business purposes such as merchant card processing companies. Outside of these parameters, the Company will only share your information with your permission.

29. Change in Status

1. Marriage: Two independent distributors who marry after having established their own individual distributorships may continue to operate their existing distributorships.
2. Divorce: Should a married couple registered under a common distributorship divorce, they agree to notify the Company as to who will assume responsibility for the distributorship in one of the following manners:
 - (a) Written notarized agreement signed by both parties indicating who will retain the distributorship.
 - (b) A court order delineating who receives custody over the distributorship
 - (c) Both parties may choose to retain their joint distributorship and operate it as a partnership.
 - (d) The divorced independent distributors may apply for a new distributorship without having to wait the required three (3) month period.
3. Death: Upon the death of an independent distributor, the rights and responsibilities of the distributorship may be passed on to the rightful, legally-documented heir as long as that person has filled out a new distributor application, together with a copy of death certificate.
4. Disability: Should an independent distributor become disabled to the extent that

he/she can no longer fulfill the required duties of an independent distributor, such independent distributor's legal representative or conservator will:

- (a) Contact the Company within thirty (30) days of the disability and advise the Company of the independent distributor's status and the plans for future management or cancellation of the distributorship.
- (b) Provide a notarized or court-confirmed copy of appointment as legal representative or conservator.
- (c) Provide a notarized or court-confirmed copy of document establishing right to administer the Company business.
- (d) Should the legal representative or conservator plan to continue the business of the distributorship, then he/she will fill out a new distributor application, return policy and W-9, and receive the required training consistent with the disabled independent distributor's level at the time of disability. These requirements will be satisfied within a deadline of six months.

30. Sale or Transfer

Products sold to third parties do not qualify those third parties as independent distributors; all those who wish to become independent distributors must go through the normal application procedure. Independent distributors agree to inform all third parties of the facts above and further agree not to promise any possibility of transferring distributorship. A distributorship may never be purchased or sold.

An independent distributor may not assign or otherwise transfer his or her distributorship, marketing position or other distributor rights to anyone who is not an immediate family member, and must obtain written approval by the Company before doing so. This paragraph is also applicable to transfer of any interest in an entity that owns a distributorship, including but not limited to a corporation, partnership, trust or other non-individual entity. The potential transferee must be immediate family only. The distributorship must be offered in writing to the immediate family member and the prospective transfer agreement must be submitted to the Company for review in order to secure written approval, which will be at the sole discretion of the Company. An independent distributor who transfers his or her distributorship will not be eligible to requalify as an independent distributor for a period of at least three (3) months after the sale. The Company reserves the right to request further documentation to prove the familial relationship of the transferor/transferee. The Company's decision regarding rejection or approval of the proposed transfer of a distributorship is final.

An independent distributor may not add a co-applicant to their distributorship and thereafter, remove their name from the distributorship, in an effort to circumvent the Company's sale, assignment, delegation or merger procedures. The primary independent distributor must wait twelve (12) months after adding a co-applicant to the distributorship before they are allowed to remove their name from the distributorship. It is prohibited to use a sale or transfer to attempt to circumvent Company policy on raiding, soliciting, cross-sponsoring or interference.

For the term of three (3) years after transfer, an independent distributor agrees that he/she will not, directly or indirectly, disrupt, damage, impair or interfere with the business of the Company, whether by way of interfering with, or raiding its employees or distributors, disrupting its relationship with customers, agents, representatives, distributors, suppliers, vendors or manufacturers or otherwise. "Disrupting" or "interfering" will include, but not be limited to, direct or indirect solicitation or recruitment for other direct selling business opportunities or products or services of other direct selling companies. An independent distributor seeking to sell or transfer his/her distributorship must acknowledge and agree to this provision prior to the finalization of the sale or transfer of their distributorship.

31. Rights of the Company

The Company expressly reserves the right to alter or amend prices, Rules and Regulations, Policies and Procedures, product availability and the compensation plan. Upon notification, in writing, such amendments are automatically incorporated as part of the agreement between the Company and distributor. Company communication of changes may include, but will not be limited to mail, email, fax, posting on the Company website, publication in company newsletters or magazines, etc.

- (a) Enagic reserves the right to make all final decisions as to the interpretation of the articles stated in these Policies and Procedures. The final company decision based on the interpretation of the articles stated in the Policies and Procedures is effective immediately. All independent distributors are obligated to follow the company's decision as to the interpretation of the articles of these Policies and Procedures.

32. Individual Distributorship

An independent distributor may have up to six (6) distributorships in the Company (including any that may be owned as an entity), as long as they are within the same distributorship. The allowed six (6) distributorships may include a combination of any Kangen Water business accounts, Ukon DD and/or Ukon Sigma accounts. An individual will provide the Company with a W-9 Form with Social Security Number.

33. Entity Distributorship

An entity owner can have up to six (6) distributorships in the Company (including any that may be owned as an individual), as long as they are within the same distributorship. The allowed six (6) distributorships may include a combination of any Kangen Water business accounts, Ukon DD and/or Ukon Sigma accounts. No independent distributor may participate in more than six (6) independent distributorships in any form without express written permission from the Company. Only in the most extreme and extraordinary circumstances will this be considered. A distributorship may change status under the same sponsor from individual to business entity, or from one type of entity to another, with proper and complete documentation. To form a new distributorship as an entity, or to change status to an entity, an independent distributor must request a change request form from the corporate headquarters office. By submitting this form, said distributor certifies that no person with an interest in the business has had an interest in a distributorship within three (3) months of the submission of the form (unless it is the continuation of an existing distributorship that is changing its form of doing business). In addition to the aforementioned change-request form, the applicable supporting documentation must also be submitted as follows:

- (a) Sole Proprietorship: A copy of fictitious name filing must be submitted, along with an SS-4 letter (if not using your own SSN) and a W-9 form.
- (b) Corporation: Copy of Articles of Incorporation (with state seal and notarization, list of officers, etc.) is required, in addition to an SS-4 letter and a W-9 Form. These Articles will show who the principals are and prove validation of Federal ID Number/Business Number/E.I.N.
- (c) LLC: A copy of the filed Articles of Organization, an SS-4 letter and a W-9 form are required.
- (d) Trust: A notarized Affidavit/Certificate of Trust is necessary. If Federal ID Number is to be used and is not noted in the affidavit, an IRS acceptance will be required, plus a W-9 form.
- (e) Partnership: To register as a partner, complete the partnership portion of the Entity Information form, along with all signatures that apply, plus an SS-4 letter and W-9 form.

34. Entity Guarantee for Owners

Although the Company has offered independent distributors the opportunity to conduct their distributorship as a corporate, LLC, trust or partnership entity, those entities are under the control of its owners and principals, the actions of individual owners or beneficiaries as they may affect Company's business. Therefore, it is agreed that the actions of individual owners or beneficiaries as they may affect the Company and the distributorship are also critical to the Company's business. Therefore it is agreed that actions of the ownership entity's shareholders, officers, directors, trustees, beneficiaries, agents, employees or other related or interested parties and the actions of such parties, which are in contrast to Company's policies will be attributable to the corporate, LLC, trust or partnership entity.

In the event that any of the ownership entity shareholders, officers, directors, trustees, beneficiaries, agents, employees or other related parties will terminate ownership interests in the distributorship, any breaching actions by such parties that continue to have a beneficial financial interest, directly or indirectly, in the distributorship will be attributable to the distributorship.

35. Members of Same Household; Responsibility

Members of the independent distributor's household should operate together under the same distributorship unless otherwise allowed by these Policies and Procedures. Household is defined as husband, wife, and dependents. Children of legal age to contract and at least 18 years of age are not considered a part of their parent's household for the purpose of operating under the same distributorship.

The Company recognizes that members of the same household may belong to competing direct selling opportunities. Although the actions of the parties are normally in good faith, in some circumstances, there is an abuse of relationships in which the non-Company affiliated household member is engaged in recruitment, solicitation or raiding of the Company's organization. The independent distributor is in the best position to prevent raiding or cross-sponsoring activity by his/her non-Company affiliated household member, therefore the cross recruiting activity of the non-Company affiliated household member will be attributed to the independent distributor.

36. Foreign Distributorships

A foreign person living outside of the United States and Canada may become an independent distributor by providing Enagic with a signed W-8BEN form, in addition to completion of the Product Order Form and Distributor Application, the Return Policy, and any other documentation required by the Company. A foreign independent distributor must never sell Enagic products within the United States and Canada, and the foreign independent distributor's downline must only consist of other foreign independent distributors living and selling Enagic products outside of the United States and Canada.

A foreign independent distributor will be solely responsible for all applicable taxes, duties, and other fees associated with his/her distributorship. The foreign distributorship is subject to all applicable laws and regulations of his/her country of residence. The Company is not responsible for any failure by the foreign distributor to abide by the laws of his/her country of residence or other controlling jurisdiction. While the Company does attempt to provide notice whenever possible, it may not always be possible to do so. Change in Company Policy or other actions such as termination may occur without notice to the independent distributor.

37. Awards and Incentives vs. Commissions - Group Financial Support

When independent distributors make exceptional contributions to the Company, they become eligible for Group Financial Support (GFS) Incentives. Factors demonstrating exceptional contribution include, but are not limited to, outstanding sales efforts and remarkable sales group organization. GFS Incentives may differ in name in order to limit the eligible group (i.e., 6A 8-Level Award and 6A23 and Above New Incentive Award) but they are all awarded at the sole discretion of the Company. GFS Incentives are not paid automatically and will differ based on the overall efforts of independent distributors. Any independent distributor subject to an Administrative Hold and/or Disciplinary Action will be ineligible for any Incentive. The GFS Incentive is intended to be used in accordance with the true meaning and mission of Enagic. Top leaders can use GFS for their downlines and market expansion of their Enagic business. This means reinvesting in their Enagic business to help as many people as possible around the world.

38. Commission, 6A Educational Allowance and/or Incentive for Inactive Distributors

(D1,D0,FA0)

If you have a direct sale within six (6) months, you are qualified to receive full commission, 6A educational allowance and/or incentive. This status is called "D1". If you do not have a direct sale within six (6) months, but you have at least one sale within one (1) year, you are qualified to receive fifty percent (50%) of the full commission, 6A educational allowance and/or incentive. This status is called "D0". If you do not have a direct sale within one (1) year, you are not qualified to receive any commission, 6A educational allowance and/or incentive. This status is called "FA0". Any distributor under FA0 status may re-register in a new position, without regard to their former group, which automatically acts to cancel their former Distributorship. The Company may, in its sole discretion, re-assign any distributorship under FA0 status to another Distributor in good standing or take any other action as necessary to maintain proper functioning of the distributor network.

Payment of commission, 6A educational allowance and/or incentive will be made based on the independent distributor status on the date of sale. In the case of an Enagic Payment System (ECS) customer, the distributor status will be decided based on the payoff list issued on the 8th and 22nd each month. If such a day is Saturday, Sunday and/or holiday, the following business day will be applied. Payment of commission, 6A educational allowance and/or incentive will be made based on the distributor status as of the date such commission is processed.

39. Kangen UKON Distributorships

Kangen UKON Distributorships automatically entitle the account holder to an Enagic Independent Distributorship for Kangen Water® machines. All the provisions of the Enagic Global Policies and Procedures apply to Kangen UKON Distributors including, but not limited to, their independent contractor status, unless specifically designated as inapplicable.

40. Default in Payment

A distributorship will be terminated if an independent distributor defaults in payment of product purchases from the Company. In the event an independent distributor purchases product, either in the capacity as an User or an independent distributor, and subsequently defaults on payment, the distributorship is subject to immediate termination. The preceding rule is applicable to an independent distributor in an individual capacity that defaults, a corporate or partnership distributor where one of the principal owners defaults or any other default in payment where the defaulting party has an ownership interest in the distributorship.

41. Disciplinary Actions

Independent distributor's violation of any Policies and Procedures, the distributor agreement, terms and conditions or any illegal, fraudulent, deceptive, or unethical business conduct may result, at the Company's sole discretion, in one or more of the following disciplinary actions:

- (a) Issuance of a written warning or admonition.
- (b) Imposition of a fine, which may be imposed immediately or withheld from future commission checks.
- (c) Reassignment of all or part of an independent distributor's organization.
- (d) Freezing of commissions for an indefinite period.
- (e) Suspension, which may result in termination or reinstatement with conditions or restrictions.
- (f) Termination of the distributorship.

42. Right to Terminate

The Company reserves the right to terminate any distributorship at any time for cause when it is determined that the independent distributor has violated the provisions of the distributor agreement, including the provisions of these policies and procedures as they may be amended or the provisions of applicable laws and standards of fair dealing. Such involuntary termination will be made by the Company at its discretion. Upon an involuntary termination, the Company will notify the independent distributor by mail at the latest address listed with the Company for the distributor. In the event of a termination, the terminated independent distributor agrees to immediately cease representing him/herself as an independent distributor.

43. Termination

- (a) When a decision is made to terminate a distributorship, the Company will inform the independent distributor in writing that the distributorship is terminated immediately, effective as of the date of the written notification. The termination notice will be sent by certified mail to independent distributor's address on file with the Company.
- (b) The independent distributor will have fifteen (15) days from the date of mailing of the certified letter in which to appeal the termination in writing, and provide written response to the finding of violations of Company agreement, policies and/or rules. The independent distributor's appeal and/or response correspondence must be received by the Company within twenty (20) days of the Company's termination letter. If the appeal is not received within the twenty (20)-day period, the termination will be automatically deemed final.

- (c) If an independent distributor files a timely appeal of termination, the Company will review and consider the termination, consider any other appropriate action, and notify the independent distributor of its decision. The decision of the Company will be final and subject to no further review. In the event the termination is not rescinded, the termination will be effective as of the date of the Company's original termination notice. The terminated distributor may not be sponsored as an independent distributor again.
- (d) Upon termination of a distributorship, all rights cease. He/she is no longer eligible for any commission, bonuses or prizes. He/she cannot advertise, sell or promote the Company products or purchase products from the Company.

44. Sponsorship

All independent distributors have the right to sponsor others. In addition, every person has the ultimate right to choose his/her own sponsor. If two independent distributors should claim to be the sponsors of the same new independent distributor, the Company will regard the first application received by the corporate home office as controlling.

- (a) As a general rule, it is good practice to regard the first independent distributor to meaningfully work with a prospective independent distributor as having first claim to sponsorship, but this is not necessarily controlling. Basic tenets of common sense and consideration should govern.
- (b) As a convenience to its independent distributors, the Company may provide various method of registering or informing the Company of newly sponsored independent distributors, including facsimile registration and online registration. Until such time as the Company receives an application, either as hard copy, facsimile or digital data, containing all appropriate information, as well as the signature of the proposed new distributor, the Company will only consider the incomplete facsimile or online registration in the category of "intended" registration. Thus, although the Company is attempting to create some convenience for its sponsoring distributors, it is the responsibility of the sponsoring independent distributor to cause delivery to the Company of a completed and signed distributor agreement and completed W-9 if the sponsor is to expect recognition as the official sponsoring independent distributor.
- (c) There is no "magic" involved in the Company or in any business. Those who sponsor widely but who do not help new independent distributors develop their business meet with limited success. Therefore, it is the independent distributor's responsibility to follow through and make sure the new independent distributor is properly informed and trained in the areas of the product, the compensation plan, the policies and procedures and the professional guidelines of the network marketing industry.

- (d) When soliciting a prospective independent distributor to join the Company's network program, the independent distributor must clearly explain the following:
 - 1. Products: type, performance and quality of each product.
 - 2. Compensation plan
 - 3. Policies and Procedures.
 - 4. Independent distributor's rights and duties.
 - 5. Other important items that will affect the judgment of the prospective distributor.
- (e) Independent distributors should never provide false information in order to encourage the conclusion of a sales agreement or to prevent the buyer from canceling the agreement.
- (f) Retail sales are a requirement of the Company's network program.
- (g) Each independent distributor must identify himself or herself by name and Company ID number to the prospective buyer.
- (h) The Company offers no sales discounts or other concessions and the distributor may not offer either. Any discounts offered by distributors may be grounds for termination.

45. Transfer of Sponsorship

Transfer is rarely permitted and is actively discouraged. Maintaining the integrity of sponsorship is absolutely mandatory for the success of the overall organization.

- (a) Transfers will generally be approved in only one of two (2) circumstances:
 - 1. In the case of unethical sponsoring by the original sponsor. In such cases, the Company will be the final authority.
 - 2. Resigning from the Company entirely and waiting six (6) months to reapply under the new sponsor.
- (b) In cases of unethical sponsoring, the independent distributor may be transferred with downline intact; in all other events, the individual alone is transferred without any downline being removed from the original line of sponsorship.

46. Income Claims

No income claims, income projections nor income representation, nor showing of commission checks ("check waving") may be made to prospective independent distributors. Any false, deceptive or misleading claims regarding the opportunity or product/service are prohibited. In their enthusiasm, distributors are occasionally tempted to represent hypothetical income figures based upon the inherent power of network marketing as actual income projections. This is counter-productive, since new

independent distributors may be quickly disappointed if their results are not as extensive or as rapid as a hypothetical model would suggest. The Company believes firmly that the income potential is great enough to be highly attractive in reality without resorting to artificial and unrealistic projections.

47. Representation of Status

In all cases, any reference the independent distributor makes must clearly set forth the independent distributor's independent status. For example, if the independent distributor has a business telephone, the telephone may not be listed under the Company's name or in any other manner which does not disclose the independent contractor status of the distributor.

48. Judgment and Tax Lien

The Company will comply fully with any court order or instruction/demand by any government taxing authorities within the United States and Canada that orders, instructs or demands the withholding of a independent distributor's earnings from his/her distributorship with the Company.

49. Subpoenas Duces Tecum (Demands for Records)

Assuming proper jurisdiction, the Company will comply with all subpoenas duces tecum demanding financial compensation records of an independent distributor in his/her capacity as an independent contractor with the Company.

50. Request for Records

The Company will comply fully with all requests for records accompanied by a properly prepared and signed Authorization by the person whose records are being sought. The Company will comply fully with all requests for records by government agencies with the authority to request such records and accompanied by the requisite legal documentation.

51. Business Cards and Stationery

Any printed materials, including business cards and stationery, must be approved by the Company in advance. Criteria for approving these materials will include a judgment regarding the quality of the materials as well as properly setting forth the independent status of the independent distributor.

52. Telephone Solicitation

The use of the Company's name or copyrighted materials may not be made with automatic calling devices or "boiler room" operations either to solicit independent distributors or retail customers. The use of these methods in ways that are legal and are the equivalent of the "blind ads" alluded to above cannot be regulated by the Company.

53. Press Inquiries

Any inquiries by the media are to be referred immediately to the Company. This policy is to assure accuracy and a consistent public image.

54. Endorsement

Federal and state regulatory agencies rarely approve or endorse direct selling programs. Therefore, independent distributors may not represent that the Company's program has been approved or endorsed by any government agency.

55. Indemnification and Hold Harmless

The independent distributor hereby indemnifies and releases the Company, its officers, directors, agents and assigns and holds harmless from and against the full amount of any and all claims, causes of action, judicial and administrative proceedings suits, charges, liabilities, losses, damages, costs and expenses, including without limitation court costs and reasonable fees and expenses of attorneys and consultants, which are or may be made, filed or assessed against Company at any time arising out of distributor's business operations and representations made by distributor in the operation of his/her business, arising from the following:

- a) Violation and/or lack of compliance with terms of the distributor agreement, policies and procedures, rules and regulations, marketing program manual or guidelines or any other directive from the Company as to method and manner of operation of the independent distributor business;
- b) Engaging in any conduct not authorized by the Company in the Company market program;
- c) Any fraud, negligence or willful misconduct in the operation of the independent distributor business;
- d) Misrepresentation or unauthorized representation regarding the Company's product or service, marketing opportunity or potential or the Company's marketing program.

- e) Failure to adhere to any federal, state, or local law, regulation, ordinance and/or any order or rule issue by any court of appropriate jurisdiction;
- f) Engaging in any action which exceeds the scope of authority to the distributor as granted by the Company.
- g) Engaging in any activity over which Company has no effective control as to the actions of the distributor.
- h) Failure to pay any income tax, sales tax, use tax or taxes or fees of any kind, payable by or on behalf of distributor in connection with: commissions or other monies paid by the Company to the distributor, and/or any sales tax or use tax required by state or local authorities to be paid by or on behalf of distributor in connection with the purchase or sale of Company products and services.

56. Waiver

The Company never gives up its right to insist on compliance with these rules or with the applicable laws governing the conduct of a business. This is true in all cases, both specifically expressed and implied, unless an officer of the Company who is authorized to bind the Company in contracts or agreements specifies in writing that the Company waives any of these provisions. In addition, any time the Company gives permission for a breach of the rules, that permission does not extend to future breaches. This provision deals with the concept of “waiver,” and the parties agree that the Company does not waive any of its rights under any circumstances short of the written confirmation alluded to above.

57. Governing Law

These policies and procedures are reasonably related to the laws of the state of California and will be governed in all respects thereby. The parties agree that jurisdiction and venue will lie with the place of acceptance of the distributor application which is Torrance, California.

58. Partial Validity

Should any portion of these policies and procedures, of the distributor’s application and agreement, distributor handbook or of any other instruments referred to herein or issued by the Company be declared invalid by a court of competent jurisdiction, the balance of such rules, applications, or instruments will remain in full force and effect.

59. Arbitration

Any controversies or disputes arising out of or relating to this Agreement will be resolved by binding arbitration in accordance with the then current Commercial Arbitration Rules of the American Arbitration Association. The parties will endeavor to select a mutually acceptable arbitrator knowledgeable about issues relating to the subject matter of this Agreement. In the event the parties are unable to agree to such a selection, each party will select an arbitrator and the arbitrators in turn will select a third arbitrator. The arbitration will take place at a location that is reasonably centrally located between the parties, or otherwise mutually agreed upon by the parties.

All documents, materials, and information in the possession of each party that are in any way relevant to the claim(s) or dispute(s) will be made available to the other party for review and copying no later than fourteen (14) days after the notice of arbitration is served.

The arbitrator(s) will not have the authority, power, or right to alter, change, amend, modify, add, or subtract from any provision of this Agreement or to award punitive damages. The arbitrator will have the power to issue mandatory orders and restraining orders in connection with the arbitration. The award rendered by the arbitrator will be final and binding on the parties, and judgment may be entered thereon in any court having jurisdiction. The agreement to arbitration will be specifically enforceable under prevailing arbitration law. During the continuance of any arbitration proceeding, the parties will continue to perform their respective obligations under this Agreement.

Product Handling and Independent Distributor's responsibility:

1. The prospective independent distributor will fulfill stated personal sales volume requirements to be recognized and registered as an active Enagic distributor.
2. Special favorable payment plans are available to independent distributors who wish to purchase company products.
3. The independent distributor will take full responsibility for any of the following issues arising in connection with his/her own customer.
 - (1) The independent distributor will take the following actions without delay in case of cancellation of a sales agreement during the cooling-off period.
 - (a) Return the commission and other applicable fees/charges to the Company
 - (b) Substitute the cancelled account with another account.
 - (c) Any actions other than (a) and (b) above will be taken after discussion among the independent distributor, the Company and referrer.
 - (2) Providing such information as the Company may request from time to time in connection with the Company's collection of money payable for the products.
 - (3) Providing such information as the Company may request from time to time in connection with the Company's handling of sales-related claims other than the above.

The Sales Commission will be paid by check issued by the Company in favor of the independent distributor promptly after the expiration of the cooling-off period, and otherwise based on the independent distributor's instruction.