Fraud Discovery INSTITUTE

FDI Cites Herbalifeâ€™s Top 5 Misrepresentations from Recent Presentations

Herbalifes' (NYSE:HLF) CEO Michael Johnson and CFO Richard Goudis contradict one another's figures.

For Immediate Release

SAN DIEGO/EWORLDWIRE/Nov. 15, 2007 --- Fraud Discovery Institute (FDI) issues the following statement about its review of Herbalife (NYSE:HLF) presentations by CEO Michael Johnson and CFO Richard Goudis.

First, on November 7, 2007, Herbalife CEO Michael Johnson defended allegations that over 90 percent of Herbalife distributors fail by stating: "We believe that 58 percent are discount buyers, that 22 percent are small retailers and customers, and that 20 percent are potentially future supervisors. Let me repeat that - 1.3 million distributors based on average order sizes, we believe that 58 percent are discount buyers, 22 percent are small retailers and 20 percent are potentially future supervisors." (Quote from Seeking Alpha transcript)

However, on November 14, one week later to the very day, the figures that were repeated with the, "Let me repeat," assurance by CEO Johnson, Herbalife CFO Richard Goudis changed the discount buyer to 52 percent in slide 15 of his presentation at Morgan Stanley. Asks FDI's Barry Minkow, "What happened to those discount buyers from 2006 within that seven-day period from November 7, 2007, to November 14, 2007?"

Second, excuses for over 90 percent annual attrition and collapse rates are intentionally distorted appears clear when one compares the 2005 Herbalife 10-K to the 2006 10-K. The 2005 10-K discloses: "For the latest twelve month re-qualification period ending January 2005, approximately 60 percent of our supervisors did not re-qualify and more than 90 percent of our distributors that are not supervisors turned over." Yet, in the 2006 10-K, no such disclosure is made. Continues Minkow, "Did the attrition rate drop to 80 percent? How about 70 percent? No, it is nowhere to be found because the company stopped disclosing the reality of its ever-collapsing distributor base after 2005. Herbalife determined that if the public knew that all sales come from an ever-collapsing pool of distributors that must be rebuilt annually, Herbalife would not be an attractive investment. That non- disclosure is nothing compared to the blatant distortion of the 'supervisors' which are the very core of the Herbalife business model."

Third, multi-level marketing expert Robert FitzPatrick notes that to achieve supervisor status in Herbalife, the distributor must "invest" approximately $3,000 to $4,000 in one to two months. At the same time, according to Herbalife's own gross annual compensation figures found on its Web site, the average annual commission paid to a supervisor is $549, and only 42 percent of supervisors remain in that position for more than one year. Now consider the 408,000 supervisors reported in 2006. With a minimum "investment" of $3,000 each, that totals over $1.2 billion or at least 63 percent of Herbalife's net sales for 2006. "It is easy to see how dependent Herbalife's revenue is on the 'investments' of future supervisors," adds Minkow. "Yet by Herbalife's own documentation it is clear that almost none of the supervisors ever earn enough in commissions to recoup the $3,000 to $4,000 investment they made to move up - on average they receive $549 per year and about 60 percent donâ€™t remain a supervisor for more than one year. That's not much of a return on their 'investment'."

Fourth, in both SEC filings and Wednesday's Morgan Stanley presentation, Herbalife executives provide a figure that distorts the perception of distributor earnings. The company cites that distributors can earn "73 percent of retail sales." According to Minkow, this figure is mythical because: (1) almost none of the distributors ever reach a level high enough to actually earn this percentage, as only those at the very top of the distributor pyramid could qualify for all of the commissions included in this figure, and (2) the figure assumes that distributors are able to sell the products to an end-consumer at the full suggested retail price. "This figure attempts to cover up the fact that 98.5 percent of distributors earn an average of less than $10.50 per week from the company, and less than 1 percent of the distributors receive a full 82 percent of the compensation paid by Herbalife."

Fifth and finally, concludes Minkow, "For the CEO and CFO of a public company to stand up and tell the world that 77 percent of those who sign up to be distributors (slide 15 in the Morgan Stanley presentation breaks out

52 percent and 25 percent who are happy product users and not business builders) are not a part of Herbalife to make money but simply love the benefit of the products is untenable. If the above is true, why are so many quitting? If the expectation of these product lovers is not to build a business and just use the product, why are they collapsing? The reason is that the 77 percent is fictitious and of Herbalife's 1.7 million distributors, few - if any, joined for reasons other than building that dream 'home-based business'. Especially those multi-level marketers in China who do not appear to be in need of weight loss products."

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