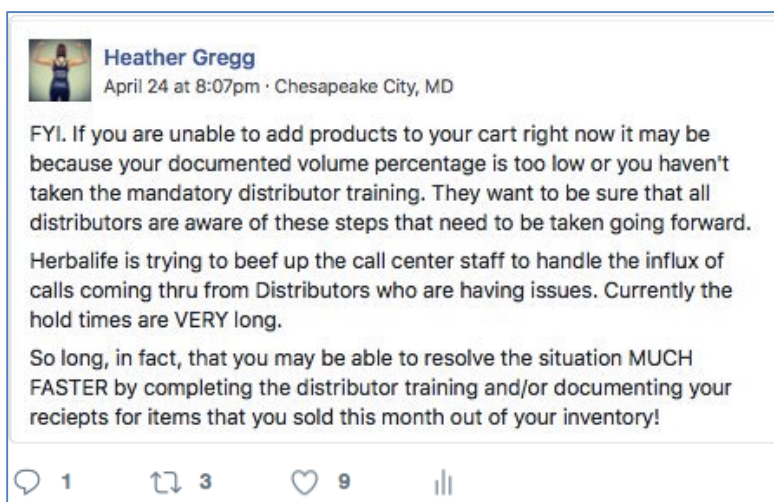


# Orion Research, LLC

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## **Herbalife Ordering System Blocked Undocumented Sales Transactions Shortly Before Herbalife Publicly Released Information on Percentage of Documented Sales**

In an April 24, 2017 posting to Facebook, distributor Heather Gregg advised her downline members that the Herbalife's online computer ordering system was preventing distributors from purchasing products if a distributor's undocumented sales volume was too low.



During this period of time, Herbalife was collecting information on documented and undocumented sales ahead of a Federal Trade Commission Consent Order imposed on Herbalife's business requiring that all its sales be identified as one or the other type of transaction.

The FTC Order also requires Herbalife to maintain documented sales at 80% or higher in order to pay commissions on all of its sales. As a result, Herbalife's distributors and investors were closely watching to see if the 80% threshold could be reached.

Documented sales are an indication that Herbalife's business is supported not just by sales to distributors trying to qualify for commissions and advancement in the marketing plan but by real demand for the company's products. Documented sales are supposed to include only:

- Volume that is purchased by the distributor from the company and sold to retail customers
- Volume that is purchased by Preferred Members (Preferred Members notify Herbalife when they sign up that they have no intention of pursuing the business opportunity but are only interested in receiving a discount on products for personal consumption)
- A limited amount of volume that is purchased by the distributor for his or her personal consumption

In the posting above, Heather Gregg urges her downline distributors to define their sales as documented to get orders processed. She discourages them from waiting in long hold queues to get direction from Herbalife distributors relations.

On June 4, Herbalife issued a press release stating that 90% of all sales in May were documented sales, exceeding the FTC requirement that documented sales reach 80% before the company be allowed to pay commissions on all its sales. (See: Herbalife PR 90% documented.pdf)

By blocking undocumented sales, Herbalife increased the chance that undocumented sales were either 1) cancelled out of frustration when the transactions could not be processed or 2) were converted to documented sales regardless of whether the sales were genuine documented sales.

The end result may have been an inflation of reported documented sales.