

HERBALIFE'S COMPLIANCE REPORT

JULY 25, 2017

FOIA CONFIDENTIAL TREATMENT REQUESTED

Please note that this report and the related materials provided in connection with this report contain confidential, proprietary and trade secret information. This report and the related materials also contain information protected from disclosure by a court order. This report and the information contained in it thus are exempt from disclosure under the Freedom of Information Act (FOIA) and the Federal Trade Commission Act (FTC Act), and should be maintained strictly in accordance with the custodial obligations set forth in Section 21 of the FTC Act, 15 U.S.C. § 57b-2 and under the U.S. SAFE WEB Act. We do not grant the Commission permission to disclose any information relating to this submission to any third party for any purpose.

Should a request be received by the Commission under FOIA for disclosure of any information relating to this submission, Herbalife asks that the Commission immediately notify the counsel identified in this report by telephone or email, so that Herbalife may provide any additional information regarding this request for confidential treatment that may be necessary.

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 ■ [REDACTED]

 ■ [REDACTED]

 ■ [REDACTED]

 ■ [REDACTED]

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- [Redacted]
- [Redacted]

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- A. [Redacted]
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- C. [Redacted]
- [Redacted]

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■ [REDACTED]

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A. [REDACTED]

■ [REDACTED]

■ [REDACTED]

B. [REDACTED]

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Introduction

Herbalife International of America, Inc., Herbalife International, Inc., and Herbalife, Ltd. (collectively “Herbalife” or “the Company”) submit the following Compliance Report pursuant to Section X of the stipulated order for permanent injunction and monetary judgment (“Consent Order”), which was entered by the United States District Court for the Central District of California on July 25, 2016 (“Effective Date”).

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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Additional details regarding the Company's steps to comply with the requirements of the Consent Order are detailed in the following sections, which correspond to each of the substantive sections of the Consent Order.

Herbalife Is In Compliance With Section I, Prohibited Business Practices

A. Section I.A: Limitations On Multi-Level Compensation

[REDACTED]
[REDACTED] In response to the Consent Order, Herbalife modified its U.S. systems so that participant rewards [REDACTED] [REDACTED] would be generated only by the following kinds of transactions ("Rewardable Volume" or "Rewardable Transaction"):

- Sales to participants who joined Herbalife exclusively for the product discount and who are not permitted to sell, recruit others or earn any multi-level compensation;
- Profitable Retail Sales, as defined in the Consent Order, of a business opportunity participant's downline;
- Purchases by downline business participants for personal consumption within the allowable limits.

To do so required extensive modifications of the Company's systems.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

Finally, Herbalife's U.S. policies continue to prohibit, and its computer programs continue to prevent, any Distributor from receiving any compensation merely for the act of recruiting.¹³ Instead, as detailed above, all multi-level compensation is based on Rewardable Transactions.

B. Section I.B: Preferred Customer Category

As of the Effective Date of Section I of the Consent Order, Herbalife established two distinct membership categories in the U.S.: Preferred Members (who are Preferred Customers as that term is used in the Consent Order) and Distributors (who are Business Opportunity Participants as that term is used in the Consent Order) to comply with Section I.B of the Consent Order.¹⁴ Preferred Members may purchase Herbalife products only for personal consumption at a discount.¹⁵ Unlike Distributors, Preferred Members cannot re-sell products or recruit other

[REDACTED]

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members.¹⁶ As such, Preferred Members do not have a downline, they cannot sponsor other members, and they are not eligible for any form of compensation.¹⁷

1. Conversion To Distributor Requires Written Acknowledgement

[REDACTED]

[REDACTED]

2. Conversion To Preferred Member Requires Written Acknowledgement

[REDACTED]

3. Limitations On Preferred Members Who Become Distributors

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

4. Existing Members Default To Distributor Status

As specified in Section I.B.4 of the Consent Order, all existing Herbalife members as of May 25, 2017, who did not affirmatively convert to Preferred Member status automatically were classified as Distributors in Herbalife's systems in compliance with Section I.B.4.

C. Herbalife Implemented Systems And Procedures To Comply With Section I.C

Herbalife has created effective systems to collect and maintain the information required by Section I.C for Profitable Retail Sales.²⁸

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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f [REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

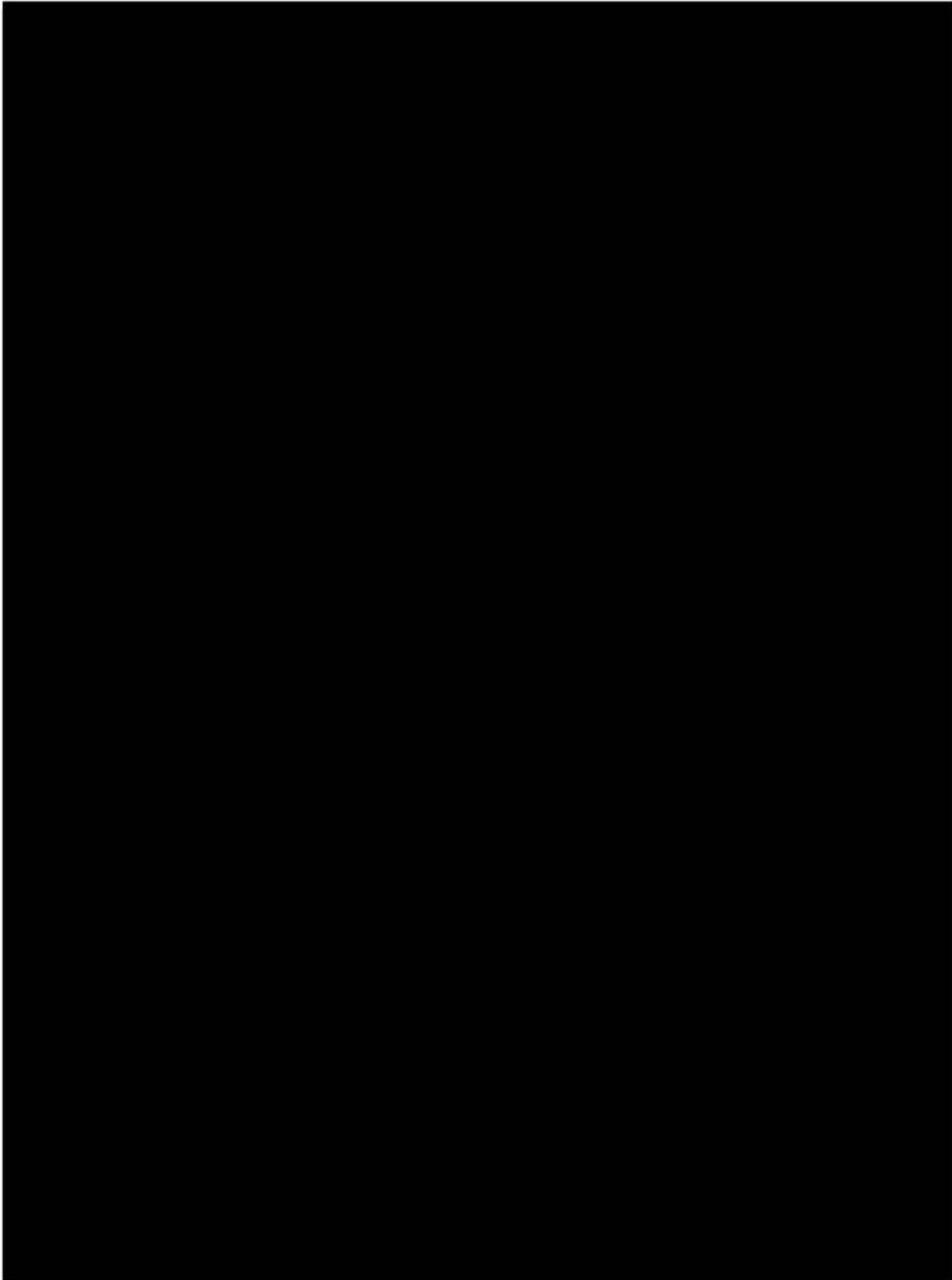
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[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

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[REDACTED]

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[REDACTED]

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[REDACTED]

[REDACTED]

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[REDACTED]

3. [REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

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[REDACTED]

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[REDACTED]

To facilitate the new receipting requirements, the Company developed several ways in which retail inventory receipts may be created and submitted to Herbalife.

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

D. Section I.D: Verification Of Retail Sales And Preferred Customer Sales

Herbalife has implemented systems and procedures to comply with Section I.D.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

E. Section I.E: Limitations On Rewardable Personal Consumption

Herbalife has developed and implemented systems that capture and calculate compensation based on the limitations outlined in Section I.E of the Consent Order regarding Rewardable Personal Consumption.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

F. Section I.F: Limitations On Thresholds, Targets, And Requirements

Herbalife's U.S. Rules of Conduct affirm that (a) there are no required product purchases other than the International Business Pack ("IBP"); (b) qualification thresholds are met exclusively through Profitable Retail Sales; and (c) Distributors are prohibited from participating in any auto-shipment program or any similar program.

1. Minimal Required Expenditures

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

2. Qualification Thresholds

[REDACTED]

3. Prohibition Against Auto-Shipment Programs For Distributors

U.S. Distributors are prohibited from enrolling in any auto-shipment program or any similar program involving standing orders of product, in accordance with Section I.F.3.¹⁰³

G. Section I.G: Refund Policies

Herbalife has modified its refund policies in accordance with Section I.G of the Consent Order.

1. Distributor Refund Policies

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

2. Notification Of Distributor Refund Policies

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

• [REDACTED]

[REDACTED]

3. Refund Policies For Preferred Members And Retail Customers

In accordance with Section I.G.4, Preferred Members are entitled to product refunds on terms and through procedures that are at least as generous as those for Retail Customers. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

H. Section I.H: Required Training For Distributors

Herbalife implemented a required training course consistent with the requirements of Section I.H.

[REDACTED]

- | [REDACTED]
 - | [REDACTED]
 - | [REDACTED]
- | [REDACTED]
 - | [REDACTED]
- | [REDACTED]
 - | [REDACTED]
 - | [REDACTED]
 - | [REDACTED]
 - | [REDACTED]
- | [REDACTED]
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[REDACTED]

[REDACTED]

Distributors must successfully complete this training in order for Herbalife's system to permit them to recruit another Distributor or receive any form of multi-level compensation from the Company.¹²⁰

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

I. Section I.I: Policies Relating To Leased Or Purchased Business Locations

Herbalife has developed and implemented systems and procedures to comply with Section I.I of the Consent Order.

[REDACTED]

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[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

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- | [REDACTED]

Herbalife Is In Compliance With Sections II-IV

Herbalife has undertaken extensive efforts to comply with Sections II-IV and corresponding Sections V.B and V.E of the Consent Order. [REDACTED]

- | [REDACTED]

[REDACTED]

- | [REDACTED]

Herbalife discloses all information material to the decision of whether to participate in the business, as required under Section IV.A of the Consent Order. [REDACTED]

[REDACTED]

- | [REDACTED]
- | [REDACTED]
- | [REDACTED]
- | [REDACTED]
- | [REDACTED]

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[REDACTED]

The current SAGC can be found at <http://www.herbalife.com/Content/en-US/pdf/business-opportunity/statement-of-average-gross-compensation-usen.pdf>.

The SAGC sets forth the ways that a Distributor can earn money and key facts about the opportunity, including that there are “no required purchases other than the initial Distributor kit,” that “[b]uilding a successful Herbalife business takes hard work and time,” and that “some Distributors will succeed, while some will not.”

What should I know about the business opportunity?	<ul style="list-style-type: none">• Distributors enjoy setting their own schedule and choosing how and when to work.• Most people start their Herbalife business by selling part-time to their friends and family as a way to make a little extra money.• Building a successful Herbalife business takes hard work and time.• Like all businesses, some Distributors will succeed, while some will not.• You have no required purchases other than the initial Distributorship kit also known as the International Business Pack (approximately (USD) 94).
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The SAGC also lets consumers know that they have options if the opportunity does not work for them. This disclosure serves as another mechanism by which the Company ensures that Distributors are informed of its refund policy.

What if it doesn't work for me?	<ul style="list-style-type: none">• Within your first year of Distributorship, you can receive a full refund of your International Business Pack.• If you have unopened products, you can return them within a year of the purchase date for a full refund and cancel your Distributorship. We even pay the return shipping costs.• Please contact 866-866-4744 for more information.
--	---

Herbalife features the SAGC prominently on its website, on MyHerbalife.com, and at live events. Every applicant must acknowledge the SAGC before becoming a Distributor.¹⁵⁹ Although the current SAGC fully complies with Section IV.A requirements, Herbalife anticipates that it will be able to continue to update the disclosure as it gains more information into Distributor earnings through the process discussed in Section I.

[REDACTED]

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■ [REDACTED]

■ [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

■ [REDACTED]

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[REDACTED]

[REDACTED]

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**FOIA CONFIDENTIAL TREATMENT REQUESTED
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[REDACTED]

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[REDACTED]

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[REDACTED]

- | [REDACTED]
- | [REDACTED]
- | [REDACTED]

[REDACTED]

- | [REDACTED]
- | [REDACTED]
- | [REDACTED]

[REDACTED]

Herbalife Is In Compliance With Section V, Compliance Monitoring

Herbalife takes all reasonable steps necessary to monitor and ensure that its agents, representatives, employees, and independent contractors act in compliance with the Consent Order. The steps it takes regarding Sections II-IV are described above. The steps regarding Section I are described below.

- | [REDACTED]
- [REDACTED]

| [REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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- [REDACTED]
 - [REDACTED]
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[REDACTED]

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[REDACTED]

[REDACTED]

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[REDACTED]

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[REDACTED]

[REDACTED]

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[REDACTED]

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[REDACTED]

Herbalife Is In Compliance With Section VI, Independent Compliance Auditor

As part of the Consent Order, Herbalife agreed to be subject to certain audits by an independent compliance auditor (“ICA”), for a period of seven years.²⁴¹ On September 23, 2016, Herbalife and the FTC mutually selected Affiliated Monitors, Inc. to serve as the ICA.

[REDACTED]

Herbalife Is In Compliance With Section VII, Monetary Judgment

On July 27, 2016, the Company paid the Commission \$200,000,000 by electronic fund transfer in accordance with the instructions provided by the Commission.

Herbalife Is In Compliance With Section VIII, Customer Information

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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Herbalife Is In Compliance With Section IX, Order Acknowledgements

In accordance with the Consent Order, Herbalife delivered a copy of the Consent Order to Directors, Officers, Founder’s Circle and Chairman’s Club members, and employees with managerial responsibilities related to provisions of the Consent Order (“Covered Persons”) by August 1, 2016, and obtained Acknowledgement of Receipt (“Acknowledgement”) from all recipients by August 24, 2016, unless such persons were on leave of absence, in which case the Company obtained Acknowledgements as soon as reasonably practicable.



Herbalife Is In Compliance with Section X, Compliance Reporting

The entirety of this report demonstrates compliance with Section X of the Consent Order, which requires that the Company provide a compliance report one year after the Effective Date of the Consent Order. As required under Section X.A.1, the persons below are authorized to communicate with the Commission on Herbalife’s behalf:

Douglas A. Axel
Nitin Reddy
Sidley Austin LLP
daxel@sidley.com
nreddy@sidley.com
Tel: (213) 896-6000

John E. Villafranco
Kelley Drye & Warren LLP
jvillafranco@kelleydrye.com
Tel: (202) 342-8423

²⁴² FTC Staff made another request for information purportedly under Section VIII and the Company provided the information requested that was related to redress. The Company did not provide other information that was unrelated to redress. See 2017.02.13 FTC letter re Section VIII; 2017-03-01 Ltr. to D. Hanks re FTC Request; 2017.03.24 FTC letter re Section VIII; April 7 letter to D. Hanks (FOIA Confidential).

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[REDACTED]

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Conclusion

In short and as described above, Herbalife has invested tens of millions of dollars and thousands upon thousands of employee hours in re-designing its compensation system, its rules, its Distributor communications and its compliance function to conform to the terms of the Consent Order. For all of these reasons, the Company is in compliance with each and every one of the Consent Order's terms.

I, Richard Werber, have read the foregoing Compliance Report and declare and affirm under penalty of perjury under the laws of the United States of America that the statements made herein are true and correct to the best of my knowledge, information and belief. Executed on July 25, 2017 at Los Angeles, CA.

Richard Werber
Acting General Counsel, Herbalife

* * *

Please note that this report and the related materials provided in connection with this report contain confidential, proprietary and trade secret information. This report and the related materials also contain information protected from disclosure by a court order. This report and the information contained in it thus are exempt from disclosure under the Freedom of Information Act (FOIA) and the Federal Trade Commission Act (FTC Act), and should be maintained strictly in accordance with the custodial obligations set forth in Section 21 of the FTC Act, 15 U.S.C. § 57b-2 and under the U.S. SAFE WEB Act. We do not grant the Commission permission to disclose any information relating to this submission to any third party for any purpose.

Should a request be received by the Commission under FOIA for disclosure of any information relating to this submission, Herbalife asks that the Commission immediately notify the counsel identified in this report by telephone or email, so that Herbalife may provide any additional information regarding this request for confidential treatment that may be necessary.

