



Michael O. Johnson
Chairman and Chief Executive Officer

Herbalife
800 W. Olympic Boulevard, Suite 406
Los Angeles, CA 90015
Phone 213-745-0555
Fax 213-745-0406

February 18, 2014

The Honorable Edward J. Markey
Suite SR-218
Russell Building
Washington, DC 20510-2107

Dear Senator Markey,

Thank you for your letter of January 23, 2014 and for the opportunity for members of our executive team to meet with your staff on January 31 to answer in person the questions you raised. We were pleased to hear that our dialogue during that meeting answered all questions to your satisfaction. We, too, found the meeting to be productive and are grateful to have opened lines of communication with your office.

As we discussed with your staff, Herbalife is focused on the mission of "changing people's lives for the better" by providing high-quality, science-based products to people who seek a healthy lifestyle. In addition, we offer a business opportunity to members who, in addition to purchasing Herbalife products at a discount, seek also to supplement their income. As you noted in your letter, this type of multilevel marketing ("MLM") is a valid business model, recognized as such by courts and regulators and employed by numerous companies with household names, including Amway and Avon. Herbalife is also proud to be a good corporate citizen, employing approximately 7,400 people, apart from the more than 500,000 individuals in the United States and more than 3.5 million global individuals who are members, including approximately 6,750 members and one contract manufacturer employing 94 individuals in the Commonwealth of Massachusetts. In sharp contrast to the many companies exporting manufacturing jobs overseas, Herbalife is committed to expanding in the United States, investing appropriately \$130 million to develop a 500,000 square-foot facility in North Carolina that will begin producing product for worldwide distribution within the next six months and which will create more than 500 American jobs. This is in addition to an existing Herbalife plant located in Orange County, California.

Your letter highlighted four areas where you had particular questions: compensation structure, structure of our business model, sales outside the network, and outreach to specific groups. We were pleased to have had the opportunity to discuss with your staff each of these and to answer all of their questions.

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Herbalife compensation is driven by product sales, not recruitment. Members are compensated through profit derived from direct product sales to customers and also based upon the productivity of their "downline." Members do not receive compensation from Herbalife simply for recruiting other members into their downline. Instead, they become eligible for increased discounts or "commissions" only to the extent that the new members in their downline purchase Herbalife products for resale or consumption.

Our business model has been analyzed by reputable survey research companies and the results underscore its legitimacy and the value of our products. For example, Lieberman Research Worldwide found that 73% of former Herbalife members identified their primary reason for joining as their desire to secure discounts on products purchased for personal use. The same survey showed that 87% of former Herbalife members, who have no continuing relationship with the company, would recommend Herbalife products. Beyond members, millions of American consumers outside of our network buy our products. Nielsen in 2013 found that 87% of respondents who reportedly purchased Herbalife products for personal use in the past three months self-reported that they were not members of the Herbalife network at the time they purchased those products. The Nielsen survey also found that approximately 8% of the entire United States adult population, or approximately 19.2 million people, have purchased at least one Herbalife product for personal use with 3.3%, or approximately 7.9 million people having purchased Herbalife product for personal use within the 90 day period preceding the survey.

Given the breadth of our market, we believe strongly in consumer protections and, as we discussed with your staff, have developed and implemented industry-leading protections, including:

- a low initial purchase price— various size starter kits each costing less than \$90 and each containing sample products having a retail value that exceeds the cost of the kit;
- a generous refund policy— Herbalife will refund 100% of the cost of the start-up kit within 90 days of purchase even if the kit is not returned;
- an industry-leading inventory return policy— upon resigning, a member is entitled to a 100% refund on all products purchased in the prior twelve months, which are unopened, along with the cost of shipping back these products;

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- materials provided as part of the application for membership (which all prospective members must now certify they have read before becoming a member) include comprehensive information and disclosures regarding the potential costs and benefits of becoming an Herbalife member, such as a Statement of Average Gross Compensation (a copy of which is enclosed); and
- meaningful compliance policies and proactive enforcement mechanisms to encourage best practices and prohibit exaggerated income and product claims, including an in-house compliance group that contains more than 300 full-time employees.

We also want to assure you in the strongest possible terms, as we assured your staff, that Herbalife does not "target" members of minority or low-income communities, or any religious, social, or ethnic group. We are dismayed at allegations to the contrary that have appeared recently in the press. Herbalife is incredibly proud of the diversity of its membership. We want to empower all of our members to live a healthier lifestyle and, if they so choose, to take advantage of the business opportunity that a multilevel marketing business model, like Amway, Avon or Tupperware, can offer. We believe that Herbalife's model rewards an entrepreneurial spirit and supports the development of successful members, all while providing low risk and easy entry into and exit out of the business. We made clear to your staff—and will make clear to anyone who asks—that we welcome a meaningful dialogue with any person or group that has this concern. We know that a thorough examination of our practices and protections, such as that we have assisted your office in undertaking, would demonstrate that these concerns are unfounded.

Finally, your letter mentioned your concern about a particular individual from Norton, Massachusetts. We thank you for bringing this case to our attention and assure you that we take such alerts very seriously. Upon receipt of your letter, we immediately conducted a comprehensive review of our business records searching for any individuals from Norton, Massachusetts whose characteristics matched the asserted instance of pecuniary harm mentioned. We have not found any Herbalife member that fits this profile; however, we remain committed to learning about, examining, and resolving appropriately every instance of dissatisfaction involving the company, and would welcome the opportunity to work with your office to address this issue if you can share with us any specifics.

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Thank you again for your consideration of the information we have provided, both through our presentation and in this letter. In particular, we appreciated how generous your staff members were with their time and thoughts. It was a pleasure to discuss our business, and our commitment to best industry-practices, and to address your concerns.

Sincerely,

A handwritten signature in dark ink, appearing to read "Mike Johnson", written over a circular stamp or seal.

Michael O. Johnson
Chairman and Chief Executive Officer

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