



*International Association to Expose,
Study and Prevent Pyramid Schemes*

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May 3, 2013

Roy Cooper, NC Attorney General
Attorney General's Office
9001 Mail Service Center
Raleigh, NC 27699-9001

Dear Mr. Cooper:

Pyramid Scheme Alert formally requests that the office of the North Carolina Attorney General begin an investigation of the multi-level marketing company, Herbalife International. We ask you to investigate the merit of the claims it is making to NC residents of offering an "income opportunity." The enclosed report indicates Herbalife, in fact, promotes a deceptive and destructive financial trap, which it falsely depicts as "proven" and "lucrative." We ask you also to investigate if Herbalife's recruitment and pay plan are in violation of North Carolina statute 14-291.2. "Pyramid and chain schemes prohibited." Herbalife's pay plan transfers payments to recruiters from the payments that other new recruits make for inventory, without subsequent retail sales. A large purchase of inventory can qualify a new recruit for these rewards.

Your action may potentially save many thousands of North Carolina residents from losses. Recently, your office joined with the FTC and several other states to halt the deceptive "business opportunity" solicitations of the multi-level marketing company, Fortune High Tech Marketing. Before you and other states and the FTC took this decisive action, that scheme was generally viewed as legitimate, and its claims to offer people an opportunity to gain high incomes were accepted as valid. Fortune High Tech Marketing operated openly for years, inflicting losses on almost every investor in the advertised "opportunity." In Charlotte, for example, the scheme gained the endorsement of many well-known Charlotte figures in business and sports, including the wife of the former CEO of Bank of America. These endorsements, along with absence of law enforcement during this time, led thousands more people to believe in FHTM's false income promises.

Herbalife is gaining similar special endorsements by locating a distribution facility in this state.

I have enclosed with this letter an analysis of the *actual* financial impact of this company's sales of "business opportunities" on Americans in 2012. Of the more than 493,000 Americans that Herbalife reports to have invested in its business opportunity in 2012, only about 2,300 earned what could be called a profitable income and that was at the cost of all the others. Herbalife is enrolling nearly 5 times as many people per year as FHTM did.

The enclosed report focuses on the financial impact on the upper 20% of the Herbalife recruitment chain, 113,000 Americans. This is the sector in which American consumers are unquestionably pursuing the advertised "income opportunity" as Herbalife "Supervisor/Leaders"

and who suffer the greatest losses. Many have paid as much as \$4,000 or much more to immediately gain this status. No retail sales are required to gain this “Supervisor” position. The Supervisor status offers the chance to receive commissions and override payments based on the purchases of others consumers that are recruited into the pay plan without sales to bona fide retail customers.

The data show:

- ✓ Approximately 96-98% of the consumers who invested at this level lose money.
- ✓ 49% earn *zero* income
- ✓ 67% of new recruits who become Supervisors quit within a year, each year.
- ✓ Over 80% of all commissions, gained exclusively from the purchases of other recruits, are transferred to the top 4% of the recruiting chain.
- ✓ Mean average income for the bottom 84% of the reported Supervisor/Leaders is \$120 per year or \$2.31 per week.

Mr. Cooper, please bear in mind that the hard data on which this report is based were provided by Herbalife. The figures are limited only to those consumers that Herbalife reported as enrolled at the end of the year, not the true number of all who were enrolled at any time during the *entire* year, which is far higher. The reported “income” is only gross payments by Herbalife *before* the consumers incur deductions for inventory purchases and other related costs, making the true losses much greater.

Herbalife’s “business opportunity” has been advertised to millions of Americans each year mostly through highly deceptive radio advertisements paid for by Herbalife’s top distributors.

After reviewing the recruitment-based pay plan and other factors, along with this data showing the destructive *outcome* of the Herbalife “business opportunity” solicitations, we believe an immediate investigation is warranted.

Our organization receives inquiries and question from consumers who have invested in the Herbalife “business opportunity.” We have examined Herbalife’s business model, compensation plan, policies, and promotions for many years. We will be happy to provide your office with any assistance it might request.

We will appreciate your reply to our request for an investigation. Thank you for your consideration.

Sincerely,

Robert L. FitzPatrick, Pres.
PYRAMID SCHEME ALERT

About Pyramid Scheme Alert:

Founded in 2001, *Pyramid Scheme Alert* is a non-profit, non-commercial, all-volunteer consumer education and advocacy group dedicated to studying, exposing and preventing pyramid schemes. Its directors are authors of books on the subject of pyramid schemes and multi-level marketing. The *Pyramid Scheme Alert* website, <http://www.pyramidschemealert.org> is visited by hundreds of thousands of consumers each year from all over the world. The site offers articles, news, analysis and other resources to help consumers identify and avoid pyramid schemes disguised as “direct selling” businesses.