

LULAC National Executive Director Brent Wilkes

To Me

May 31 at 8:29 PM



LEAGUE of UNITED LATIN AMERICAN CITIZENS

85 YEARS of PROGRESS

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May 31, 2014

Dear LULAC Members and Friends:

Over the past 85 years, LULAC's focus on protecting the civil rights of the Latino community has included efforts to combat predatory financial practices including wage theft, housing fraud, predatory loans, pay day lending, notarios and pyramid schemes. We have developed and implemented many proactive financial education programs to accomplish this objective including [Wallet Wise](#) and our latest program [PocketSmart](#). These programs are designed to be taught by local LULAC councils and emphasize creating a budget, establishing credit, opening a bank account, and saving for the future. The classes also encourage consumers to beware of predatory financial practices.

Last year it came to our attention that the multi-level marketing company known as Herbalife was recruiting an extraordinarily high number of U.S. Latinos into a "business opportunity" in which the vast majority of them would lose money and 90% of whom would quit within a year of signing up.<sup>1</sup>

This February, the LULAC National Board of Directors voted unanimously to urge the Federal Trade Commission (FTC) and other regulators and law enforcement entities to investigate Herbalife.

Since that action was taken, the FTC, the U.S. Securities and Exchange Commission, the FBI, the Department of Justice, the New York Attorney General and the Illinois Attorney General have all announced or been reported by the press to have begun investigations into the company's business practices.

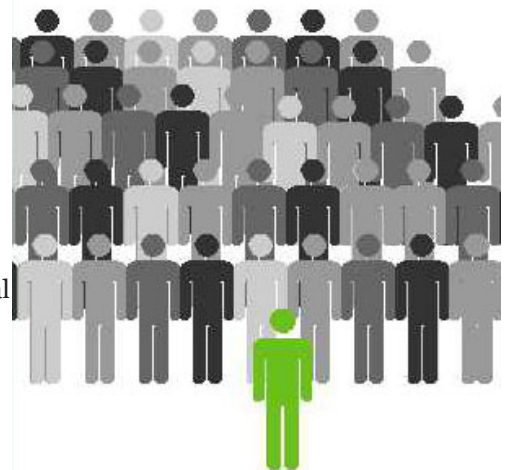
After hearing reports that Herbalife was making significant contributions to Latino organizations, LULAC's National Executive Committee passed a motion that no LULAC entity should accept donations or sponsorships from Herbalife while the company is under active investigations by regulators and law enforcement entities.

We believe the evidence that Herbalife may be defrauding low income, often undocumented Latinos, in the United States is compelling and can be gleaned primarily from the company's own [financial statements](#) and from talking to former distributors who have lost money. The evidence includes:

1. Herbalife appears to recruit new distributors through the use of testimonials that regularly feature six and even seven figure incomes.<sup>2</sup> Yet the company still does not disclose to these new recruits the average net income that they can expect to make—information that we consider essential to anyone who is considering becoming an Herbalife distributor.

## Herbalife's Deceptive Business Practices

Herbalife recruits an extraordinarily high number of U.S. Latinos into their "business opportunity," into which a vast majority lose money.



**1 in 10,000 new recruits  
will make \$100,000 represented  
through Herbalife testimonials  
...over a period of 9 years.**

# 88%

of distributors earned no  
payments from Herbalife in 2013.

2. Herbalife apparently targets low income, often undocumented, Latinos with its “business opportunity.” Between 60 to 83% of Herbalife’s 525,000 U.S. distributors are Latino—4 to 5 times their representation in the U.S. population.<sup>3</sup>
3. Only 1 out of every 10,000 new distributors appears to make anything close to the income regularly touted through Herbalife testimonials and it takes those distributors an average of 9 years to get there.<sup>4</sup> Those rare distributors who reach this level do so by becoming “recruiting machines” for an alleged pyramid scheme not through retail sales.
4. According to the company’s own [Statement of Average Gross Compensation Paid by Herbalife to U.S. Members in 2013](#), 88% of Herbalife’s distributors earned no payments from Herbalife in 2013, and only 0.47% received more than \$25,000 for the entire year gross.
5. Factoring in operating expenses, the vast majority of Herbalife’s distributors appear to [lose money](#) even after working long hours, full time.
6. Close to 90% of these distributors will quit within a year, and Herbalife apparently replaces them each year with hundreds of thousands of new distributors.<sup>5</sup>
7. A fundamental practice of all consumer product companies is to track retail sales to consumers. Herbalife’s policy is not to collect this data from its distributors and not to report any data on retail sales to new recruits and the public. The Federal Trade Commission has clearly stated that robust [retail sales](#) to non-distributors are the key to separating legitimate multi-level marketing companies from pyramid schemes.<sup>6</sup>
8. Herbalife distributors appear to exaggerate the health benefits of its products through testimonials and even go so far as to prescribe Herbalife products for medical conditions such as diabetes, cancer, anemia, etc.<sup>7</sup> The company relies on a small disclaimer that discloses that its health claims have not been evaluated by the Food and Drug Administration nor are its products intended to diagnose, treat, cure, or prevent any disease.
9. Herbalife’s nutrition clubs are required to follow a [bizarre set of rules](#) that prohibit club owners from displaying the Herbalife logo on the outside of the store, posting prices for their products, having an open/closed sign and advertising. Clubs are required to cover their windows, sell only Herbalife products, destroy used containers, and keep products hidden until they are sold. LULAC believes Herbalife requires their “clubs” to abide by these rules in order to skirt franchise laws which would trigger increased financial disclosures and liability for the product and income testimonials made inside the clubs.

LULAC believes that the Federal and state investigations into Herbalife are likely to result in the company being required to dramatically change its business practices to the benefit of Latino consumers including Herbalife’s current distributors. In the meantime, LULAC members and friends who know of or are approached by victims of Herbalife or other predatory practices should refer them to the LULAC National Office at (202) 833-6130 or [ayuda@lulac.org](mailto:ayuda@lulac.org) for assistance.

We thank you for your support of the LULAC organization and for your commitment to defend the civil and financial rights of the Latino community.

# 0.47%

of distributors received more than a living wage of \$25,000 a year.



of Herbalife’s **525,000** total U.S. distributors were Latinos in 2013.



# 90%

of distributors quit within a year.

*Source: Statement of Average Gross Compensation Paid by Herbalife to U.S. Members in 2013*

<sup>1</sup> [Herbalife FY 2004 10K](#).

<sup>2</sup> Study of 392 testimonials and earnings claims made in [Herbalife Today](#) magazines from 1997 through 2004 and claims made in the following video clips [CNBC](#), [ABC](#).

<sup>3</sup> [Herbalife Ltd. Q2 2008 Earnings Call](#).

<sup>4</sup> [Herbalife’s Statement of Average Gross Compensation Paid by Herbalife to U.S. Members in 2013](#), figure for new

President’s team members divided by number of new distributors.

<sup>5</sup> [Herbalife FY 2004 10K](#).

<sup>6</sup> Herbalife President Desmond Walsh during a May 1, 2012 conference call.

<sup>7</sup> [Herbalife Medical Claims](#), (Spanish language document). [Herbalife Book of Testimonies](#).

Sincerely,

Brent Wilkes  
LULAC National Executive Director

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