



NEW YORK STATE SENATOR

Jeffrey D. Klein

## Senator Klein, Assemblyman Sepulveda & Councilwoman Palma host Herbalife Round Table in area with highest concentration of ‘Nutrition Clubs’

JEFFREY D. KLEIN December 9, 2015

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*Bronx victim who lost \$50K steps forward to expose Herbalife scam*

**Bronx, NY — State Senator Jeff Klein (D-Bronx/Westchester), Assemblyman Luis Sepulveda (D-Bronx), Councilwoman Annabel Palma (D-Bronx) and Community Board #9 Chairman Rogier van Vlissingen** hosted an Herbalife round table on Wednesday warning residents of the dangers of the get-rich-quick scheme.

In The Bronx, Herbalife Nutrition Clubs are clustered in predominantly Hispanic communities, where distributors encourage friends, family and neighbors to sign-up for a dream-like business opportunity. Ultimately, victims of the scam pump thousands of dollars into health supplements that they cannot sell and are then encouraged to recruit more members in order to turn a profit.

Six Herbalife Nutrition clubs do business in Community Board #9, the largest concentration of clubs in any board in The Bronx. In total 26 Nutrition Clubs operate in the borough and 60 exist across the city.

“Herbalife’s potions and powders do not make its recruits into millionaires as promised. Instead Herbalife’s pyramid scheme robs victims of their savings by preying on their entrepreneurial hopes and dreams. I’ve met and heard from victims who have lost as much as \$100,000 to this scam, while Herbalife International turns a blind eye to the false claims being made inside its franchises. These products are sold through lies — telling people that these supplements contain miracle cures for cancer, diabetes and rare diseases, all while promising distributors that they will get rich. This is wrong and my legislation will hold companies that do direct-marketing, like Herbalife International, accountable for what is going on inside its franchises,” **said Senator Klein.**

“Targeting low-income communities with pyramid schemes, and hoodwinking people into investing in magic potions, is a cruel but old-as-the hills ploy. Make no mistake about it. The people behind the Herbalife scam have targeted Bronx communities. We must expose their fraudulent practices, educate the public, and put an end to this scourge,” **said Assemblyman Sepulveda.**

“It is my hope that today's roundtable discussion will inform Bronxites — and ultimately help them avoid — the unscrupulous business practices of pyramid schemes that seek to prey on the financially insecure with promises of generating income predicated on unsustainable business models. Our communities deserve better than to be used as a tool for exploitation,” **said Councilmember Palma.**

“This proposal by Senator Jeff Klein and Public Advocate Letitia James is a breath of fresh air, coming on top of an apparent new sense of urgency at the FTC, as shown in the recent Vemma case. We should all remember that Madoff stole from the wealthy, but pyramid schemes steal from those who don’t have the money to start with, and it needs to change. The deceptive health claims are par for the course of these scams,” **said Community Board #9 Chairman van Vliissingen.**

Bronx residents Francisco Payano, who lost \$50,000 to Herbalife, and Maria David, who lost \$15,000 to the scam, spoke out about their experiences.

Payano and his ex-wife were approached by a woman on the street who spoke to them about the wonders of Herbalife and the riches that could come out of selling the supplements. They soon signed up and began purchasing the product to distribute from their home, until Payano realized that the business was a scam.

“We couldn’t afford a storefront to open a nutrition club and she decided to do it in our house. I tried to convince her that this business was a pyramid scheme. She was so into it and I was very worried and tired since I would have people ringing my doorbell at 5 a.m. to get shakes. This was very much affecting the life of my children and my marriage. One day I exploded and told her to choose between Herbalife and me and she, blinded by their lies, chose them. I filed for divorce and she took me to court to accuse me of being a bad father and said all types of lies. I explained to the judge that my children were living in hell with her Herbalife obsession. Herbalife ruined my family,” **Payano said.**

David and her three co-workers were attracted to Herbalife’s weight loss products. A Nutrition Club opened next to David’s job and she and her friends began going each morning for shakes and tea. Soon, the manager convinced the women to chip in and open their own Nutrition Club.

“We decided to open a small nutrition club and figured between all four of us we could manage and cover expenses. We tried for almost two years. It was very hard to recruit members, and according to our recruiter that’s where the big bucks were. One day I was very frustrated because we had to keep buying so much product. I decided to count how many servings I could get out of the protein powder. I discovered that you can only make \$15 out of it and it cost \$34 to buy. We all decided that it was time to stop doing business with

Herbalife,” **David said.**

In October, Senator Klein and New York City Public Advocate Letitia James released, “The American Scheme: Herbalife’s Pyramid ‘Shake’down.’ Undercover investigators caught distributors saying that sellers could make \$20,000 a month, that sellers should recruit at least five people, and that the products could cure rare diseases.

Herbalife International is structured so that its products can only be purchased from a distributor. These distributors are not Herbalife employees and peddle products at their own prices to family, friends and neighbors.

Distributors receive discounted rates on nutrition shakes, supplements and elixirs if they buy the product in bulk. Though prospective recruits are told an Herbalife start-up kit costs \$60 to \$100, they often spend much more after being encouraged by a recruiter to stock up on product to climb the ladder. They are persuaded to recruit others, who they will profit from when they buy products. On average, a new member spends \$1,800, though some make an initial investment as high as \$10,000.

Senator Klein has introduced legislation in the State Senate to increase oversight, require full financial disclosure by direct-marketing companies, like Herbalife, and will also strengthen protections for prospective sellers. Key provisions include:

- Mandates that health product franchisors in the state file an annual financial disclosure statement written in plain English and Spanish for the Attorney General to review before submitting to prospective franchisees. The statement includes the number of franchisees in the state, average income claimed by franchisees, percentage of franchisees that fall within various amount parameters as determined by the Attorney General, and the reported turnover rate of franchisees.

- Requires that prospective franchisees receive their offering prospectus in the primary language of the prospective franchisees.
- Requires that any pamphlets, circular, form letter, advertisement or other sales literature of advertising communication intended for prospective health product franchises be approved by the Attorney General.
- Calls for health product franchisor engage in supervision of its franchisees to ensure compliance with the law to prevent fraudulent and deceptive acts by the franchisees.