

Sales & Marketing Plan – Addendum

Effective May 1st 2017, there will be changes in the U.S. and Puerto Rico. As a result of these changes, the Herbalife Sales & Marketing Plan, as it relates to compensation, discount advancements, qualifications and promotions, will no longer be based on product purchases.

This Addendum provides you with a high level overview of these changes. The Sales & Marketing Plan section of Book 4 will be updated and available at a later date. In the interim, please contact your Sponsor or Herbalife at 866-866-4744 if you have any questions and/or require additional support.

Required Distributor Training

All Herbalife Independent Distributors are required to complete a simple training course; this training course was developed to help ensure all Herbalife Independent Distributors know the “Rules of the Road” and have a solid foundation for growing their Herbalife business. During your training you will learn how to:

- Use Herbalife tools to document retail sales
- Create a business budget and manage income and expenses
- Make appropriate claims
- and much more

As a new Distributor, you must complete this training **before recruiting or receiving any form of compensation.**

Taking the Required Training

The required training is easy and accessible; you have 3 ways to complete your training:

1. Take the training online by visiting the Learning Center on MyHerbalife.com.
2. Download the mobile app by searching for “Herbalife Learning” in the App store or Google Play store to complete the training on your mobile device.
3. Contact us at 866-866-4744; select the language and then select option 1 for Distributors. From the next menu, select option 1 for Automated Services, then select the option for Required Distributor Training and follow the instructions.

Ordering Product

Each time you place an order, you will need to declare the order purpose as follows:

- **Personal Consumption** – Order placed for your own personal use or members of your household.
 - Product ordered for Personal Consumption cannot be retailed.
 - Product Consumption orders will be taxed on the discounted purchase price – not on the full retail price.
- **Customer Direct** – Order placed by you for delivery directly to your Customer.
 - You must provide your Customer's name, address, phone/email address.
 - You must provide the price at which you sold each item and the total amount paid by your Customer.
- **Retail Inventory** – Order placed for your on-hand product inventory for resale to your Customers, use in your Nutrition Club, or sampling.

Creating and Submitting Retail Receipts

Because qualification and compensation are based on sales activity, product orders on their own will not qualify you to earn under the Sales & Marketing Plan. When you submit a receipt for a profitable customer sale, it becomes **Documented Volume** and qualifies you to work towards increasing your discount, marketing plan levels, promotions, and when eligible, your qualification to earn.

Documented Volume is fully explained on the following page.

Receipts may be created and submitted to Herbalife in several different ways:

Automatic Creation and Submission of Retail Receipts:

- Customer Direct Orders: You place your customer order as a “customer direct” order and let us ship the product for you. The retail receipt will be created and submitted automatically at the time the order is placed. This is the quickest, most efficient way to submit receipts for retail sales to your customers.
- Orders placed by Customers on GoHerbalife.com.
- Orders placed by Distributors through MyHerbalife.com if you enter the Customer’s purchase price with your order.
- Purchases by Preferred Members directly with Herbalife.

If you purchase retail inventory, you will need to submit the receipt to Herbalife when you sell the product to your customer. You may create and submit a receipt by any one of the following methods:

- The Herbalife Receipt Capture Tool available on MyHerbalife.com *
 - o Submit receipts 24/7 to us after your sales to Customers
- The Herbalife Point of Sale Mobile Tool (Herbalife POS)*
 - o Submit receipts to us & your Customers simultaneously at the time of your sales 24/7
 - o Submit Nutrition Club consumption receipts to us daily 24/7
- Paper Receipts with an official Retail Receipt Form for both retail and Nutrition Club sales
 - o Submit receipts to Customers at the time of your sales and scan a copy or send a photo to us using one of the following methods:
 - Email: ReceiptIntake@Herbalife.com
 - Fax: (310) 258-7155
 - Mail: Herbalife – Receipting Compliance
950 W. 190th Street
Torrance, CA 90502

*The electronic tools are highly recommended as a quick and efficient method to submit your receipts.

Valid Receipt Components

- Herbalife’s has received a fully completed profitable customer receipt – via tools or paper
- A profitable retail sale including cost of product, tax, freight, method of payment, sale date and complete price.
- Includes the Customer’s first and last name
- Contains 2 of the 3 required components of a receipt
 - Customer’s address
 - Customer’s phone
 - Customer’s mail

NOTE: Profitable Retail Sales do not include product purchases for: personal consumption, sampling at Nutrition Clubs or elsewhere; charitable contributions; and gifts to anyone including sports teams, family, etc. and, therefore, will NOT contribute to Documented Volume.

What is Documented Volume (DV)?

Documented Volume (DV) is volume that can be used towards your qualification to earn (earning %), qualification to achieve higher discounts, advancement in the marketing plan, and qualification for promotions. There are 6 ways to accumulate Documented Volume:

Your Personal Documented Volume from:

1. Your profitable retail sales supported by a valid submitted receipt.
2. Your Charter Preferred Member's and Preferred Member's purchases from Herbalife at 25%, 35%, and 42%.
3. Your purchases made outside the US and Puerto Rico.*

Your Downline's Documented Volume from:

1. Their profitable retail sales that contribute to your personal volume, supported by valid submitted receipts.
2. Their Charter Preferred Members and Preferred Member purchases from Herbalife at 25%, 35% and 42%.
3. Their Purchases made outside the US and Puerto Rico.*

*Note: * Purchases made outside the US and Puerto Rico will be reviewed for their validity.*

Other Key Terms To Understand

Non-Documented Volume (NDV)

Volume that cannot be used towards your earning percentage, qualification to higher discounts and marketing plan levels. This is volume from orders declared as Retail Inventory where receipts were not provided or the sales were not -profitable.

Primary Personal Consumption (PPC)

Volume from orders declared for personal consumption that is within the defined limit (currently \$200, between 185-260 in Volume), which is subject to change each year.

Secondary Personal Consumption (SPC)

Volume from orders declared for personal consumption that exceeds the defined monthly personal consumption limit.

Primary Rewardable Volume (PRV)

The sum of Documented Volume (DV) and Primary Personal Consumption (PPC). Your Uplines will be compensated on this volume in accordance with the Sales & Marketing Plan as long as the DV meets the 2/3 – 1/3 Rule, which is explained on the next page.

Secondary Rewardable Volume (SRV)

The sum of Non-Documented Volume (NDV) and Secondary Personal Consumption (SPC).

- If sales receipts indicate a non-profitable sale, then they will be considered as SRV.
- SRV will be moved to the Accumulate & Allocate (A&A) bucket and redistributed as explained later.

2/3 – 1/3 Rule

Herbalife will pay out wholesale profit, royalty overrides and production bonus on the earn base of Primary Rewardable Volume (PRV) component (Documented Volume + Primary Personal Consumption) of US sales. In addition, when Herbalife meets the requirement of the 80% rule, it will increase the payout on the PRV to account for the Secondary Rewardable Volume (SRV) component (Non-Documented Volume + Secondary Personal Consumption) of US sales using the Accumulate & Allocate (A&A) process.

The 2/3 - 1/3 Rule requires that at least 2/3 of the PRV must come from Documented Volume. If this threshold is not met, we must move some of the Primary Personal Consumption out of PRV so that there is twice as much Documented Volume as Primary Personal Consumption volume remaining in the PRV. Example: If a Distributor has 10,000 PRV and 5,000 was Documented Volume and 5,000 was Primary Personal Consumption then 2,500 of that Primary Personal Consumption must be moved out of the PRV. This leaves twice as much Documented Volume (5,000) in the PRV as Primary Personal Consumption (2500).

For Royalty Overrides and Production Bonus, the Primary Personal Consumption Volume that is moved is shifted to the SRV bucket and used to increase the payout on remaining PRV through the A&A process. This should allow the earner to retain their normal payout. For Wholesale Profit, the Primary Personal Consumption Volume that is moved is rolled up to the first upline wholesale profit earner that can absorb that volume and not violate the 2/3 - 1/3 rule themselves. This means that, for Wholesale Profit, a Distributor will still earn on the PRV and the SRV will still be used to increase the payout on remaining PRV through the A&A process. However, unlike with Royalty Overrides and Production Bonus, the Wholesale Profit earner will not be able to earn on the Primary Personal Consumption that was moved nor will they be able to use what was moved to increase the payout on the PRV through the A&A process.

80% Rule and Accumulate & Allocate (A&A)

- As long as 80% of U.S. and Puerto Rico Net Sales in Herbalife's fiscal year (effectively a typical calendar year) is Primary Rewardable Volume (Documented Volume + Primary Personal Consumption), Herbalife will make payments under the Accumulate & Allocate process (Secondary Rewardable allocation payout) based on their Primary Rewardable amounts.
- The A&A process is the method by which Herbalife will make payouts on U.S. and Puerto Rico earnings so that any orders not paid via the Primary Rewardable method can be paid.
- If less than 80% of U.S. and Puerto Rico Net Sales in Herbalife's fiscal year is Primary Rewardable Volume, Herbalife can only pay out on Primary Rewardable Volume and the Secondary Rewardable Volume payout will not be paid.

How do you Qualify to Earn?

FIRST: You 'Qualify to Earn' based ONLY on your Documented Volume from the 6 different categories previously identified.

SECOND: After you have Qualified to Earn, then you are eligible to earn: Wholesale Profits, Royalty Overrides, Production Bonuses, Vacations, and other compensation *

* Eligibility is based on you reaching the corresponding qualifications.

Important: Your Personal Consumption purchases will **NOT** count toward qualifying to earn Wholesale Profits, Royalties, Bonuses or other compensation or to achieve higher levels of discount.

What You Earn On

Once you are qualified to earn in the Sales & Marketing Plan, there is a two-step process in the calculation of your Wholesale Profit, Royalty Overrides and Production Bonus:

- Earn 8%-25% Wholesale Profit from your downline purchasing at less than 50% discount, and your Charter Preferred and Preferred Members purchasing at 25% - 42% discount levels.
- Earn Royalty Overrides and Production Bonus on the documented sales of your downline Supervisors at 50% & Chartered Preferred Members at 50%. Royalty Overrides and Production Bonuses are paid out using the Primary Rewardable and Secondary Rewardable methods described below.

Step I (Primary Rewardable Method):

Documented Volume and Primary Personal Consumption are calculated (Primary Rewardable Volume) and paid out based on the 2/3-1/3 rule.

If your Documented Volume is less than 2/3 of your Primary Rewardable Volume, a portion of your Primary Personal Consumption Volume will be re-allocated as Secondary Rewardable Volume in order to meet the 2/3 ratio of Documented Volume to Primary Rewardable Volume.

Step II (Secondary Rewardable Method):

Non-documented purchases and Secondary Personal Consumption are calculated (Secondary Rewardable Volume) and are paid out using the Accumulate & Allocate (A&A) process.

The Accumulate and Allocate Process is the method used to pay Distributors in proportion to their rewardable organizational earn base, as a percentage of Herbalife's total primary rewardable volume in the U.S. and Puerto Rico. This process is subject to change and even elimination in certain circumstances.

Important to consider:

Wholesale Profit

If more than 1/3 of the Primary Rewardable Earnings consists of Primary Personal Consumption, then a portion of that Primary Personal Consumption will be rolled up to the first Upline Wholesale Profit earner whose Downline's Primary Personal Consumption is less than 1/3 of their Primary Rewardable Earnings.

Royalty Overrides and Production Bonus

If more than 1/3 of the Primary Rewardable Volume consists of Primary Personal Consumption, then a portion of that Primary Personal Consumption will be moved to the Secondary Rewardable Volume.

We recognize that the process described above is complex and will take time to understand. However, please remember that Herbalife will be tracking your qualifications and eligibility to earn for you.

- Use MyHerbalife to see the 'My Volume' and BizWorks reports including the 'Linear View Plus' report and more.
- Throughout the month, you can track the Volume on which you are eligible to earn and how you and your organization are tracking toward Qualifying to Earn.

It is critical to create and submit receipts for all of your retail sales and teach every Distributor in your organization to do the same.