

July 15, 2014

It's Never a Problem Until It's a Problem

USANA's MLM Scheme in China is now National News.

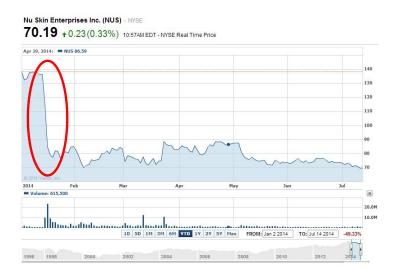
This week multiple media outlets in China have exposed the MLM schemes operated by USANA (NYSE:USNA) in China -- a must read for all investors.

http://money.163.com/14/0713/09/A11BBAP0002526O3.html

http://news.cb.com.cn/html/company 11 18978 1.html

It is Citron's belief that as much as $1/3^{rd}$ of USANA's revenue and half its revenue growth are dependent on widespread illegal MLM operations in China. Last year, we documented voluminous examples of dozens of duplicate addresses in USNA's distributor database purportedly residing in empty apartment blocks in Hong Kong, and Hong Kong labeled product being offered for sale in mainland China.

Over the course of the last eighteen months, Citron has covered the problems of Utah-based MLM's who have been posting outsized revenue and revenue growth from China. In January 2014, the People's Daily, long regarded as the "house organ" of the Chinese government, <u>reported on a government</u> investigation of NuSkin, causing a 50% cliff-dive in the stock which has never recovered.



Citron points out the risk that history is about to repeat itself, this time for USNA.

It is Citron's belief that USANA is one of the most egregious violators of China's "anti-pyramid scheme laws" which effectively prohibit MLM's primary business model – multi-level compensation schemes for recruiting and enrolling new sales agents. The main reason, as documented extensively in our 2013 piece here, was that USNA doesn't even own a retail license in China for neutraceutical product; its entire mainland operation for distributing them requires the charade of Hong-Kong sales associates who actually live and operate in mainland China.

So now, in the same pattern we saw with Nu Skin, the news is heating up for USNA.

We now wait for the next shoe to drop.

Cautious Investing To All.