

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 1/3rd 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 USANA'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, [reported on a government 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 USANA.

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 USANA doesn't even own a retail license in China for nutraceutical 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 USANA.

We now wait for the next shoe to drop.

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