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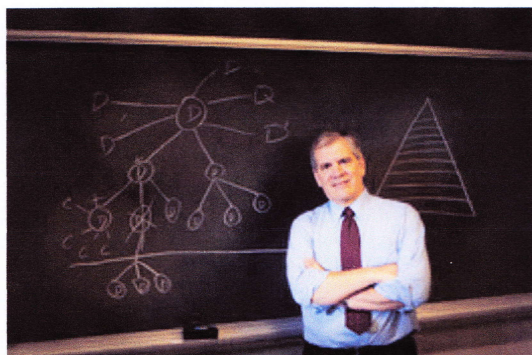
Amid Herbalife Debate, Prof. Keep Gets Some Hedge-Fund Pupils

Herbalife Debate Has Investors Seeking Insight From a New Jersey Business Scholar

By **EMILY GLAZER**

After years of lecturing in the classroom on the dangers of pyramid schemes, Prof. William Keep has a whole new set of pupils.

Mr. Keep, a marketing professor and dean of the College of New Jersey's business school, has been consulted with in recent months by roughly two dozen investment firms, including Bill Ackman's Pershing Square Capital Management LP and [George Soros's](#) Soros Fund Management LLC. The funds, which together control tens of billions of dollars of investment cash, have sought to tap into his expertise in the arcane field of multilevel marketing, an understanding of which is crucial to parsing the debate over [Herbalife](#) Ltd.'s business model.



Daryl Peveto for The Wall Street Journal

Prof. William Keep has moved from relative obscurity to adviser to hedge funds.

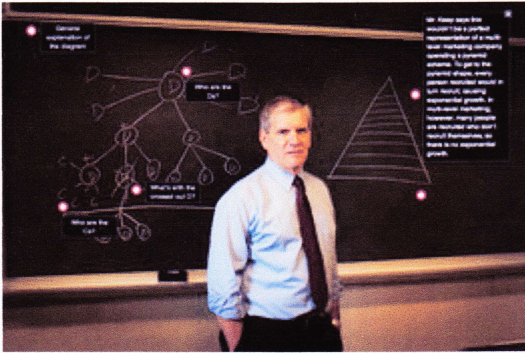
Mr. Ackman alleges that Herbalife, which sells an array of nutritional products through a network of about three million independent distributors, is a pyramid scheme. The company says its business practices are legitimate. So far, investors appear to be taking the company's side, as its stock—which dipped sharply after Mr. Ackman launched his campaign against it last December—is up about 85% this year. Herbalife shares rose slightly, to about \$61 on the [New York Stock Exchange](#), on Friday afternoon.

In multilevel-marketing companies, people who serve as distributors earn money on sales to consumers and from other distributors they bring into the business. By contrast, in a pyramid scheme, the primary source of cash comes from recruiting additional distributors, rather than consumer sales. Mr. Keep likens one to "a crude wealth transfer scheme akin to a chain letter and without involving products or services."

The 60-year-old says he has never opined on whether Herbalife is a pyramid scheme, but, in a letter he sent to the Federal Trade Commission on Aug. 8, he wrote that the company lacks "sufficient transparency for consumers and investors to make this critical assessment."

Scam Filter

The College of New Jersey's William Keep is an expert in discerning when a multilevel marketing company becomes a pyramid scheme.



Herbalife Chief Financial Officer John DeSimone said in an interview that the company has been "extremely transparent and provided more than enough information for outsiders to make an evaluation of our business model." He added: "For certain people, there will never be enough information."

Mr. Keep's rise from relative obscurity to adviser to hedge funds began when an article Mr. Keep co-authored was referenced in a presentation Mr. Ackman made in mid-December outlining his bet against Herbalife, which is based on Mr. Ackman's belief that its distributors make more money recruiting than by selling to end users. The article, "Marketing Fraud: An Approach for Differentiating Multilevel Marketing from Pyramid Schemes," written with Federal Trade

Commission Senior Economist Peter Vander Nat, is widely seen by investors as a pre-eminent paper on the topic. A quote from the article is featured prominently on a Pershing Square website, factsabouth Herbalife.com. (Mr. Keep's name wasn't initially included on the website, but he later asked Pershing Square to add it.)

An FTC spokesman declined to comment.

Other hedge funds and brokers, eager to gain an edge in the high-stakes Herbalife debate, took notice. JNK Securities Corp., a New York brokerage, sought out Mr. Keep and hosted a meeting with him and roughly 10 institutional investors at Bar Americain, an upscale midtown Manhattan eatery. There, Mr. Keep lectured the group on how to spot pyramid schemes, people familiar with the matter said. (One red flag, he says, is when a company has abnormally high profit margins.)

"Bill Ackman and [other] investors entered a world I've been watching and having dealings with long before they knew what a pyramid scheme was," Mr. Keep says. The son of a potato-chip salesman, he says he makes roughly \$200,000 a year and marvels at the company he now keeps. "They're giving out bonuses that are multiple times my income....I have one home, and it's not paid for."

Mr. Keep has more recently played another role in the Herbalife drama. Mr. Ackman, who made a \$1 billion bet that shares of Herbalife would fall, has accused the Soros firm of conspiring with other hedge funds to drive up the price of Herbalife shares.

Officials from the Securities and Exchange Commission quizzed Mr. Keep this summer on communications he has had with officials from Soros, which is on the opposite side

Battleground

Herbalife's daily share price



Source: WSJ Market Data Group
The Wall Street Journal

of the Herbalife battle from Mr. Ackman and has taken a 4.9% stake in the company.

Michael Vachon, a spokesman for Soros Fund Management, declined to comment on questions relating to the SEC.

It isn't clear why the SEC, which has also made inquiries about Herbalife's business practices, is interested in that communication. Mr. Keep says the SEC showed no signs he is a target of an inquiry. An SEC spokesman declined to comment.

A person familiar with the matter says the meetings Mr. Keep held with portfolio managers at Soros weren't a factor in the firm's decision-making on Herbalife.

Mr. Keep doesn't charge his Wall Street advisees a fee for his services, he says, adding that his dealings with them have helped raise both his profile and that of the College of New Jersey, whose business school is ranked 59th nationally,

according to Bloomberg Businessweek.

As a state employee, Mr. Keep abides by strict ethics rules, he said. All the information that has been discussed at his meetings with investors is already public, he says.

He has accepted two lunches, a dinner and a stay at a hotel in Washington when he traveled there for an investor meeting. "But I paid for my train ticket," he says.

—Juliet Chung contributed to this article.

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