HERBALIFE LTD.
Form 10-Q
May 02, 2011

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**Form 10-Q**

**(Mark One)**

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2011**

**OR**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from __________ to __________.**

**Commission file number: 1-32381**

**HERBALIFE LTD.**

*(Exact name of registrant as specified in its charter)*

| **Cayman Islands** | **98-0377871** |
|---|---|
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification No.)* |

**P.O. Box 309GT**
**Ugland House, South Church Street**
**Grand Cayman, Cayman Islands**
*(Address of principal executive offices) (Zip code)*
**(213) 745-0500**
*(Registrant s telephone number, including area code)*

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| Large accelerated filer þ | Accelerated filer o | Non-accelerated filer o | Smaller reporting company o |
|---|---|---|---|
| | | (Do not check if a smaller reporting company) | |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Number of shares of registrant s common shares outstanding as of April 27, 2011 was 59,618,612

**HERBALIFE LTD.**

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## PART I. FINANCIAL INFORMATION

**Item 1.** ***FINANCIAL STATEMENTS***

**HERBALIFE LTD.**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(Unaudited)**

| | March 31, 2011 | December 31, 2010 |
|---|---|---|
| | (In thousands, except share amounts) | |
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 260,766 | $ 190,550 |
| Receivables, net of allowance for doubtful accounts of $2,895 (2011) and $3,202 (2010) | 107,893 | 85,612 |
| Inventories | 184,321 | 182,467 |
| Prepaid expenses and other current assets | 110,400 | 93,963 |
| Deferred income taxes | 42,355 | 42,994 |
| Total current assets | 705,735 | 595,586 |
| Property, at cost, net of accumulated depreciation and amortization of $185,928 (2011) and $166,912 (2010) | 187,733 | 177,427 |
| Deferred compensation plan assets | 18,732 | 18,536 |
| Deferred financing costs, net of accumulated amortization of $65 (2011) and $2,279 (2010) | 5,451 | 998 |
| Other assets | 26,639 | 25,880 |
| Marketing related intangibles and other intangible assets, net | 310,815 | 310,894 |
| Goodwill | 102,899 | 102,899 |
| Total assets | $ 1,358,004 | $ 1,232,220 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 53,725 | $ 43,784 |
| Royalty overrides | 173,076 | 162,141 |
| Accrued compensation | 52,540 | 69,376 |
| Accrued expenses | 138,523 | 141,867 |
| Current portion of long-term debt | 1,753 | 3,120 |
| Advance sales deposits | 56,928 | 35,145 |
| Income taxes payable | 18,340 | 15,383 |
| Total current liabilities | 494,885 | 470,816 |
| NON-CURRENT LIABILITIES: | | |
| Long-term debt, net of current portion | 181,188 | 175,046 |
| Deferred compensation plan liability | 23,197 | 20,167 |
| Deferred income taxes | 55,220 | 55,572 |
| Other non-current liabilities | 23,216 | 23,407 |

| | | |
|---|---|---|
| Total liabilities | 777,706 | 745,008 |
| CONTINGENCIES | | |
| SHAREHOLDERS EQUITY: | | |
| Common shares, $0.002 par value, 500.0 million shares authorized, 59.4 million (2011) and 58.9 million (2010) shares outstanding | 119 | 118 |
| Paid-in-capital in excess of par value | 262,617 | 257,375 |
| Accumulated other comprehensive loss | (12,074) | (27,285) |
| Retained earnings | 329,636 | 257,004 |
| Total shareholders equity | 580,298 | 487,212 |
| Total liabilities and shareholders equity | $ 1,358,004 | $ 1,232,220 |

See the accompanying notes to unaudited condensed consolidated financial statements.

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**HERBALIFE LTD.**
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**
**(Unaudited)**

| | Three Months Ended | |
|---|---|---|
| | **March 31, 2011** | **March 31, 2010** |
| | (In thousands, except per share) | |
| Product sales | $ 676,789 | $ 527,222 |
| Shipping & handling revenues | 118,307 | 91,411 |
| Net sales | 795,096 | 618,633 |
| Cost of sales | 162,793 | 140,472 |
| Gross profit | 632,303 | 478,161 |
| Royalty overrides | 264,377 | 207,319 |
| Selling, general & administrative expenses | 244,526 | 206,883 |
| Operating income | 123,400 | 63,959 |
| Interest expense, net | 2,648 | 1,953 |
| Income before income taxes | 120,752 | 62,006 |
| Income taxes | 33,184 | 10,135 |
| NET INCOME | $ 87,568 | $ 51,871 |
| Earnings per share: | | |
| Basic | $ 1.48 | $ 0.86 |
| Diluted | $ 1.41 | $ 0.83 |
| Weighted average shares outstanding: | | |
| Basic | 59,103 | 60,160 |
| Diluted | 61,908 | 62,672 |
| Dividends declared per share | $ 0.25 | $ 0.20 |

See the accompanying notes to unaudited condensed consolidated financial statements.

**HERBALIFE LTD.**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Unaudited)**

| | Three Months Ended | |
|---|---|---|
| | March 31, 2011 | March 31, 2010 |
| | (In thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 87,568 | $ 51,871 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 18,562 | 17,262 |
| (Excess) Deficiency in tax benefits from share-based payment arrangements | (6,794) | (2,606) |
| Share-based compensation expenses | 5,604 | 5,295 |
| Amortization of discount and deferred financing costs | 149 | 124 |
| Deferred income taxes | 921 | (13,671) |
| Unrealized foreign exchange transaction (gain) loss | 1,383 | (2,608) |
| Write-off of deferred financing costs | 914 | |
| Foreign exchange loss from adoption of highly inflationary accounting in Venezuela | | 15,131 |
| Other | 751 | 1,078 |
| Changes in operating assets and liabilities: | | |
| Receivables | (20,493) | (12,048) |
| Inventories | 4,184 | 474 |
| Prepaid expenses and other current assets | (13,582) | (4,357) |
| Other assets | (251) | (71) |
| Accounts payable | 8,861 | 19,311 |
| Royalty overrides | 7,340 | (7,081) |
| Accrued expenses and accrued compensation | (21,122) | (14,022) |
| Advance sales deposits | 20,998 | 26,741 |
| Income taxes payable | 9,494 | 5,566 |
| Deferred compensation plan liability | 3,030 | 1,044 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 107,517 | 87,433 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property | (28,325) | (11,623) |
| Proceeds from sale of property | 2 | 3 |
| Deferred compensation plan assets | (197) | (79) |
| NET CASH USED IN INVESTING ACTIVITIES | (28,520) | (11,699) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Dividends paid | (14,819) | (12,065) |
| Borrowings from long-term debt | 289,700 | 102,000 |
| Principal payments on long-term debt | (284,924) | (104,951) |
| Deferred financing costs | (5,516) | |
| Share repurchases | (8,965) | (28,010) |
| Excess (Deficiency in) tax benefits from share-based payment arrangements | 6,794 | 2,606 |
| | 1,689 | 1,888 |

| | | |
|---|---|---|
| Proceeds from exercise of stock options and sale of stock under employee stock purchase plan | | |
| NET CASH USED IN FINANCING ACTIVITIES | (16,041) | (38,532) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | 7,260 | (22,732) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 70,216 | 14,470 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 190,550 | 150,801 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 260,766 | $ 165,271 |
| CASH PAID DURING THE PERIOD | | |
| Interest paid | $ 2,093 | $ 2,691 |
| Income taxes paid | $ 21,874 | $ 13,430 |

See the accompanying notes to unaudited condensed consolidated financial statements.

**HERBALIFE LTD.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**

**1. Organization**

Herbalife Ltd., a Cayman Islands exempt limited liability company, or Herbalife, was incorporated on April 4, 2002. Herbalife Ltd. (and together with its subsidiaries, the Company ) is a leading global network marketing company that sells weight management, nutritional supplements, energy, sports & fitness products and personal care products through a network of approximately 2.3 million independent distributors, except in China, where the Company currently sells its products through retail stores, sales representatives, sales employees and licensed business providers. The Company reports revenue in six geographic regions: North America, which consists of the U.S., Canada and Jamaica; Mexico; South and Central America; EMEA, which consists of Europe, the Middle East and Africa; Asia Pacific (excluding China) which consists of Asia, New Zealand and Australia; and China.

**2. Significant Accounting Policies**

***Basis of Presentation***

The unaudited interim financial information of the Company has been prepared in accordance with Article 10 of the Securities and Exchange Commission s, or the SEC, Regulation S-X. Accordingly, it does not include all of the information required by generally accepted accounting principles in the U.S., or U.S. GAAP, for complete financial statements. The condensed consolidated balance sheet at December 31, 2010 was derived from the audited financial statements at that date and does not include all the disclosures required by U.S. GAAP. The Company s unaudited condensed consolidated financial statements as of March 31, 2011, and for the three months ended March 31, 2011 and 2010, include Herbalife and all of its direct and indirect subsidiaries. In the opinion of management, the accompanying financial information contains all adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company s unaudited condensed consolidated financial statements as of March 31, 2011, and for the three months ended March 31, 2011 and 2010. These unaudited condensed consolidated financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2010, or the 2010 10-K. Operating results for the three months ended March 31, 2011, are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

***Venezuela***

In February 2011, Herbalife Venezuela purchased U.S. dollar denominated bonds with a face value of $20 million U.S. dollars in a bond offering from Petróleos de Venezuela, S.A., a Venezuelan state-owned petroleum company, for 86 million Bolivars and then immediately sold the bonds for $15 million U.S. dollars, resulting in an average effective conversion rate of 5.7 Bolivars per U.S. dollar. The 86 million Bolivars were previously remeasured at the regulated system rate, or SITME rate, of 5.3 Bolivars per U.S. dollar and recorded as cash and cash equivalents of $16.3 million on the Company s consolidated balance sheet at December 31, 2010. This Bolivar to U.S. dollar conversion resulted in the Company recording a net pre-tax loss of $1.3 million U.S. dollars in its condensed consolidated statement of income for the three months ended March 31, 2011.

As of March 31, 2011, Herbalife Venezuela s net monetary Bolivar denominated assets and liabilities was approximately $9.0 million, and included approximately $13.1 million in Bolivar denominated cash and cash equivalents and approximately $4.8 million in U.S. dollar denominated cash. The majority of these Bolivar denominated assets and liabilities were remeasured at the SITME rate. Although Venezuela is an important market in the Company s South and Central America Region, Herbalife Venezuela s net sales represented less than 2% of the Company s consolidated net sales for both the three months ended March 31, 2011 and 2010 and its total assets represented less than 3% of the Company s consolidated total assets as of both March 31, 2011 and December 31, 2010.

See the Company s 2010 10-K for further information on Herbalife Venezuela and Venezuela s high inflationary economy.

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**3. Long-Term Debt**

Long-term debt consists of the following:

| | March 31, 2011 | December 31, 2010 |
|---|---|---|
| | (In millions) | |
| Borrowings under the prior senior secured credit facility | $ | $ 174.9 |
| Borrowings under the new senior secured revolving credit facility | 180.0 | |
| Capital leases | 2.6 | 2.9 |
| Other debt | 0.3 | 0.3 |
| Total | 182.9 | 178.1 |
| Less: current portion | 1.7 | 3.1 |
| Long-term portion | $ 181.2 | $ 175.0 |

Interest expense was $3.3 million and $2.4 million for the three months ended March 31, 2011 and 2010, respectively. Interest expense for the three months ended March 31, 2011 included a $0.9 million write off of unamortized deferred financing costs resulting from the extinguishment of the prior senior secured facility as discussed below.

On March 9, 2011, the Company entered into a $700.0 million senior secured revolving credit facility, or the New Credit Facility, with a syndicate of financial institutions as lenders and terminated its prior senior secured credit facility, or the Prior Credit Facility, that consisted of a term loan and a revolving credit facility. The New Credit Facility has a five year maturity and expires on March 9, 2016. During March 2011, U.S. dollar borrowings under the New Credit Facility incurred interest at the base rate plus a margin of 0.75% or LIBOR plus a margin of 1.75%. After March 2011, based on the Company s consolidated leverage ratio, U.S. dollar borrowings under the New Credit Facility will bear interest at either LIBOR plus the applicable margin between 1.50% and 2.50% or the base rate plus the applicable margin between 0.50% and 1.50%. The Company, based on its consolidated leverage ratio, will pay a commitment fee between 0.25% and 0.50% per annum on the unused portion of the New Credit Facility. The New Credit Facility also permits the Company to borrow limited amounts in Mexican Peso and Euro currencies based on variable rates. The base rate under the New Credit Facility represents the highest of the Federal Funds Rate plus 0.50%, one-month LIBOR plus 1.00%, and the prime rate offered by Bank of America.

In March 2011, the Company used $196.0 million in U.S. dollar borrowings under the New Credit Facility to repay all amounts outstanding under the Prior Credit Facility. The Company incurred approximately $5.5 million of debt issuance costs in connection with the New Credit Facility. These debt issuance costs were recorded as deferred financing costs on the Company s condensed consolidated balance sheet and are being amortized over the term of the New Credit Facility. On March 31, 2011 and December 31, 2010, the weighted average interest rate for borrowings under the New Credit Facility and the Prior Credit Facility was 1.99% and 1.75%, respectively.

The New Credit Facility requires the Company to comply with a leverage ratio and an interest coverage ratio. In addition, the New Credit Facility contains customary covenants, including covenants that limit or restrict the Company s ability to incur liens, incur indebtedness, make investments, dispose of assets, make certain restricted payments, pay dividends, merge or consolidate and enter into certain transactions with affiliates. As of March 31, 2011, the Company was compliant with its debt covenants.

During the three months ended March 31, 2011, the Company borrowed $235.7 million and $54.0 million under the New Credit Facility and Prior Credit Facility, respectively, and paid a total of $55.7 million and $228.9 million of the New Credit Facility and Prior Credit Facility, respectively. As of March 31, 2011, the U.S. dollar amount outstanding under the New Credit Facility was $180.0 million. As of December 31, 2010, the amounts outstanding under the Prior Credit Facility, consisting of a term loan and revolving facility, were $143.9 million and $31.0 million, respectively. There were no outstanding foreign currency borrowings as of March 31, 2011 under the New Credit Facility.

**4. Contingencies**

The Company is from time to time engaged in routine litigation. The Company regularly reviews all pending litigation matters in which it is involved and establishes reserves deemed appropriate by management for these litigation matters when a probable loss estimate can be made.

As a marketer of dietary and nutritional supplements and other products that are ingested by consumers or applied to their bodies, the Company has been and is currently subjected to various product liability claims. The effects of these claims to date have not been material to the Company, and the reasonably possible range of exposure on currently existing claims is not material to the Company. The Company believes that it has meritorious defenses to the allegations contained in the lawsuits. The Company currently maintains product liability insurance with an annual deductible of $10 million.

On April 16, 2007, Herbalife International of America, Inc. filed a Complaint in the United States District Court for the Central District of California against certain former Herbalife distributors who had left the Company to join a competitor. The Complaint alleged breach of contract, misappropriation of trade secrets, intentional interference with prospective economic advantage, intentional interference with contract, unfair competition, constructive trust and fraud and seeks monetary damages, attorney s fees and injunctive relief (*Herbalife International of America, Inc. v. Robert E. Ford, et al*). The court entered a Preliminary Injunction against the defendants enjoining them from further use and/or misappropriation of the Company s trade secrets on December 11, 2007. Defendants appealed the court s entry of the Preliminary Injunction to the U.S. Court of Appeals for the Ninth Circuit. That court affirmed, in relevant part, the Preliminary Injunction. On December 3, 2007, the defendants filed a counterclaim alleging that the Company had engaged in unfair and deceptive business practices, intentional and negligent interference with prospective economic advantage, false advertising and that the Company was an endless chain scheme in violation of California law and seeking restitution, contract rescission and an injunction. Both sides engaged in discovery and filed cross motions for Summary Judgment. On August 25, 2009, the court granted partial summary judgment for Herbalife on all of defendants claims except the claim that the Company is an endless chain scheme which under applicable law is a question of fact that can only be determined at trial. The court denied defendants motion for Summary Judgment on Herbalife s claims for misappropriation of trade secrets and breach of contract. On May 5, 2010, the District Court granted summary judgment for Herbalife on defendants endless chain-scheme counterclaim. Herbalife voluntarily dismissed its remaining claims, and on May 14, 2010, the District Court issued a final judgment dismissing all of the parties claims. On June 10, 2010 the defendants appealed from that judgment and on June 21, 2010, Herbalife cross-appealed. The parties have reached a settlement of the case which they are in the process of documenting. Herbalife will incur no financial liability in this settlement.

Certain of the Company s subsidiaries have been subject to tax audits by governmental authorities in their respective countries. In certain of these tax audits, governmental authorities are proposing that significant amounts of additional taxes and related interest and penalties are due. The Company and its tax advisors believe that there are substantial defenses to their allegations that additional taxes are owed, and the Company is vigorously contesting the additional proposed taxes and related charges. On May 7, 2010, the Company received an administrative assessment from the Mexican Tax Administration Service in an amount equivalent to approximately $96 million, translated at the period ended spot rate, for various items, the majority of which was Value Added Tax allegedly owed on certain of the Company s products imported into Mexico during the years 2005 and 2006. This assessment is subject to interest and inflationary adjustments. On July 8, 2010, the Company initiated a formal administrative appeal process. In connection with the appeal of the assessment, the Company may be required to post bonds for some or all of the assessed amount. Therefore, in July 2010, the Company entered into agreements with certain insurance companies to allow for the potential issuance of surety bonds in support of its appeal of the assessment. Such surety bonds, if issued, would not affect the availability of the Company s New Credit Facility. The Company did not record a provision as the Company, based on analysis and guidance from its advisors, does not believe a loss is probable. Further, the Company is currently unable to reasonably estimate a possible loss or range of loss that could result from an unfavorable outcome in respect to this assessment or any additional assessments that may be issued for these or other periods. The Company believes that it has meritorious defenses and is vigorously pursuing the appeal, but final resolution of this matter could take several years.

These matters may take several years to resolve. While the Company believes it has meritorious defenses, it cannot be sure of their ultimate resolution. Although the Company has reserved amounts for certain matters that the Company believes represent the most likely outcome of the resolution of these related disputes, if the Company is incorrect in the assessment, the Company may have to record additional expenses, when it becomes probable that an increased potential liability is warranted.

**5. Comprehensive Income**

Total comprehensive income consisted of the following:

| | Three Months Ended | |
|---|---|---|
| | **March 31,** | **March 31,** |

| | 2011 | 2010 |
|---|---|---|
| | (In millions) | |
| Net income | $ 87.6 | $ 51.9 |
| Unrealized gain on derivative instruments, net of taxes | 0.3 | 2.1 |
| Foreign currency translation adjustment | 14.9 | (5.2) |
| Comprehensive income | $ 102.8 | $ 48.8 |

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**6. Segment Information**

The Company is a network marketing company that sells a wide range of weight management products, nutritional supplements and personal care products within one industry segment as defined under the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC Topic 280, *Segment Reporting*. The Company s products are manufactured by third party providers and by the Company in its Suzhou, China facility and in its manufacturing facility located in Lake Forest, California, and then are sold to independent distributors who sell Herbalife products to retail consumers or other distributors. Revenues reflect sales of products to distributors based on the distributors geographic location.

As of March 31, 2011, the Company sold products in 75 countries throughout the world and is organized and managed by geographic regions. The Company aggregates its operating segments, excluding China, into one reporting segment, or the Primary Reporting Segment, as management believes that the Company s operating segments have similar operating characteristics and similar long term operating performance. In making this determination, management believes that the operating segments are similar in the nature of the products sold, the product acquisition process, the types of customers to whom products are sold, the methods used to distribute the products, and the nature of the regulatory environment. China has been identified as a separate reporting segment as it does not meet the criteria for aggregation. The operating information for the Primary Reporting Segment and China, and sales by product line are as follows:

| | Three Months Ended | |
|---|---|---|
| | March 31, 2011 | March 31, 2010 |
| | (in millions) | |
| **Net Sales:** | | |
| Primary Reporting Segment | | |
| United States | $ 162.2 | $ 146.7 |
| Mexico | 103.9 | 71.8 |
| Others | 483.3 | 367.7 |
| Total Primary Reporting Segment | 749.4 | 586.2 |
| China | 45.7 | 32.4 |
| Total Net Sales | $ 795.1 | $ 618.6 |
| **Operating Margin(1)(2):** | | |
| Primary Reporting Segment | | |
| United States | $ 68.4 | $ 65.1 |
| Mexico | 40.4 | 24.9 |
| Others | 218.8 | 151.1 |
| Total Primary Reporting Segment | 327.6 | 241.1 |
| China (3) | 40.3 | 29.7 |
| Total Operating Margin | $ 367.9 | $ 270.8 |
| Selling, general and administrative expenses | 244.5 | 206.9 |
| Interest expense, net | 2.6 | 1.9 |
| Income before income taxes | 120.8 | 62.0 |
| Income taxes | 33.2 | 10.1 |

| | | | | |
|---|---|---|---|---|
| Net Income | $ | 87.6 | $ | 51.9 |

| | Three Months Ended | | | |
|---|---|---|---|---|
| | March 31, 2011 | | March 31, 2010 | |
| | (in millions) | | | |
| **Net sales by product line:** | | | | |
| Weight Management | $ | 498.6 | $ | 387.2 |
| Targeted Nutrition | | 180.2 | | 138.6 |
| Energy, Sports and Fitness | | 35.5 | | 25.8 |
| Outer Nutrition | | 36.6 | | 31.0 |
| Literature, promotional and other(4) | | 44.2 | | 36.0 |
| Total Net Sales | $ | 795.1 | $ | 618.6 |
| **Net sales by geographic region:** | | | | |
| North America(5) | $ | 167.0 | $ | 151.3 |
| Mexico | | 103.9 | | 71.8 |
| South and Central America | | 125.3 | | 91.3 |
| EMEA(6) | | 153.9 | | 130.8 |
| Asia Pacific(7) | | 199.3 | | 141.0 |
| China | | 45.7 | | 32.4 |
| Total Net Sales | $ | 795.1 | $ | 618.6 |

(1) Operating margin consists of net sales less cost of sales and royalty overrides.

(2) In the third quarter of 2010, the Company changed its method of allocation for certain costs to its business segments. Historical information presented has been reclassified to conform to the current presentation. This change had no effect on the Company s consolidated statements of income.

(3) Compensation to China sales employees and service fees to China licensed business providers totaling $21.8 million and $16.2 million for the three months ended March 31, 2011 and 2010, respectively, is included in selling, general and administrative expenses while distributor compensation for all other countries is included in royalty overrides.

(4) Product buybacks and returns in all product categories are included in the literature, promotional and other category.

(5) Consists of the U.S., Canada and Jamaica.

(6) Consists of Europe, Middle East and Africa.

(7) Consists of Asia (excluding China), New Zealand and Australia.

As of March 31, 2011 and December 31, 2010, total assets for the Company s Primary Reporting Segment were $1,287.7 million and $1,162.1 million, respectively. As of March 31, 2011 and December 31, 2010, total assets for the China segment were $70.3 million and $70.1 million, respectively.

**7. Share-Based Compensation**

The Company has share-based compensation plans, which are more fully described in Note 9, *Share-based Compensation*, to the Consolidated Financial Statements in the 2010 10-K. During the three months ended March 31, 2011, the Company granted stock awards subject to continued service, consisting of stock units and stock appreciation rights, with vesting terms fully described in the 2010 10-K.

For the three months ended March 31, 2011 and 2010, share-based compensation expense amounted to $5.6 million and $5.3 million, respectively. As of March 31, 2011, the total unrecognized compensation cost related to all non-vested stock awards was $25.6 million and the related weighted-average period over which it is expected to be recognized is approximately 1.5 years.

The following tables summarize the activity under all share-based compensation plans for the three months ended March 31, 2011:

| Stock Options & Stock Appreciation Rights | Awards (In thousands) | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value (In millions) |
|---|---|---|---|---|
| Outstanding at December 31, 2010 | 6,390 | $ 28.75 | 5.7 years | $ 253.1 |
| Granted | 20 | $ 73.73 | | |
| Exercised | (334) | $ 26.22 | | |
| Forfeited | (34) | $ 32.80 | | |
| Outstanding at March 31, 2011 | 6,042 | $ 29.02 | 5.5 years | $ 316.2 |

| | | | | | |
|---|---|---|---|---|---|
| Exercisable at March 31, 2011 | 3,416 | $ | 24.34 | 4.2 years | $ 194.8 |

| Incentive Plan and Independent Directors Stock Units | Shares (In thousands) | Weighted Average Grant Date Fair Value | Aggregate Fair Value (In millions) |
|---|---|---|---|
| Outstanding and nonvested December 31, 2010 | 580.2 | $ 27.51 | $ 16.0 |
| Granted | 6.8 | $ 74.68 | 0.5 |
| Vested | (173.2) | $ 33.08 | (5.7) |
| Forfeited | (3.0) | $ 15.10 | (0.1) |
| Outstanding and nonvested at March 31, 2011 | 410.8 | $ 26.04 | $ 10.7 |

The weighted-average grant date fair value of stock awards granted during the three months ended March 31, 2011 and 2010 was $41.74 and $20.23, respectively. The total intrinsic value of stock awards exercised during the three months ended March 31, 2011 and 2010, was $16.9 million and $1.2 million, respectively.

**8. Income Taxes**

As of March 31, 2011, the total amount of unrecognized tax benefits, related interest and penalties was $31.4 million, $5.5 million and $1.3 million, respectively. During the three months ended March 31, 2011, the Company recorded tax, interest and penalties related to uncertain tax positions of $1.9 million, $0.5 million and $0.1 million respectively. During the three months ended March 31, 2011 the unrecognized tax benefits were reduced by the expiration of the statutes of limitations for tax of $2.1 million, interest of $0.6 million and penalties of $0.1 million which resulted in a year to date net decrease for tax and related interest of $0.2 million and $0.1 million, respectively. The unrecognized tax benefits relate primarily to uncertainties from international transfer pricing issues and the deductibility of certain operating expenses in various jurisdictions. If the total amount of unrecognized tax benefits were recognized, $31.4 million of unrecognized tax benefits, $5.5 million of interest and $1.3 million of penalties, would impact the effective tax rate.

During the three months ended March 31, 2011, the Company benefited from the terms of a tax holiday in the People s Republic of China. The tax holiday commenced on January 1, 2008 and will conclude on December 31, 2012. Under the terms of the holiday, the Company was subject to a zero tax rate in China during 2008 and 2009, 11% tax rate in 2010, and is subject to a graduated rate of 12% in 2011. The tax rate will gradually increase to a maximum rate of 25% in 2013.

**9. Derivative Instruments and Hedging Activities**

***Interest Rate Risk Management***

The Company engages in an interest rate hedging strategy for which the hedged transactions are forecasted interest payments on the Company s variable rate credit facility. The hedged risk is the variability of forecasted interest rate cash flows, where the hedging strategy involves the purchase of interest rate swaps. For the outstanding cash flow hedges on interest rate exposures at March 31, 2011, the Company is hedging certain of its monthly interest rate exposures over approximately two years and four months.

During August 2009, the Company entered into four interest rate swap agreements with an effective date of December 31, 2009. The agreements collectively provide for the Company to pay interest for less than a four-year period at a weighted average fixed rate of 2.78% on notional amounts aggregating to $140.0 million while receiving interest for the same period at the one month LIBOR rate on the same notional amounts. These agreements will expire in July 2013. These swaps at inception were designated as cash flow hedges against the variability in the LIBOR interest rate on the Company s prior term loan or against the variability in the LIBOR interest rate on the replacement debt. The Company s prior term loan was terminated in March 2011 and refinanced with the New Credit Facility as

discussed further in Note 3, *Long-Term Debt*. The Company s swaps remain effective and continue to be designated as cash flow hedges against the variability in certain LIBOR interest rate borrowings under the New Credit Facility at LIBOR plus 1.50% to 2.50%, thereby now fixing the Company s weighted average effective rate on the notional amounts at 4.28% to 5.28%. There was no hedge ineffectiveness recorded as result of this refinancing event.

The Company formally assesses both at inception and at least quarterly thereafter, whether derivatives used in hedging transactions are effective in offsetting changes in cash flows of the hedged item. As of March 31, 2011, the hedge relationships continued to qualify as effective hedges under FASB ASC Topic 815, *Derivatives and Hedging*, or ASC 815. Consequently, all changes in the fair value of the derivatives are deferred and recorded in other comprehensive income (loss) until the related forecasted transactions are recognized in the consolidated statements of income. The fair value of the interest rate swap agreements are based on third-party bank quotes. At March 31, 2011 and December 31, 2010, the Company recorded the interest rate swaps as liabilities at their fair value of $5.7 million and $6.6 million, respectively.

***Foreign Currency Instruments***

The Company also designates certain foreign currency derivatives, such as certain foreign currency forward and option contracts, as freestanding derivatives for which hedge accounting does not apply. The changes in the fair market value of the derivatives are included in selling, general and administrative expenses in the Company s consolidated statements of income. The Company uses foreign currency forward contracts to hedge foreign-currency-denominated intercompany transactions and to partially mitigate the impact of foreign currency fluctuations. The Company also uses foreign currency option contracts to partially mitigate the impact of foreign currency fluctuations. The fair value of the forward and option contracts are based on third-party bank quotes.

The Company also purchases foreign currency forward contracts in order to hedge forecasted inventory purchases and intercompany management fees that are designated as cash-flow hedges and are subject to foreign currency exposures. The Company applied the hedge accounting rules as required by ASC 815 for these hedges. These contracts allow the Company to sell Euros in exchange for U.S. dollars at specified contract rates. As of March 31, 2011, and December 31, 2010, the aggregate notional amounts of these contracts outstanding were approximately $21.6 million and $32.1 million, respectively. At March 31, 2011, the outstanding contracts were expected to mature over the next nine months. The Company s derivative financial instruments are recorded on the consolidated balance sheet at fair value based on third-party bank quotes. Forward contracts are used to hedge forecasted inventory purchases over specific months. Changes in the fair value of these forward contracts, excluding forward points, designated as cash-flow hedges are recorded as a component of accumulated other comprehensive income (loss) within shareholders equity, and are recognized in cost of sales in the consolidated statement of income during the period which approximates the time the hedged inventory is sold. The Company also hedges forecasted intercompany management fees over specific months. Changes in the fair value of these forward contracts designated as cash flow hedges are recorded as a component of accumulated other comprehensive income (loss) within shareholders equity, and are recognized in selling, general and administrative expenses in the consolidated statement of income during the period when the hedged item and underlying transaction affect earnings. As of March 31, 2011, the Company recorded liabilities at fair value of $2.1 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. As of December 31, 2010, the Company recorded assets at fair value of $0.6 million and liabilities at fair value of $0.8 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. The Company assesses hedge effectiveness and measures hedge ineffectiveness at least quarterly. During the three months ended March 31, 2011 and 2010, the ineffective portion relating to these hedges was immaterial and the hedges remained effective as of March 31, 2011.

As of March 31, 2011, and December 31, 2010, the majority of the Company s outstanding foreign currency forward contracts had maturity dates of less than nine months with the majority of freestanding derivatives expiring within two months. There were no foreign currency option contracts outstanding as of March 31, 2011, and December 31, 2010. See Part I, Item 3 *Quantitative and Qualitative Disclosures About Market Risk* in this Quarterly Report on Form 10-Q for foreign currency instruments outstanding as of March 31, 2011.

***Gains and Losses on Derivative Instruments***

The following table summarizes gains (losses) relating to derivative instruments recorded in other comprehensive income (loss) during the three months ended March 31, 2011 and 2010:

| | **Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss) For the Three Months Ended** | |
|---|---|---|
| | **March 31, 2011** | **March 31, 2010** |
| | **(In millions)** | |
| **Derivatives designated as cash flow hedging instruments:** | | |
| Foreign exchange currency contracts relating to inventory and intercompany management fee hedges | $ (1.9) | $ 5.1 |

| | | |
|---|---|---|
| Interest rate swaps | $ | $ (2.5) |

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The following table summarizes gains (losses) relating to derivative instruments recorded to income during the three months ended March 31, 2011 and 2010:

| | Amount of Gain (Loss) Recognized in Income For the Three Months Ended | | Location of Gain (Loss) |
|---|---|---|---|
| | March 31, 2011 | March 31, 2010 | Recognized in Income |
| | (In millions) | | |
| **Derivatives designated as cash flow hedging instruments:** | | | |
| Foreign exchange currency contracts relating to inventory hedges and intercompany management fee hedges (1) | $ 0.1 | $ (0.1) | Selling, general and administrative expenses |
| **Derivatives not designated as hedging instruments:** | | | |
| Foreign exchange currency contracts | $ 2.9 | $ (7.5) | Selling, general and administrative expenses |

(1) For foreign exchange contracts designated as hedging instruments, the amounts recognized in income (loss) represent the amounts excluded from the assessment of hedge effectiveness. There were no ineffective amounts recorded for derivatives designated as hedging instruments.

The following table summarizes gains (losses) relating to derivative instruments reclassified from accumulated other comprehensive loss into income during the three months ended March 31, 2011 and 2010:

| | Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income For the Three Months Ended | | Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income |
|---|---|---|---|
| | March 31, 2011 | March 31, 2010 | (Effective Portion) |
| | (In millions) | | |
| **Derivatives designated as cash flow hedging instruments:** | | | |
| Foreign exchange currency contracts relating to inventory hedges | $ (0.2) | $ (0.6) | Cost of sales |
| Foreign exchange currency contracts relating to intercompany management fee hedges | $ (0.6) | $ 1.6 | Selling, general and administrative expenses |
| Interest rate contracts | $ (0.9) | $ (0.9) | Interest expense, net |

The Company reports its derivatives at fair value as either assets or liabilities within its condensed consolidated balance sheet. See Note 12, *Fair Value Measurements*, for information on derivative fair values and their condensed consolidated balance sheet location as of March 31, 2011, and December 31, 2010.

**10. Shareholders Equity**

***Dividends***

The declaration of future dividends is subject to the discretion of the Company s board of directors and will depend upon various factors, including its earnings, financial condition, restrictions imposed by its credit agreement, cash requirements, future prospects and other factors deemed relevant by its board of directors. The New Credit Facility entered into on March 9, 2011, permits payments of dividends as long as no default or event of default exists and the consolidated leverage ratio specified in the New Credit Facility is not exceeded.

On February 22, 2011, the Company announced that its board of directors approved a quarterly cash dividend of $0.25 per common share in an aggregate amount of $14.8 million that was paid to shareholders on March 22, 2011. The aggregate amount of dividends declared and paid during the three months ended March 31, 2011 and 2010 were $14.8 million and $12.1 million, respectively.

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***Share Repurchases***

On April 30, 2009, the Company announced that its board of directors authorized a new program for the Company to repurchase up to $300 million of Herbalife common shares during the next two years, at such times and prices as determined by the Company s management. On May 3, 2010, the Company s board of directors approved an increase to the share repurchase authorization from $300 million to $1 billion. In addition, the Company s board of directors approved the extension of the expiration date of the share repurchase program from April 2011 to December 2014. The Company did not repurchase any common shares in the open market during the three months ended March 31, 2011. As of March 31, 2011, the remaining authorized capacity under the Company s share repurchase program was approximately $776.7 million.

The aggregate purchase price of any common shares repurchased is reflected as a reduction to shareholders equity. The Company allocates the purchase price of the repurchased shares as a reduction to retained earnings, common shares and additional paid-in-capital.

The number of shares issued upon vesting or exercise for certain restricted stock units and stock appreciation rights granted, pursuant to the Company s share-based compensation plans, is net of the minimum statutory withholding requirements that the Company pays on behalf of its employees. Although shares withheld are not issued, they are treated as common share repurchases in the Company s condensed consolidated financial statements, as they reduce the number of shares that would have been issued upon vesting.

***Stock Split***

On February 18, 2011, the Company s board of directors approved a two-for-one split of the Company s common shares, subject to approval by the Company s shareholders at the Company s Annual General Meeting of Shareholders held on April 28, 2011. See Note 14, *Subsequent Events*, for further information on the stock split being approved by the Company s shareholders on April 28, 2011.

**11. Earnings Per Share**

Basic earnings per share represents net income for the period common shares were outstanding, divided by the weighted average number of common shares outstanding for the period. Diluted earnings per share represents net income divided by the weighted average number of common shares outstanding, inclusive of the effect of dilutive securities such as outstanding stock options, stock appreciation rights, stock units and warrants.

The following are the common share amounts used to compute the basic and diluted earnings per share for each period on a pre-split basis:

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2011 | 2010 |
| | (in thousands) | |
| Weighted average shares used in basic computations | 59,103 | 60,160 |
| Dilutive effect of exercise of equity grants outstanding | 2,684 | 2,319 |
| Dilutive effect of warrants | 121 | 193 |
| Weighted average shares used in diluted computations | 61,908 | 62,672 |

There were an aggregate of 0.1 million and 1.8 million of equity grants that were outstanding during the three months ended March 31, 2011 and 2010, respectively, consisting of stock options, stock appreciation rights, and stock units, but were not included in the computation of diluted earnings per share because their effect would be anti-dilutive. See Note 14, *Subsequent Events*, for the computation of the Company s historical net earnings per share on a pro-forma post-split basis.

**12. Fair Value Measurements**

The Company applies the provisions of FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, or ASC 820, for its financial and non-financial assets and liabilities. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the

measurement date. ASC 820 establishes a fair value hierarchy, which prioritizes the inputs used in measuring fair value into three broad levels as follows:
Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

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Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
Level 3 inputs are unobservable inputs for the asset or liability.
The Company measures certain assets and liabilities at fair value as discussed throughout the notes to its consolidated financial statements. Foreign exchange currency contracts and interest rate swaps are valued using standard calculations and models. Foreign exchange currency contracts are valued primarily based on inputs such as observable forward rates, spot rates and foreign currency exchange rates at the reporting period ended date. Interest rate swaps are valued primarily based on inputs such as LIBOR and swap yield curves at the reporting period ended date. Assets or liabilities that have recurring measurements and are measured at fair value consisted of only Level 2 derivatives and are shown below at their gross values at March 31, 2011, and December 31, 2010:

**Fair Value Measurements at Reporting Date Using**

| | **Derivative Balance Sheet Location** | **Significant Other Observable Inputs (Level 2) Fair Value at March 31, 2011** | **Significant Other Observable Inputs (Level 2) Fair Value at December 31, 2010** |
|---|---|---|---|
| | | **(in millions)** | |
| **ASSETS:** | | | |
| **Derivatives designated as cash flow hedging instruments:** | | | |
| Foreign exchange currency contracts relating to intercompany management fee hedges | Prepaid expenses and other current assets | $ | $ 0.6 |
| **Derivatives not designated as cash flow hedging instruments:** | | | |
| Foreign exchange currency contracts | Prepaid expenses and other current assets | $ 4.1 | $ 2.3 |
| | | $ 4.1 | $ 2.9 |
| **LIABILITIES:** | | | |
| **Derivatives designated as cash flow hedging instruments:** | | | |
| Foreign exchange currency contracts relating to inventory and intercompany management fee hedges | Accrued expenses | $ 2.1 | $ 0.8 |
| Interest rate swaps | Accrued expenses | $ 5.7 | $ 6.6 |
| **Derivatives not designated as hedging instruments:** | | | |
| Foreign exchange currency contracts | Accrued expenses | $ 1.3 | $ 3.0 |

| | | |
|---|---|---|
| | $ 9.1 | $ 10.4 |

**13. Inventories**

Inventories consist primarily of finished goods available for resale and the following are the major classes of inventory (in millions):

| | March 31, 2011 | December 31, 2010 |
|---|---|---|
| Raw materials | $ 17.7 | $ 13.7 |
| Work in process | 0.8 | 0.6 |
| Finished goods | 165.8 | 168.2 |
| Total | $ 184.3 | $ 182.5 |

Total inventories are presented net of the reserves for obsolete and slow moving inventory of $10.6 million and $9.4 million at March 31, 2011 and December 31, 2010, respectively.

**14. Subsequent Events**

On April 28, 2011, the Company s shareholders approved a 2-for-1 split of the Company s common shares. One additional common share will be distributed to the Company s shareholders on or around May 17, 2011, for each common share held on May 10, 2011. All common shares subject to outstanding equity awards and warrants, as well as the number of common shares reserved for issuance under the Company s equity compensation plans, will be adjusted proportionately.

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All numbers in the consolidated financial statements are presented on a pre-split basis. The Company s historical net earnings per share on a pro-forma basis would be as follows:

| | Three Months Ended | |
|---|---|---|
| | March 31, 2011 | March 31, 2010 |
| | (unaudited) | |
| Basic net income per share: | | |
| As reported | $ 1.48 | $ 0.86 |
| Pro forma | $ 0.74 | $ 0.43 |
| Diluted net income per share: | | |
| As reported | $ 1.41 | $ 0.83 |
| Pro forma | $ 0.71 | $ 0.41 |

On May 2, 2011, the Company announced that its board of directors approved a post stock split cash dividend of $0.20 per common share, payable on June 7, 2011 to shareholders of record as of May 24, 2011.

## Item 2. *MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

### Overview

We are a global network marketing company that sells weight management products, nutritional supplements, energy, sports & fitness products and personal care products. We pursue our mission of changing people s lives by providing a financially rewarding business opportunity to distributors and quality products to distributors and their customers who seek a healthy lifestyle. We are one of the largest network marketing companies in the world with net sales of approximately $2.7 billion for the year ended December 31, 2010. As of March 31, 2011, we sold our products in 75 countries through a network of approximately 2.3 million independent distributors. In China, we sell our products through retail stores, sales representatives, sales employees and licensed business providers. We believe the quality of our products and the effectiveness of our distribution network, coupled with geographic expansion, have been the primary reasons for our success throughout our 31-year operating history.

Our products are grouped in four principal categories: weight management, targeted nutrition, energy, sports & fitness and Outer Nutrition, along with literature and promotional items. Our products are often sold in programs that are comprised of a series of related products and literature designed to simplify weight management and nutrition for consumers and maximize our distributors cross-selling opportunities.

Industry-wide factors that affect us and our competitors include the global obesity epidemic and the aging of the worldwide population, which are driving demand for nutrition and wellness-related products along with the global increase in under and unemployment which can affect the recruitment and retention of distributors seeking part time or full time income opportunities.

We remain focused on the opportunities and challenges in retailing of our products, recruiting and retaining distributors, improving distributor productivity, opening new markets, further penetrating existing markets, globalizing successful Distributor Methods of Operation, or DMO, such as Nutrition Clubs and Weight Loss Challenges, introducing new products and globalizing existing products, developing niche market segments and further investing in our infrastructure. Management continues to monitor the Venezuela market and especially the limited ability to repatriate cash.

We report revenue from our six regions:

North America, which consists of the U.S., Canada and Jamaica;

Mexico;

South and Central America;

EMEA, which consists of Europe, the Middle East and Africa;

Asia Pacific (excluding China), which consists of Asia, New Zealand and Australia; and

China.

### Volume Points by Geographic Region

A key non-financial measure we focus on is Volume Points on a Royalty Basis, or Volume Points, which is essentially our weighted average measure of product sales volume. Volume Points, which are unaffected by exchange rates or price increases, are used by management as a proxy for sales trends because in general, an increase in Volume Points in a particular geographic region or country indicates an increase in our local currency net sales while a decrease in Volume Points in a particular geographic region or country indicates a decrease in our local currency net sales.

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We assign a Volume Point value to a product when it is first introduced into the market. The specific number of Volume Points assigned to a product is based on a Volume Point to U.S. dollar ratio that we use for the vast majority of new products. If a product is available in different quantities then the various sizes will have different Volume Point values. If a new product is not introduced in or otherwise expected to be sold in the U.S., we will determine the Volume Point value for that product based on a review of various factors in the regions and countries in which we will market the product, including the Volume Point to local currency ratio of existing products in the relevant countries. In general, once assigned, a Volume Point value is consistent in each region and country and does not change from year to year. The reason volume points are used in the manner described above is that the Company uses volume points for distributor qualification and recognition purposes and therefore attempts to keep volume points for a similar or like product consistent on a global basis. However, because Volume Points are a function of value rather than product type or size, they are not a reliable measure for product mix. As an example, an increase in Volume Points in a specific country or region could mean a significant increase in sales of less expensive product or a marginal increase in sales of an expensive product.

| | **Three Months Ended March 31,** | | |
|---|---|---|---|
| | **2011** | **2010** | **% Change** |
| | | (in millions) | |
| North America | 243.0 | 220.1 | 10.4% |
| Mexico | 164.5 | 124.2 | 32.4% |
| South & Central America | 125.1 | 101.1 | 23.7% |
| EMEA | 138.0 | 119.5 | 15.5% |
| Asia Pacific (excluding China) | 198.7 | 152.2 | 30.6% |
| China | 32.8 | 25.6 | 28.1% |
| Worldwide | 902.1 | 742.7 | 21.5% |

**Average Active Sales Leaders by Geographic Region**

With the continued expansion of daily consumption DMOs in our different markets, we believe the Average Active Sales Leader metric, which represents the monthly average number of sales leaders that place an order from us in a given quarter, is a useful metric. We rely on this metric as an indication of the engagement level of sales leaders in a given region. Changes in the Average Active Sales Leader metric may be indicative of the current momentum in a region as well as the potential for higher annual retention levels and future sales growth through utilization of daily consumption DMOs.

| | **Three Months Ended March 31,** | | |
|---|---|---|---|
| | **2011** | **2010** | **% Change** |
| North America | 52,549 | 45,831 | 14.7% |
| Mexico | 42,480 | 34,481 | 23.2% |
| South & Central America | 30,970 | 27,217 | 13.8% |
| EMEA | 35,960 | 32,044 | 12.2% |
| Asia Pacific (excluding China) | 40,510 | 31,903 | 27.0% |
| China | 7,272 | 5,318 | 36.7% |
| Worldwide(1) | 205,036 | 169,715 | 20.8% |

(1) Worldwide Average Active Sales Leaders may not equal the sum of the Average Active Sales Leaders in each region due to the calculation being an average of Sales Leaders active in a period, not a summation.

**Number of Sales Leaders and Retention Rates by Geographic Region as of Re-qualification Period**

Our compensation system requires each sales leader to re-qualify for such status each year, prior to February, in order to maintain their 50% discount on products and be eligible to receive royalty payments. In February of each year, we demote from the rank of sales leader those distributors who did not satisfy the re-qualification requirements during the preceding twelve months. The re-qualification requirement does not apply to new sales leaders (i.e., those who became sales leaders subsequent to the January re-qualification of the prior year).

| **Sales Leaders Statistics (Excluding China)** | **2011** | **2010** |
|---|---|---|
| | **(In thousands)** | |
| January 1 total sales leaders | 434.2 | 431.3 |
| January & February new sales leaders | 28.9 | 21.2 |
| Demoted sales leaders (did not re-qualify) | (144.8) | (165.9) |
| Other sales leaders (resigned, etc) | (0.8) | (1.1) |
| End of February total sales leaders | 317.5 | 285.5 |

The distributor statistics below further highlight the calculation for retention.

| **Sales Leaders Retention (Excluding China)** | **2011** | **2010** |
|---|---|---|
| | **(In thousands)** | |
| Sales leaders needed to re-qualify | 283.2 | 290.9 |
| Demoted sales leaders (did not re-qualify) | (144.8) | (165.9) |
| Total re-qualified | 138.4 | 125.0 |
| Retention rate | 48.9% | 43.0% |

The table below reflects the number of sales leaders as of February of the year indicated (subsequent to the annual re-qualification date) and sales leader retention rate by year and by region.

| | **Number of Sales Leaders** | | **Sales Leaders Retention Rate** | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| North America | 72,152 | 64,668 | 48.6% | 43.3% |
| Mexico | 54,526 | 47,068 | 57.9% | 50.4% |
| South & Central America | 50,288 | 51,060 | 47.3% | 34.1% |
| EMEA | 49,696 | 47,080 | 58.6% | 51.9% |
| Asia Pacific (excluding China) | 90,822 | 75,635 | 38.4% | 38.6% |
| Total Sales leaders | 317,484 | 285,511 | 48.9% | 43.0% |
| China Sales Employees | 30,543 | 27,415 | | |
| Worldwide Total Sales Leaders | 348,027 | 312,926 | | |

The number of sales leaders by geographic region as of the quarterly reporting dates will normally be higher than the number of sales leaders by geographic region as of the re-qualification period because sales leaders who do not re-qualify during the relevant twelve-month period will be removed from the rank of sales leader the following February. Since sales leaders purchase most of our products for resale to other distributors and consumers, comparisons of sales leader totals on a year-to-year basis are indicators of our recruitment and retention efforts in different geographic regions.

The value of the average monthly purchase of Herbalife products by our sales leaders has remained relatively constant over time. Consequently, increases in our sales are driven by our retention of sales leaders, our recruitment and retention of distributors and by our distributors increased adoption of daily consumption DMOs.

We provide distributors with products, support materials, training, special events and a competitive compensation program. If a distributor wants to pursue the Herbalife business opportunity, the distributor is responsible for growing his or her business and personally pays for the sales activities related to attracting new customers and recruiting distributors by hosting events such as Herbalife Opportunity Meetings or Success Training Seminars; by advertising Herbalife s products; by purchasing and using promotional materials such as t-shirts, buttons and caps; by utilizing and paying for direct mail and print material such as brochures, flyers, catalogs, business cards, posters and banners and telephone book listings; by purchasing inventory for sale or use as samples; and by training, mentoring and following up (in person or via the phone or internet) with customers and recruits on how to use Herbalife products and/or pursue the Herbalife business opportunity.

**Presentation**

*Retail sales* represent the gross sales amounts on our invoices to distributors before distributor allowances, as defined below, and *net sales,* which reflect distributor allowances and shipping and handling revenues, represent what we

collect and recognize as net sales in our financial statements. We discuss retail sales because of its fundamental role in our compensation systems, internal controls and operations, including its role as the basis upon which distributor discounts, royalties and bonuses are awarded. In addition, it is used as the basis for certain information included in daily and monthly reports reviewed by our management. However, such a measure is not in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. Retail sales should not be considered in isolation from, nor as a substitute for, net sales and other consolidated income or cash flow statement data prepared in accordance with U.S. GAAP, or as a measure of profitability or liquidity. A reconciliation of net sales to retail sales is presented below under Results of Operations. *Product sales* represent the actual product purchase price paid to us by our distributors, after giving effect to distributor discounts referred to as distributor allowances, which approximate 50% of retail sales prices. Distributor allowances as a percentage of retail sales may vary by country depending upon regulatory restrictions that limit or otherwise restrict distributor allowances.

Our international operations have provided and will continue to provide a significant portion of our total net sales. As a result, total net sales will continue to be affected by fluctuations in the U.S. dollar against foreign currencies. In order to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency fluctuations, in addition to comparing the percent change in net sales from one period to another in U.S. dollars, we also compare the percent change in net sales from one period to another period using *net sales in local currency* disclosure. Net sales in local currency is not a U.S. GAAP financial measure. Net sales in local currency removes from net sales in U.S. dollars the impact of changes in exchange rates between the U.S. dollar and the functional currencies of our foreign subsidiaries, by translating the current period net sales into U.S. dollars using the same foreign currency exchange rates that were used to translate the net sales for the previous comparable period. We believe presenting net sales in local currency is useful to investors because it allows a more meaningful comparison of net sales of our foreign operations from period to period. However, net sales in local currency measures should not be considered in isolation or as an alternative to net sales in U.S. dollars measures that reflect current period exchange rates, or to other financial measures calculated and presented in accordance with U.S. GAAP.

Our *gross profit* consists of net sales less *cost of sales,* which represents our manufacturing costs, the price we pay to our raw material suppliers and manufacturers of our products as well as shipping and handling costs related to product shipments, duties and tariffs, freight expenses relating to shipment of products to distributors and importers and similar expenses.

*Royalty overrides* are our most significant expense and consist of:

- royalty overrides and production bonuses which total approximately 15% and 7%, respectively, of the retail sales of weight management, targeted nutrition, energy, sports & fitness, Outer Nutrition and promotional products;

- the Mark Hughes bonus payable to some of our most senior distributors in the aggregate amount of up to 1% of retail sales of weight management, targeted nutrition, energy, sports & fitness, Outer Nutrition products and promotional products; and

- other discretionary incentive cash bonuses to qualifying distributors.

Royalty overrides are generally earned based on retail sales and provide potential earnings to distributors of up to 23% of retail sales or approximately 33% of our net sales. Royalty overrides together with distributor allowances of up to 50% represent the potential earnings to distributors of up to approximately 73% of retail sales. The compensation to distributors is generally for the development, retention and improved productivity of their distributor sales organizations and is paid to several levels of distributors on each sale. Due to restrictions on direct selling in China, our full-time employed sales representatives in China are compensated with wages, bonuses and benefits and our licensed business providers in China are compensated with service fees instead of the distributor allowances and royalty overrides utilized in our traditional marketing program. Because of local country regulatory constraints, we may be required to modify our typical distributor incentive plans as described above. Consequently, the total distributor discount percentage may vary over time. We also offer reduced distributor allowances and pay reduced royalty overrides with respect to certain products worldwide.

Our *operating margins* consist of net sales less cost of sales and royalty overrides.

*Selling, general and administrative expenses* represent our operating expenses, components of which include labor and benefits, sales events, professional fees, travel and entertainment, distributor marketing, occupancy costs, communication costs, bank fees, depreciation and amortization, foreign exchange gains and losses and other miscellaneous operating expenses.

Most of our sales to distributors outside the United States are made in the respective local currencies. In preparing our financial statements, we translate revenues into U.S. dollars using average exchange rates. Additionally, the majority of our purchases from our suppliers generally are made in U.S. dollars. Consequently, a strengthening of the U.S. dollar versus a foreign currency can have a negative impact on our reported sales and operating margins and can generate transaction losses on intercompany transactions. Throughout the last five years, foreign currency exchange rates have fluctuated significantly. From time to time, we enter into foreign exchange forward and option contracts to

partially mitigate our foreign currency exchange risk as discussed in further detail in Part I, Item 3 *Quantitative and Qualitative Disclosures about Market Risk*.

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**Summary Financial Results**

Net sales for the three months ended March 31, 2011 increased 28.5% to $795.1 million as compared to $618.6 million for the three months ended March 31, 2010. In local currency, net sales for the three months ended March 31, 2011 increased 24.7% as compared to the same periods in 2010. The increase in net sales was primarily due to the continued successful adoption and operation of daily consumption DMOs; increased distributor engagement as reflected by record 2011 sales leader retention and an increase in average active sales leaders; branding activities and increased distributor recruiting.

Net income for the three months ended March 31, 2011 increased 68.8% to $87.6 million, or $1.41 per diluted share, compared to $51.9 million, or $0.83 per diluted share, for the same period in 2010. The increase was primarily due to higher operating margin driven by net sales growth discussed above, partially offset by higher salaries, bonuses and benefits, higher distributor promotion and event costs, higher expenses related to China sales employees and licensed business providers and higher non-income tax expense. In addition, net income for the three months ended March 31, 2010 was also negatively impacted by matters related to Venezuela, as described below.

Net income for the three months ended March 31, 2011 included a $0.9 million pre-tax ($0.7 million post-tax) additional interest expense from the write-off of unamortized deferred financing costs resulting from the debt refinancing arrangement in March 2011. See Note 3, *Long Term Debt*, to the Notes to Condensed Consolidated Financial Statements for further information on our debt refinancing.

Net income for the three months ended March 31, 2010 included a $15.1 million unfavorable impact related to remeasurement of monetary assets and liabilities resulting from Venezuela being designated as a highly inflationary economy beginning January 1, 2010; a $12.7 million unfavorable impact related to incremental U.S. dollar costs of 2009 imports into Venezuela which were recorded at the unfavorable parallel market exchange rate and were not devalued based on 2010 exchange rates but rather recorded to cost of sales at their historical U.S. dollar costs as products were sold in the first quarter of 2010; a $3.7 million favorable impact resulting from receipt of U.S. dollars approved by the Venezuelan government s Foreign Exchange Commission, or CADIVI, at the official exchange rate relating to 2009 product importations which were previously registered with CADIVI and were remeasured at the less favorable parallel exchange rate; and a $14.5 million one-time favorable impact to income taxes related to Venezuela becoming a highly inflationary economy.

**Results of Operations**

Our results of operations for the periods below are not necessarily indicative of results of operations for future periods, which depend upon numerous factors, including our ability to recruit new distributors and retain existing distributors, open new markets, further penetrate existing markets, introduce new products and programs that will help our distributors increase their retail efforts and develop niche market segments.

The following table sets forth selected results of our operations expressed as a percentage of net sales for the periods indicated:

| | Three Months Ended | |
|---|---|---|
| | March 31, 2011 | March 31, 2010 |
| **Operations:** | | |
| Net sales | 100.0% | 100.0% |
| Cost of sales | 20.5 | 22.7 |
| Gross profit | 79.5 | 77.3 |
| Royalty overrides(1) | 33.2 | 33.5 |
| Selling, general and administrative expenses(1) | 30.8 | 33.4 |
| Operating income | 15.5 | 10.4 |
| Interest expense, net | 0.3 | 0.3 |

| | | |
|---|---|---|
| Income before income taxes | 15.2 | 10.1 |
| Income taxes | 4.2 | 1.6 |
| Net income | 11.0% | 8.5% |

(1) Compensation to our China sales employees and service fees to our licensed business providers in China are included in selling, general and administrative expenses while distributor compensation for all other countries is included in royalty overrides.

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**Net Sales**

The following chart reconciles retail sales to net sales:

**Sales by Geographic Region**

| | Three Months Ended March 31, | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | | | 2010 | | | | | |
| | Retail Sales | Distributor Allowance | Product Sales | Shipping & Handling Revenues | Net Sales | Retail Sales | Distributor Allowance | Product Sales | Shipping & Handling Revenues | Net Sales | Change in Net Sales |
| | (Dollars in millions) | | | | | | | | | | |
| North America | $ 265.8 | $ (127.0) | $ 138.8 | $ 28.2 | $ 167.0 | $ 240.6 | $ (114.7) | $ 125.9 | $ 25.4 | $ 151.3 | 10.4% |
| Mexico | 168.0 | (82.0) | 86.0 | 17.9 | 103.9 | 116.1 | (56.7) | 59.4 | 12.4 | 71.8 | 44.7% |
| South & Central America | 205.6 | (98.2) | 107.4 | 17.9 | 125.3 | 151.9 | (73.0) | 78.9 | 12.4 | 91.3 | 37.2% |
| EMEA | 248.3 | (119.4) | 128.9 | 25.0 | 153.9 | 209.3 | (100.4) | 108.9 | 21.9 | 130.8 | 17.7% |
| Asia Pacific | 314.3 | (144.3) | 170.0 | 29.3 | 199.3 | 227.1 | (105.4) | 121.7 | 19.3 | 141.0 | 41.3% |
| China | 50.8 | (5.1) | 45.7 | | 45.7 | 35.5 | (3.1) | 32.4 | | 32.4 | 41.0% |
| Worldwide | $ 1,252.8 | $ (576.0) | $ 676.8 | $ 118.3 | $ 795.1 | $ 980.5 | $ (453.3) | $ 527.2 | $ 91.4 | $ 618.6 | 28.5% |

Changes in net sales are directly associated with the recruiting and retention of our distributor force, retailing of our products, the quality and completeness of our product offerings that the distributor force has to sell and the number of countries in which we operate. Management s role, both in-country and at the region and corporate level, is to provide distributors with a competitive and broad product line, encourage strong teamwork and distributor leadership and offer leading edge business tools and technology services to make doing business with Herbalife simple. Management uses the distributor marketing program coupled with educational and motivational tools and promotions to incentivize distributors to increase recruiting, retention and retailing, which in turn affect net sales. Such tools include Company sponsored sales events such as Extravaganzas, Leadership Development Weekends and World Team Schools where large groups of distributors gather, thus allowing them to network with other distributors, learn recruiting, retention and retailing techniques from our leading distributors and become more familiar with how to market and sell our products and business opportunities. Accordingly, management believes that these development and motivation programs increase the productivity of the sales leader network. The expenses for such programs are included in selling, general and administrative expenses. Sales are driven by several factors, including the number and productivity of distributors and sales leaders who continually build, educate and motivate their respective distribution and sales organizations. We also use event and non-event product promotions to motivate distributors to increase recruiting, retention and retailing activities. These promotions have prizes ranging from qualifying for events to product prizes and vacations. The costs of these promotions are included in selling, general and administrative expenses.

The factors described above have helped distributors increase their business, which in turn helps drive Volume Point growth in our business, and thus, net sales growth. The discussion below of net sales by geographic region further details some of the specific drivers of growth of our business and causes of sales increases and decreases during the three months ended March 31, 2011 and 2010, as well as the unique growth or contraction factors specific to certain geographic regions or major countries. We believe that the correct business foundation, coupled with ongoing training

and promotional initiatives, is required to increase recruiting and retention of distributors and retailing of our products. This correct business foundation includes strong country management that works closely with the distributor leadership, actively engaged and unified distributor leadership, a broad product line that appeals to local consumer needs, a favorable regulatory environment, a scalable and stable technology platform and an attractive distributor marketing plan. Initiatives, such as Success Training Seminars, Leadership Development Weekends, Promotional Events and regional Extravaganzas are integral components of developing a highly motivated and educated distributor sales organization that will work toward increasing the recruitment and retention of distributors.

We anticipate that our strategy will continue to include creating and maintaining growth within existing markets, while expanding into new markets. In addition, new ideas and DMOs, are being generated in many of our regional markets and are globalized where applicable, through the combined efforts of distributors, country management or regional and corporate management. While we support a number of different DMOs, one of the more popular DMOs is the daily consumption DMO. Under our traditional DMO, a distributor typically sells to its customers on a somewhat infrequent basis (e.g., monthly) which provides fewer opportunities for interaction with their customers. Under a daily consumption DMO, a distributor interacts with its customers on a more frequent basis which enables the distributor to better educate and advise customers about nutrition and the proper use of the products and helps promote daily usage as well, thereby helping the distributor grow his or her business. Specific examples of DMOs include the Club concept in Mexico, Premium Herbalife Opportunity Meetings in Korea, the Healthy Breakfast concept in Russia, and the Internet/Sampling and Weight Loss Challenge in the U.S. Management s strategy is to review the applicability of expanding successful country initiatives throughout a region, and where appropriate, financially support the globalization of these initiatives.

***North America***

The North America region reported net sales of $167.0 million for the three months ended March 31, 2011. Net sales increased $15.7 million, or 10.4%, for the three months ended March 31, 2011, as compared to the same period in 2010. In local currency, net sales increased 10.3% for the three months ended March 31, 2011, as compared to the same period in 2010. The overall increase in the region was a result of net sales growth in the U.S. of $15.5 million, or 10.6%, for the three months ended March 31, 2011 as compared to the same period in 2010. We instituted a 3% price increase in the U.S. in early March 2011 which contributed modestly to local currency sales growth.

In the U.S. we continue to see the success of our distributors converting their business focus toward a daily consumption DMO, especially the Nutrition Club DMO, and its extension into Commercial Clubs, along with the continued development of the Weight Loss Challenge DMO. The success of these DMOs have resulted in higher levels of distributor engagement and momentum as reflected by record sales leader retention of 48.3% in 2011 compared to 43.1% in 2010.

Average active sales leaders in the region increased 14.7% for the three months ended March 31, 2011 as compared to the same period in 2010. Average active sales leaders in the U.S. increased 15.0% for the three months ended March 31, 2011 as compared to the same period in 2010. Total sales leaders in the region increased 11.1% as of March 31, 2011 compared to March 31, 2010.

In January 2011, the region hosted a Future President s Team Retreat with approximately 700 attendees. As part of our city by city tour, the region also hosted January Spectaculars and Mega Escuelas where there were more than 9,200 attendees in 14 cities.

In March 2011, Herbalife hosted its annual global Herbalife Honors event in Los Angeles, California where President Team members from around the world met and shared best practices, conducted leadership trainings and Herbalife management awarded distributors $41.3 million in Mark Hughes bonus payments related to 2010 performance.

***Mexico***

The Mexico region reported net sales of $103.9 million for the three months ended March 31, 2011. Net sales for the three months ended March 31, 2011 increased $32.1 million, or 44.7%, as compared to the same period in 2010. In local currency, net sales for the three months ended March 31, 2011 increased 36.5% as compared to the same period in 2010. The fluctuation of foreign currency rates had a favorable impact of $5.8 million on net sales for the three months ended March 31, 2011.

We believe that the growth in local currency sales is the result of increased distributor engagement as reflected by record 2011 sales leader retention of 57.9% compared to 50.4% in 2010. In addition, since the beginning of 2010 we have significantly expanded our distribution network and product access throughout the country.

Average active sales leaders in Mexico increased 23.2% for the three months ended March 31, 2011 as compared to the same period in 2010. Total sales leaders in Mexico increased 18.9% as of March 31, 2011, compared to March 31, 2010.

In January 2011, the region hosted a Future President s Team Retreat and Future Millionaire Team Retreat with approximately 550 and 1,300 attendees, respectively.

***South and Central America***

The South and Central America region reported net sales of $125.3 million for the three months ended March 31, 2011. Net sales increased $34.0 million, or 37.2%, for the three months ended March 31, 2011 as compared to the same period in 2010. In local currency, net sales increased 28.4% for the three months ended March 31, 2011 as compared to the same period in 2010. The fluctuation of foreign currency rates had a $8.0 million favorable impact on net sales for the three months ended March 31, 2011. The increase in net sales for the three months ended March 31, 2011 was driven by increases in net sales in all but three countries in the region.

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In Brazil, the region s largest market, net sales increased $24.1 million, or 51.5%, for the three months ended March 31, 2011 as compared to the same period in 2010. In local currency, net sales increased 40.1% for the three months ended March 31, 2011 as compared to the same period in 2010. The increase in local currency net sales was primarily the result of the successful adoption of Nutrition Clubs and other daily consumption DMOs. The fluctuation of foreign currency rates had a $5.3 million favorable impact on net sales in Brazil for the three months ended March 31, 2011. Sales leader retention in 2011 was a record 46.7% compared to 42.6% in 2010.
Venezuela, the region s second largest market, experienced a net sales increase of $3.0 million, or 35.0%, for the three months ended March 31, 2011 as compared to the same period in 2010. In local currency, net sales increased 10.3% for the three months ended March 31, 2011 as compared to the same period in 2010. The sales growth in local currency was partially driven by price increases of 8% and 10% in July 2010 and November 2010, respectively. See *Liquidity and Capital Resources Working Capital and Operating Activities* below for further discussion of currency exchange rate issues in Venezuela. Sales leader retention in 2011 was 42.0% compared to 31.2% in 2010.
Average active sales leaders in the region increased 13.8% for the three months ended March 31, 2011 as compared to the same period in 2010. Total sales leaders in the region increased 0.7% as of March 31, 2011 compared to March 31, 2010.
In February 2011, the region hosted two Extravaganzas in Buenos Aires, Argentina and Bogota, Colombia. Together, the events had over 15,000 attendees.

***EMEA***

The EMEA region reported net sales of $153.9 million for the three months ended March 31, 2011. Net sales increased $23.1 million, or 17.7%, for the three months ended March 31, 2011 as compared to the same period in 2010. In local currency, net sales increased 17.5% for the three months ended March 31, 2011 as compared to the same period in 2010. The fluctuation of foreign currency rates had a favorable impact on net sales of $0.2 million for the three months ended March 31, 2011. The increase in net sales for the three months ended March 31, 2011 was driven by increases in net sales in Russia, Commonwealth of Independent States, Italy and Ukraine, partially offset by a decrease in France.
Net sales in Italy, our largest market in the region, increased $2.3 million, or 8.0%, for the three months ended March 31, 2011 as compared to the same period in 2010. In local currency, net sales increased 9.3% for the three months ended March 31, 2011 as compared to the same period in 2010. The increase in net sales was primarily driven by the transition to daily consumption DMOs from the traditional recruiting model. Sales leader retention for 2011 was 58.8% compared to 58.1% in 2010.
Net sales in Russia, our second largest market in the region, increased $8.9 million, or 94.2%, for the three months ended March 31, 2011 as compared to the same period in 2010. In local currency, net sales increased 90.2% for the three months ended March 31, 2011 as compared to the same period in 2010. The increase in Russia was driven by the ongoing adoption of the Commercial Nutrition Club along with additional sales centers which have increased access to our products. Sales leader retention for 2011 was a record 69.6% compared to 60.4% in 2010.
Net sales in Spain, our third largest market in the region, increased $1.5 million, or 15.6%, for the three months ended March 31, 2011 as compared to the same period in 2010. In local currency, net sales in Spain increased 17.0% for the three months ended March 31, 2011 as compared to the same period in 2010. The increase in Spain was mainly due to the positive effect of increased distributor engagement and recruitment which was aided by our sponsorship of FC Barcelona. Sales leader retention for 2011 was a record 65.5% compared to 44.8% in 2011.
Net sales in France, our fourth largest market in the region, decreased $2.5 million, or 27.2%, for the three months ended March 31, 2011 as compared to the same period in 2010. In local currency, net sales in France decreased 26.3% for the three months ended March 31, 2011 as compared to the same period in 2010. The decrease in net sales in France was mainly due to lower recruiting. Sales leader retention in 2011 was 43.5% compared to 36.6% in 2010.
Average active sales leaders in the region increased 12.2% for the three months ended March 31, 2011 as compared to the same period in 2010. Total sales leaders in the region increased 6.0% as of March 31, 2011 compared to March 31, 2010.
There were no major events for the region in the first quarter.

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***Asia Pacific***

The Asia Pacific region, which excludes China, reported net sales of $199.3 million for the three months ended March 31, 2011. Net sales increased $58.3 million, or 41.3%, for the three months ended March 31, 2011 as compared to the same period in 2010. In local currency, net sales increased 35.6% for the three months ended March 31, 2011 as compared to the same period in 2010. The fluctuation of foreign currency rates had a favorable impact of $8.1 million on net sales for the three months ended March 31 2011. The increase in net sales for the three months ended March 31, 2011 was broad based with all but three countries in the region showing year-over-year net sales growth led by South Korea, India, Malaysia, and Indonesia.

Net sales in South Korea, our largest market in the region, increased $26.3 million, or 73.7%, for the three months ended March 31, 2011 as compared to the same period in 2010. In local currency, net sales increased 69.9% for the three months ended March 31, 2011 as compared to the same period in 2010. The increase in net sales was primarily driven by the successful adoption and operation of the Nutrition Club DMO, in the form of Commercial Clubs along with the Mega and Premium Herbalife Opportunity Meetings. The fluctuation of foreign currency rates had a favorable impact on net sales of $1.3 million for the three months ended March 31, 2011 as compared to the same period in 2010. Sales leader retention in 2011 was 38.1% compared to 36.5% in 2010.

Net sales in Taiwan, our second largest market in the region, increased $0.7 million, or 1.8%, for the three months ended March 31, 2011 as compared to the same period in 2010. In local currency, net sales decreased 6.6% for the three months ended March 31, 2011 as compared to the same period in 2010. The fluctuation of foreign currency rates had a favorable impact on net sales of $3.1 million for the three months ended March 31, 2011 as compared to the same period in 2010. Sales leader retention in 2011 was 41.0% compared to 43.0% in 2010.

Net sales in India, our third largest market in the region, increased $16.6 million, or 164.7%, for the three months ended March 31, 2011 as compared to the same period in 2010. In local currency, net sales increased 160.9% for the three months ended March 31, 2011 as compared to the same period in 2010. The increase in net sales for the three months ended March 31, 2011 was primarily driven by the successful adoption of the Nutrition Club DMO. The fluctuation of foreign currency rates had a favorable impact on net sales of $0.4 million for the three months ended March 31, 2011 as compared to the same period in 2010. Sales leader retention in 2011 was a record 32.9% compared to 31.5% in 2010.

Net sales in Malaysia, our fourth largest market in the region, increased $5.5 million, or 41.3%, for the three months ended March 31, 2011 as compared to the same period in 2010, reflecting the continued success of the Road Show DMO, which has generated positive distributor momentum and increased recruiting. In local currency, net sales increased 27.7% for the three months ended March 31, 2011 as compared to the same period in 2010. The fluctuation of foreign currency rates had a favorable impact on net sales of $1.8 million for the three months ended March 31, 2011 as compared to the same period in 2010. Sales leader retention stayed constant in 2011 compared to 2010 at 32.6%.

Net sales in Japan, our fifth largest market in the region, decreased $0.1 million, or 0.5%, for the three months ended March 31, 2011 as compared to the same period in 2010. In local currency, net sales increased 1.8% for the three months ended March 31, 2011 as compared to the same period in 2010. The fluctuation of foreign currency rates had an unfavorable impact on net sales of $0.3 million for the three months ended March 31, 2011 as compared to the same period in 2010. Sales leader retention in 2011 was a record 62.7% compared to 52.0% in 2010. The earthquake and resulting tsunami in early March do not appear to have had a significant negative impact on sales following these tragedies. Japan represented approximately 2% of our worldwide sales for the quarter ended March 31, 2011.

Average active sales leaders in the region increased 27.0% for the three months ended March 31, 2011 as compared to the same period in 2010. Total sales leaders in the region increased 22.1% as of March 31, 2011 compared to March 31, 2010.

There were no major events for the region in the first quarter.

***China***

Net sales in China were $45.7 million for the three months ended March 31, 2011. Net sales increased $13.3 million, or 41.0%, for the three months ended March 31, 2011 as compared to the same period in 2010. In local currency, net sales increased 36.3% for the three months ended March 31, 2011 as compared to the same period in 2010. The

fluctuation of foreign currency rates had a favorable impact of $1.6 million on net sales for the three months ended March 31, 2010.

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The current focus in China is to expand the Nutrition Club DMO to enhance the retail focus and thereby increase the emphasis on daily consumption DMOs. We believe that the Nutrition Club concept is slowly starting to gain traction as evidenced by the growth in clubs over the past year. While we believe the Nutrition Club DMO has tremendous potential to expand throughout China and achieve success similar to Taiwan and South Korea, we also realize that the process is still in its early development stage and will most likely build gradually over the next few years.

As of March 31, 2011, we had direct-selling licenses in 16 provinces and we were operating 71 retail stores in 30 provinces in China. The 16 provinces in which we now have direct-selling licenses represent an addressable population of approximately 844 million.

Average active sales leaders in China increased 36.7% for the three months ended March 31, 2011 as compared to the same period in 2010. Total sales leaders in China increased 10.8% as of March 31, 2011 compared to March 31, 2010.

**Sales by Product Category**

| | Three Months Ended March 31, | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | | | 2010 | | | | | |
| | Retail Sales | Distributor Allowance | Product Sales | Shipping & Handling Revenues | Net Sales | Retail Sales | Distributor Allowance | Product Sales | Shipping & Handling Revenues | Net Sales | % Change in Net Sales |
| | (In millions) | | | | | | | | | | |
| Weight Management | $ 806.1 | $ (383.7) | $ 422.4 | $ 76.2 | $ 498.6 | $ 630.6 | $ (302.2) | $ 328.4 | $ 58.8 | $ 387.2 | 28.8% |
| Targeted Nutrition | 291.5 | (138.8) | 152.7 | 27.5 | 180.2 | 225.7 | (108.2) | 117.5 | 21.1 | 138.6 | 30.0% |
| Energy, Sports and Fitness | 57.5 | (27.4) | 30.1 | 5.4 | 35.5 | 42.1 | (20.2) | 21.9 | 3.9 | 25.8 | 37.6% |
| Outer Nutrition | 59.1 | (28.1) | 31.0 | 5.6 | 36.6 | 50.6 | (24.3) | 26.3 | 4.7 | 31.0 | 18.1% |
| Literature, Promotional and Other | 38.6 | 2.0 | 40.6 | 3.6 | 44.2 | 31.5 | 1.6 | 33.1 | 2.9 | 36.0 | 22.8% |
| Total | $ 1,252.8 | $ (576.0) | $ 676.8 | $ 118.3 | $ 795.1 | $ 980.5 | $ (453.3) | $ 527.2 | $ 91.4 | $ 618.6 | 28.5% |

Net sales for all product categories increased for the three months ended March 31, 2011 as compared to the same periods in 2010, mainly due to the factors described in the above discussions of the individual geographic regions.

**Gross Profit**

Gross profit was $632.3 million for the three months ended March 31, 2011, as compared to $478.2 million for the three months ended March 31, 2010. As a percentage of net sales, gross profit for the three months ended March 31, 2011 increased to 79.5%, as compared to 77.3% for the same period in 2010, or a favorable net increase of 220 basis points. 216 basis points of the favorable net increase related to circumstances surrounding Herbalife Venezuela and Venezuela s highly inflationary economy, the circumstances of which are described in great detail throughout our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, or the 2010 10-K. Specifically, the 216 basis point increase resulted from the combination of (i) 206 favorable basis points from recognizing an unfavorable foreign exchange impact of $12.7 million during the first quarter 2010, relating to the incremental U.S. dollar cost of importing finished goods into Venezuela at the unfavorable parallel market rate rather than the CADIVI official rate,

and (ii) 10 favorable basis points from the impact of remeasuring Herbalife Venezuela s Bolivar net sales at the SITME rate during the first quarter 2011, as opposed to being measured at the less favorable old parallel market rate during the first quarter 2010. See *Liquidity and Capital Resources Working Capital and Operating Activities* below for further discussion on currency exchange rate issues in Venezuela. We believe that at least in the near term we will continue to have the ability to partially mitigate certain cost pressures through improved optimization of our supply chain coupled with select increases in the retail prices of our products.

**Royalty Overrides**

Royalty overrides were $264.4 million for the three months ended March 31, 2011, as compared to $207.3 million for the same period in 2010. Royalty overrides as a percentage of net sales was 33.2% for the three months ended March 31, 2011, as compared to 33.5% for the same period in 2010. Generally, this ratio varies slightly from period to period due to changes in the mix of products and countries because full royalty overrides are not paid on certain products and in certain countries. Compensation to our full-time sales employees and licensed business providers in China is included in selling, general and administrative expenses as opposed to royalty overrides where it is included for all other distributors under our worldwide marketing plan. We anticipate fluctuations in royalty overrides as a percentage of net sales reflecting the growth prospect of our China business relative to that of our worldwide business.

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**Selling, General and Administrative Expenses**

Selling, general and administrative expenses were $244.5 million for the three months ended March 31, 2011, as compared to $206.9 million for the same period in 2010. Selling, general and administrative expenses as a percentage of net sales was 30.8% for the three months ended March 31, 2011, as compared to 33.4% for the same period in 2010.

The increase in selling, general and administrative expenses for the three months ended March 31, 2011 included $16.5 million in higher salaries, bonuses and benefits, excluding China sales employees; higher variable expenses including $12.1 million in higher distributor promotion and event costs, $5.6 million in higher expenses related to China sales employees and licensed business providers, $2.3 million in higher credit card fees and $5.6 million in higher non-income tax expense; partially offset by lower foreign exchange losses of $10.3 million mainly due to a $11.4 million net foreign exchange loss related to Venezuela that was recorded during the three months ended March 31, 2010.

**Net Interest Expense**

Net interest expense is as follows:

| Net Interest Expense | Three Months Ended March 31, 2011 | Three Months Ended March 31, 2010 |
|---|---|---|
| | (Dollars in millions) | |
| Interest expense | 3.3 | 2.4 |
| Interest income | (0.7) | (0.5) |
| Net interest expense | $ 2.6 | $ 1.9 |

The increase in net interest expense for the three months ended March 31, 2011 as compared to the same period in 2010 was primarily due to the write-off of unamortized deferred financing cost related to the extinguishment of our Prior Credit Facility. See *Liquidity and Capital Resources* below for further discussion of the refinancing.

**Income Taxes**

Income taxes were $33.2 million for the three month ended March 31, 2011, as compared to $10.1 million for the same period in 2010. As a percentage of pre-tax income, the effective income tax rate was 27.5% for the three months ended March 31, 2011, as compared to 16.3% for the same period in 2010. The increase in the effective tax rate for the three months ended March 31, 2011, as compared to the same period in 2010, was primarily due to the conversion of Venezuela to a hyperinflationary currency in 2010, for which a $14.5 million deferred income tax benefit was recorded during the three months ended March 31, 2010, as well as a change in the operating effective rate reflecting changes in the country mix. See Note 12, *Income Taxes,* in the notes to the consolidated financial statements in the 2010 10-K for additional discussion on the income tax impact related to Venezuela becoming a highly inflationary economy.

**Subsequent Events**

On April 28, 2011, our shareholders approved a 2-for-1 split of our common shares. One additional common share will be distributed to our shareholders on or around May 17, 2011, for each common share held on May 10, 2011.

On May 2, 2011, we announced that our board of directors approved a post stock split cash dividend of $0.20 per common share, payable on June 7, 2011 to shareholders of record as of May 24, 2011.

**Liquidity and Capital Resources**

We have historically met our working capital and capital expenditure requirements, including funding for expansion of operations, through net cash flows provided by operating activities. Our principal source of liquidity is our operating cash flows. Variations in sales of our products would directly affect the availability of funds. There are no material contractual restrictions on the ability to transfer and remit funds among our international affiliated companies. However, as discussed below there are foreign currency restrictions in Venezuela. As noted above, we have historically met our funding needs utilizing cash flow from operating activities and we believe we will have

sufficient resources to meet debt service obligations in a timely manner. Our existing debt has not resulted from the need to fund our normal operations, but instead has effectively resulted from our share repurchase and dividend activities over recent years, which together, since the inception of these programs in 2007, amounted to approximately $935.6 million. While a significant net sales decline could potentially affect the availability of funds, many of our largest expenses are purely variable in nature, which we believe protects our funding in all but a dramatic net sales downturn. Further, as discussed in greater detail below, we maintain a revolving credit facility, recently executed on March 9, 2011, which had $520.0 million of undrawn capacity as of March 31, 2011.

For the three months ended March 31, 2011, we generated $107.5 million of operating cash flow, as compared to $87.4 million for the same period in 2010. The increase in cash generated from operations was primarily due to an increase in operating income of $59.4 million driven by a 28.5% growth in net sales for the three months ended March 31, 2011 as compared to the same period in 2010.

Capital expenditures, including capital leases, for the three months ended March 31, 2011 and 2010, were $28.3 million and $11.6 million, respectively. The majority of these expenditures represented investments in management information systems, the development of our distributor internet initiatives, and the expansion of our warehouse, sales centers and manufacturing facilities domestically and internationally. We expect to incur total capital expenditures of approximately $80 million to $90 million for all of 2011.

On March 9, 2011, we entered into a $700.0 million senior secured revolving credit facility, or the New Credit Facility, with a syndicate of financial institutions as lenders and terminated its prior senior secured credit facility, or the Prior Credit Facility, that consisted of a term loan and a revolving credit facility. The New Credit Facility has a five year maturity and expires on March 9, 2016. During March 2011, U.S. dollar borrowings under the New Credit Facility incurred interest at the base rate plus a margin of 0.75% or LIBOR plus a margin of 1.75%. After March 2011, based on our consolidated leverage ratio, U.S. dollar borrowings under the New Credit Facility will bear interest at either LIBOR plus the applicable margin between 1.50% and 2.50% or the base rate plus the applicable margin between 0.50% and 1.50%. We, based on our consolidated leverage ratio, will pay a commitment fee between 0.25% and 0.50% per annum on the unused portion of the New Credit Facility. The New Credit Facility also permits us to borrow limited amounts in Mexican Peso and Euro currencies based on variable rates. The base rate under the New Credit Facility represents the highest of the Federal Funds Rate plus 0.50%, one-month LIBOR plus 1.00%, and the prime rate offered by Bank of America.

In March 2011, we used $196.0 million in U.S. dollar borrowings under the New Credit Facility to repay all amounts outstanding under the Prior Credit Facility. We incurred approximately $5.5 million of debt issuance costs in connection with the New Credit Facility. These debt issuance costs were recorded as deferred financing costs on our condensed consolidated balance sheet and are being amortized over the term of the New Credit Facility. On March 31, 2011 and December 31, 2010, the weighted average interest rate for borrowings under the New Credit Facility and the Prior Credit Facility was 1.99% and 1.75%, respectively.

The New Credit Facility requires us to comply with a leverage ratio and an interest coverage ratio. In addition, the New Credit Facility contains customary covenants, including covenants that limit or restrict our ability to incur liens, incur indebtedness, make investments, dispose of assets, make certain restricted payments, pay dividends, merge or consolidate and enter into certain transactions with affiliates. As of March 31, 2011, we were in compliance with these covenants.

During the three months ended March 31, 2011, we borrowed $235.7 million and $54.0 million under the New Credit Facility and the Prior Credit Facility, respectively, and paid a total of $55.7 million and $228.9 million of the New Credit Facility and Prior Credit Facility, respectively.

The following summarizes our contractual obligations including interest at March 31, 2011, and the effect such obligations are expected to have on our liquidity and cash flows in future periods:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Total | 2011 | 2012 2013 | 2014 2015 | 2016 & Thereafter |
| | (Dollars in millions) | | | | |
| Borrowings under the senior credit facility, including expected interest | $ 197.8 | $ 2.7 | $ 7.2 | $ 7.2 | $ 180.7 |
| Capital leases, including expected interest | 2.7 | 1.6 | 1.1 | | |
| Operating leases | 168.4 | 31.9 | 65.8 | 43.0 | 27.7 |
| Other | 16.5 | 6.5 | 10.0 | | |

| | | | | | |
|---|---|---|---|---|---|
| Total | $ 385.4 | $ 42.7 | $ 84.1 | $ 50.2 | $ 208.4 |

***Off Balance Sheet Arrangements***

At March 31, 2011 and December 31, 2010, we had no material off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

***Dividends***

The declaration of future dividends is subject to the discretion of our board of directors and will depend upon various factors, including our earnings, financial condition, restrictions imposed by the New Credit Facility, cash requirements, future prospects and other factors deemed relevant by our board of directors. The New Credit Facility permits payments of dividends as long as no default or event of default exists and the consolidated leverage ratio specified in the New Credit Facility is not exceeded.

On February 22, 2011, we announced that our board of directors approved a quarterly cash dividend of $0.25 per common share in an aggregate amount of $14.8 million that was paid to shareholders on March 22, 2011. The aggregate amount of dividends declared and paid during the three months ended March 31, 2011 and 2010 were $14.8 million and $12.1 million, respectively.

***Share Repurchases***

On April 30, 2009, we announced that our board of directors authorized a new program for us to repurchase up to $300 million of Herbalife common shares during the next two years, at such times and prices as determined by management. On May 3, 2010, our board of directors approved an increase to the share repurchase authorization from $300 million to $1 billion. In addition, our board of directors approved the extension of the expiration date of the share repurchase program from April 2011 to December 2014. We did not repurchase any common shares in the open market during the three months ended March 31, 2011. As of March 31, 2011, the remaining authorized capacity under our share repurchase program was approximately $776.7 million.

***Stock Split***

On February 18, 2011, our Board of Directors approved a two-for-one split of our common shares, subject to approval by our shareholders at our Annual General Meeting of Shareholders held on April 28, 2011. See Note 14, *Subsequent Events*, to the Notes to the Condensed Consolidated Financial Statements for further information on the stock split being approved by our shareholders on April 28, 2011.

***Working Capital and Operating Activities***

As of March 31, 2011 and December 31, 2010, we had positive working capital of $210.9 million, and $124.8 million, respectively. Cash and cash equivalents were $260.8 million at March 31, 2011 and $190.6 million at December 31, 2010.

We expect that cash and funds provided from operations and available borrowings under our revolving credit facility will provide sufficient working capital to operate our business, to make expected capital expenditures and to meet foreseeable liquidity requirements, including amounts outstanding under our New Credit Facility, for the next twelve months.

The majority of our purchases from suppliers are generally made in U.S. dollars, while sales to our distributors generally are made in local currencies. Consequently, strengthening of the U.S. dollar versus a foreign currency can have a negative impact on net sales and operating margins and can generate transaction losses on intercompany transactions. For discussion of our foreign exchange contracts and other hedging arrangements, see Part I, Item 3 *Quantitative and Qualitative Disclosures about Market Risk.*

***Venezuela***

***Currency Restrictions***

Currency restrictions enacted by the Venezuelan government in 2003 have become more restrictive and have impacted the ability of our subsidiary in Venezuela, Herbalife Venezuela, to obtain U.S. dollars in exchange for Venezuelan Bolivars, or Bolivars, at the official foreign exchange rates from the Venezuelan government and its foreign exchange commission, CADIVI. The application and approval processes have been intermittently delayed and the timing and ability to obtain U.S. dollars at the official exchange rates remain uncertain. In certain instances, we have made appropriate applications through CADIVI for approval to obtain U.S. dollars so that Herbalife Venezuela can pay for imported products and an annual dividend at the official exchange rate. As an alternative exchange mechanism, we have also participated in certain bond offerings from the Venezuelan government and from Petróleos de Venezuela, S.A. or PDVSA, a Venezuelan state-owned petroleum company, where we effectively purchased bonds with our Bolivars and then sold the bonds for U.S. dollars. In other instances, we used a legal but less favorable parallel market mechanism for currency exchange. In May 2010, this less favorable parallel market was discontinued.

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In June 2010, the Venezuelan government introduced additional regulations under a new regulated system, SITME, which is controlled by the Central Bank of Venezuela. SITME provides a mechanism to exchange Bolivars into U.S. dollars through the purchase and sale of U.S. dollar denominated bonds issued in Venezuela. However, SITME is only available in certain limited circumstances. Specifically, SITME can only be used for product purchases and is not available for other matters such as the payment of dividends. Also, SITME can only be used for amounts of up to $50,000 per day and $350,000 per month and is generally only available to the extent the applicant has not exchanged and received U.S. dollars via the CADIVI process within the previous 90 days.

In late December 2010, Venezuela announced that the CADIVI official exchange rate of 2.6 Bolivars per U.S. dollar would be eliminated and the CADIVI official exchange of 4.3 Bolivars per U.S. dollar would be used for all essential items and non-essential items beginning January 2011. This devaluation did not have a material impact on our condensed consolidated financial statements. At March 31, 2011, we used the SITME rate of 5.3 Bolivars per U.S. dollar for remeasurement purposes.

In February 2011, Herbalife Venezuela purchased U.S. dollar denominated bonds with a face value of $20 million U.S. dollars in a bond offering from PDVSA for 86 million Bolivars and then immediately sold the bonds for $15 million U.S. dollars, resulting in an average effective conversion rate of 5.7 Bolivars per U.S. dollar. The 86 million Bolivars were previously remeasured at the regulated system rate, or SITME rate, of 5.3 Bolivars per U.S. dollar and recorded as cash and cash equivalents of $16.3 million on our consolidated balance sheet at December 31, 2010. This Bolivar to U.S. dollar conversion resulted in us recording a net pre-tax loss of $1.3 million U.S. dollars in our condensed consolidated statement of income for the three months ended March 31, 2011.

See the 2010 10-K for further information on Herbalife Venezuela and Venezuela s high inflationary economy.

***Consolidation of Herbalife Venezuela***

We plan to continue our operation in Venezuela and to import products into Venezuela despite the foreign currency constraints. Herbalife Venezuela will continue to apply for legal exchange mechanisms to convert its Bolivars to U.S. dollars. Despite the currency exchange restrictions in Venezuela, we continue to control Herbalife Venezuela and its operations. The mere existence of the exchange restrictions discussed above does not in and of itself create a presumption that this lack of exchangeability is other-than-temporary, nor does it create a presumption that an entity should deconsolidate its Venezuelan operations. Therefore, we continue to consolidate Herbalife Venezuela in our consolidated financial statements for U.S. GAAP purposes. Substantially all of Herbalife Venezuela s Bolivar denominated assets and liabilities are currently being remeasured at the SITME rate.

Although there are delays in the CADIVI approval process, when applicable, we plan to continue applying to CADIVI to obtain the official rate relating to the importation of our products. In addition, we plan to utilize the SITME market to the extent allowable under current restrictions in order to exchange Bolivars to U.S. dollars. Our ability to access the official exchange rate and the SITME rate could impact what exchange rates will be used for remeasurement purposes in future periods. We continue to assess and monitor the current economic and political environment in Venezuela.

As of March 31, 2011, Herbalife Venezuela s net monetary Bolivar denominated assets and liabilities were approximately $9.0 million, and included approximately $13.1 million in Bolivar denominated cash and cash equivalents and approximately $4.8 million in U.S. dollar denominated cash. The majority of these Bolivar denominated assets and liabilities were remeasured at the regulated SITME rate. Although Venezuela is an important market in our South and Central America Region, Herbalife Venezuela s net sales represented less than 2% of our consolidated net sales for both the three months ended March 31, 2011 and 2010 and its total assets represented less than 3% of our consolidated total assets as of both March 31, 2011 and December 31, 2010.

**Contingencies**

We are from time to time engaged in routine litigation. We regularly review all pending litigation matters in which we are involved and establish reserves deemed appropriate by management for these litigation matters when a probable loss estimate can be made.

As a marketer of dietary and nutritional supplements and other products that are ingested by consumers or applied to their bodies, we have been and are currently subjected to various product liability claims. The effects of these claims to date have not been material to us, and the reasonably possible range of exposure on currently existing claims is not

material to us. We believe that we have meritorious defenses to the allegations contained in the lawsuits. We currently maintain product liability insurance with an annual deductible of $10 million.
On April 16, 2007, Herbalife International of America, Inc. filed a Complaint in the United States District Court for the Central District of California against certain former Herbalife distributors who had left the Company to join a competitor. The Complaint alleged breach of contract, misappropriation of trade secrets, intentional interference with prospective economic advantage, intentional interference with contract, unfair competition, constructive trust and fraud and seeks monetary damages, attorney s fees and injunctive relief (*Herbalife International of America, Inc. v. Robert E. Ford, et al*). The court entered a Preliminary Injunction against the defendants enjoining them from further use and/or misappropriation of our trade secrets on December 11, 2007. Defendants appealed the court s entry of the Preliminary Injunction to the U.S. Court of Appeals for the Ninth Circuit. That court affirmed, in relevant part, the Preliminary Injunction. On December 3, 2007, the defendants filed a counterclaim alleging that the Company had engaged in unfair and deceptive business practices, intentional and negligent interference with prospective economic advantage, false advertising and that the Company was an endless chain scheme in violation of California law and seeking restitution, contract rescission and an injunction. Both sides engaged in discovery and filed cross motions for Summary Judgment. On August 25, 2009, the court granted partial summary judgment for Herbalife on all of defendants claims except the claim that the Company is an endless chain scheme which under applicable law is a question of fact that can only be determined at trial. The court denied defendants motion for Summary Judgment on Herbalife s claims for misappropriation of trade secrets and breach of contract. On May 5, 2010, the District Court granted summary judgment for Herbalife on defendants endless chain-scheme counterclaim. Herbalife voluntarily dismissed its remaining claims, and on May 14, 2010, the District Court issued a final judgment dismissing all of the parties claims. On June 10, 2010 the defendants appealed from that judgment and on June 21, 2010, Herbalife cross-appealed. The parties have reached a settlement of the case which they are in the process of documenting. Herbalife will incur no financial liability in this settlement.

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Certain of our subsidiaries have been subject to tax audits by governmental authorities in their respective countries. In certain of these tax audits, governmental authorities are proposing that significant amounts of additional taxes and related interest and penalties are due. We and our tax advisors believe that there are substantial defenses to their allegations that additional taxes are owed, and we are vigorously contesting the additional proposed taxes and related charges. On May 7, 2010, we received an administrative assessment from the Mexican Tax Administration Service in an amount equivalent to approximately $96 million, translated at the period ended spot rate, for various items, the majority of which was Value Added Tax allegedly owed on certain of the Company s products imported into Mexico during the years 2005 and 2006. This assessment is subject to interest and inflationary adjustments. On July 8, 2010, we initiated a formal administrative appeal process. In connection with the appeal of the assessment, we may be required to post bonds for some or all of the assessed amount. Therefore, in July 2010, we entered into agreements with certain insurance companies to allow for the potential issuance of surety bonds in support of its appeal of the assessment. Such surety bonds, if issued, would not affect the availability of our New Credit Facility. We did not record a provision as we, based on analysis and guidance from our advisors, do not believe a loss is probable. Further, we are currently unable to reasonably estimate a possible loss or range of loss that could result from an unfavorable outcome in respect to this assessment or any additional assessments that may be issued for these or other periods. We believe that we have meritorious defenses and are vigorously pursuing the appeal, but final resolution of this matter could take several years.

These matters may take several years to resolve. While we believe we have meritorious defenses, it cannot be sure of their ultimate resolution. Although we have reserved amounts for certain matters that we believe represent the most likely outcome of the resolution of these related disputes, if we are incorrect in the assessment, we may have to record additional expenses, when it becomes probable that an increased potential liability is warranted.

**Critical Accounting Policies**

U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. We regularly evaluate our estimates and assumptions related to revenue recognition, allowance for product returns, inventory reserves, share-based compensation expense, goodwill and purchased intangible asset valuations, deferred income tax asset valuation allowances, uncertain tax positions, tax contingencies, and other loss contingencies. We base our estimates and assumptions on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of revenue, costs and expenses. Actual results could differ from those estimates. We consider the following policies to be most critical in understanding the judgments that are involved in preparing the financial statements and the uncertainties that could impact our operating results, financial condition and cash flows.

We are a network marketing company that sells a wide range of weight management products, nutritional supplements, energy, sports & fitness products and personal care products within one industry segment as defined under Financial Accounting Standard Board, or FASB, Accounting Standards Codification, or ASC, Topic 280, *Segment Reporting*. Our products are manufactured by third party providers and manufactured in our Suzhou, China facility, and in our manufacturing facility located in Lake Forest, California, and then are sold to independent distributors who sell Herbalife products to retail consumers or other distributors. As of March 31, 2011, we sold products in 75 countries throughout the world and we are organized and managed by geographic region. We have elected to aggregate our operating segments into one reporting segment, except China, as management believes that our operating segments have similar operating characteristics and similar long term operating performance. In making this determination, management believes that the operating segments are similar in the nature of the products sold, the product acquisition process, the types of customers to whom products are sold, the methods used to distribute the products, and the nature of the regulatory environment.

Revenue is recognized when products are shipped and title and risk of loss passes to the independent distributor or importer or as products are sold in our retail stores in China. Sales are recognized on a net sales basis, which reflects product returns, net of discounts referred to as distributor allowances , and amounts billed for shipping and handling costs. We generally receive the net sales price in cash or through credit card payments at the point of sale. Related royalty overrides and allowances for product returns are recorded when revenue is recognized.
Allowances for product returns, primarily in connection with our buyback program, are provided at the time the product is shipped. This accrual is based upon historical return rates for each country and the relevant return pattern, which reflects anticipated returns to be received over a period of up to 12 months following the original sale. Historically, product returns and buybacks have not been significant. Product returns and buybacks were approximately 0.4% of retail sales for both the three months ended March 31, 2011 and 2010.
We record reserves against our inventory to provide for estimated obsolete or unsalable inventory based on assumptions regarding future demand for our products and market conditions. If future demand and market conditions are less favorable than management s assumptions, additional reserves could be required. Likewise, favorable future demand and market conditions could positively impact future operating results if previously reserved for inventory is sold. We reserved for obsolete and slow moving inventory totaling $10.6 million and $9.4 million as of March 31, 2011 and December 31, 2010, respectively.
In accordance with the FASB ASC Topic 360, *Property, Plant and Equipment*, property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.
Goodwill and marketing related intangible assets not subject to amortization are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset s fair value. In order to estimate the fair value of goodwill, we primarily use the discounted cash flow model, known as the income approach. The determination of impairment is made at the reporting unit level and consists of two steps. First, we determine the fair value of a reporting unit and compare it to its carrying amount. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit s goodwill and other intangibles over the implied fair value. The implied fair value of goodwill is determined in a similar manner as how the amount of goodwill recognized in a business combination is determined, in accordance with FASB ASC Topic 805, *Business Combinations*. We would assign the fair value of a reporting unit to all of the assets and liabilities of that reporting unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. As of March 31, 2011, and December 31, 2010, we had goodwill of approximately $102.9 million for both periods, and marketing related intangible assets of approximately $310.0 million for both periods No marketing related intangibles or goodwill impairment was recorded during the three months ended March 31, 2011 and 2010.
Contingencies are accounted for in accordance with the FASB ASC Topic 450, *Contingencies,* or ASC 450. ASC 450 requires that we record an estimated loss from a loss contingency when information available prior to issuance of our financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Accounting for contingencies such as legal and income tax matters requires us to use judgment related to both the likelihood of a loss and the estimate of the amount or range of loss. Many of these legal and tax contingencies can take years to be resolved. Generally, as the time period increases over which the uncertainties are resolved, the likelihood of changes to the

estimate of the ultimate outcome increases.

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Deferred income tax assets have been established for net operating loss carryforwards of certain foreign subsidiaries and have been reduced by a valuation allowance to reflect them at amounts estimated to be ultimately realized. The net operating loss carryforwards expire in varying amounts over a future period of time. Realization of the income tax carryforwards is dependent on generating sufficient taxable income prior to expiration of the carryforwards. Although realization is not assured, we believe it is more likely than not that the net carrying value of the income tax carryforwards will be realized. The amount of the income tax carryforwards that is considered realizable, however, could change if estimates of future taxable income during the carryforward period are adjusted. In the ordinary course of our business, there are many transactions and calculations where the tax law and ultimate tax determination is uncertain. As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate prior to the completion and filing of tax returns for such periods. This process requires estimating both our geographic mix of income and our uncertain tax positions in each jurisdiction where we operate. These estimates involve complex issues and require us to make judgments about the likely application of the tax law to our situation, as well as with respect to other matters, such as anticipating the positions that we will take on tax returns prior to our actually preparing the returns and the outcomes of disputes with tax authorities. The ultimate resolution of these issues may take extended periods of time due to examinations by tax authorities and statutes of limitations. In addition, changes in our business, including acquisitions, changes in our international corporate structure, changes in the geographic location of business functions or assets, changes in the geographic mix and amount of income, as well as changes in our agreements with tax authorities, valuation allowances, applicable accounting rules, applicable tax laws and regulations, rulings and interpretations thereof, developments in tax audit and other matters, and variations in the estimated and actual level of annual pre-tax income can affect the overall effective income tax rate.

We account for uncertain tax positions in accordance with the FASB ASC Topic 740, *Income Taxes,* or ASC 740, which provides guidance on the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC 740, we must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution.

We account for share-based compensation in accordance with the FASB ASC Topic 718, *Compensation-Stock Compensation*, or ASC 718. Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the value of the award and is recognized as an expense over the vesting period. Determining the fair value of share-based awards at the grant date requires judgment, including estimating our stock price volatility and employee stock award exercise behaviors. Our expected volatility is based upon the historical volatility of our common shares and, due to the limited period of public trading data for our common shares, it is also validated against the volatility of a company peer group. The expected life of awards is based on the simple average of the average vesting period and the life of the award, or the simplified method. As share-based compensation expense recognized in the Statements of Income is based on awards ultimately expected to vest, the amount of expense has been reduced for estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. If actual forfeitures differ from estimates, additional expense or reversal of previous expense are recorded. Forfeitures were estimated based on historical experience.

We account for foreign currency transactions in accordance with ASC Topic 830, *Foreign Currency Matters*. In a majority of the countries where we operate, the functional currency is the local currency. Our foreign subsidiaries asset and liability accounts are translated for consolidated financial reporting purposes into U.S. dollar amounts at year-end exchange rates. Revenue and expense accounts are translated at the average rates during the year. Our foreign exchange translation adjustments are included in accumulated other comprehensive loss on our accompanying consolidated balance sheets. Foreign currency transaction gains and losses and foreign currency remeasurements are included in selling, general and administrative expenses in the accompanying consolidated statements of income.

**Item 3. *Quantitative and Qualitative Disclosures About Market Risk***

We are exposed to market risks, which arise during the normal course of business from changes in interest rates and foreign currency exchange rates. On a selected basis, we use derivative financial instruments to manage or hedge these risks. All hedging transactions are authorized and executed pursuant to written guidelines and procedures.

We have adopted FASB ASC Topic 815, *Derivatives and Hedging,* or ASC 815, which established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair-value hedge, the changes in the fair value of the derivative and the underlying hedged item are recognized concurrently in earnings. If the derivative is designated as a cash-flow hedge, changes in the fair value of the derivative are recorded in other comprehensive income (loss) and are recognized in the consolidated statements of income when the hedged item affects earnings. ASC 815 defines the requirements for designation and documentation of hedging relationships as well as ongoing effectiveness assessments in order to use hedge accounting. For a derivative that does not qualify as a hedge, changes in fair value are recognized concurrently in earnings.

A discussion of our primary market risk exposures and derivatives is presented below.

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**Foreign Exchange Risk**

We transact business globally and are subject to risks associated with changes in foreign exchange rates. Our objective is to minimize the impact to earnings and cash flow fluctuations associated with foreign exchange rate fluctuations. We enter into foreign exchange derivatives in the ordinary course of business primarily to reduce exposure to currency fluctuations attributable to intercompany transactions, translation of local currency revenue, inventory purchases subject to foreign currency exposure, and to partially mitigate the impact of foreign currency rate fluctuations. Due to the recent significant volatility in the foreign exchange market, our current strategy, in general, is to hedge some of the significant exposures on a short-term basis. We will continue to monitor the foreign exchange market and evaluate our hedging strategy accordingly. With the exception of our foreign exchange forward contracts relating to forecasted inventory purchases and intercompany management fees as discussed below in this section, all of our foreign exchange contracts are designated as free standing derivatives for which hedge accounting does not apply. The changes in the fair market value of the derivatives not qualifying as cash flow hedges are included in selling, general and administrative expenses in our consolidated statements of income.

The foreign exchange forward contracts designated as free standing derivatives are used to hedge advances between subsidiaries and to partially mitigate the impact of foreign currency fluctuations. Foreign exchange average rate option contracts are also used to mitigate the impact of foreign currency rate fluctuations. The objective of these contracts is to neutralize the impact of foreign currency movements on the operating results of our subsidiaries. The fair value of forward and option contracts is based on third-party bank quotes.

We also purchase foreign currency forward contracts in order to hedge forecasted inventory purchases and intercompany management fees that are designated as cash-flow hedges and are subject to foreign currency exposures. We applied the hedge accounting rules as required by ASC 815 for these hedges. These contracts allow us to sell Euros in exchange for U.S. dollars at specified contract rates. As of March 31, 2011, and December 31, 2010, the aggregate notional amounts of these contracts outstanding were approximately $21.6 million and $32.1 million, respectively. At March 31, 2011, the outstanding contracts were expected to mature over the next nine months. Our derivative financial instruments are recorded on the consolidated balance sheet at fair value based on quoted market rates. For the forecasted inventory purchases, the forward contracts are used to hedge forecasted inventory purchases over specific months. Changes in the fair value of these forward contracts, excluding forward points, designated as cash-flow hedges are recorded as a component of accumulated other comprehensive income (loss) within shareholders equity, and are recognized in cost of sales in the consolidated statement of income during the period which approximates the time the hedged inventory is sold. We also hedge forecasted intercompany management fees over specific months. Changes in the fair value of these forward contracts designated as cash flow hedges are recorded as a component of accumulated other comprehensive loss within shareholders equity, and are recognized in selling, general and administrative expenses in the consolidated statement of income in the period when the hedged item and underlying transaction affects earnings. As of March 31, 2011, we recorded liabilities at fair value of $2.1 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. As of December 31, 2010, we recorded assets at fair value of $0.6 million and liabilities at fair value of $0.8 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. We assess hedge effectiveness and measures hedge ineffectiveness at least quarterly. During the three months ended March 31, 2011 and 2010, the ineffective portion relating to these hedges was immaterial and the hedges remained effective as of March 31, 2011.

As of March 31, 2011, and December 31, 2010, the majority of our outstanding foreign currency forward contracts had maturity dates of less than nine months with the majority of freestanding derivatives expiring within two months. There were no foreign currency option contracts outstanding as of March 31, 2011 and December 31, 2010.

The following table provides information about the details of our foreign exchange forward contracts:

| Foreign Currency | Average Contract Rate | Notional Amount (In millions) | Fair Value Gain (Loss) (In millions) |
|---|---|---|---|
| **At March 31, 2011** | | | |

| | | | | | |
|---|---|---|---|---|---|
| Buy BRL sell USD | 1.69 | $ | 5.9 | $ | 0.2 |
| Buy CLP sell EUR | 685.00 | $ | 0.3 | $ | |
| Buy EUR sell ARS | 5.72 | $ | 0.7 | $ | |
| Buy EUR sell AUD | 1.42 | $ | 0.6 | $ | |
| Buy EUR sell CLP | 681.97 | $ | 0.9 | $ | |
| Buy EUR sell GBP | 0.88 | $ | 2.5 | $ | |
| Buy EUR sell JPY | 112.68 | $ | 2.2 | $ | 0.1 |

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| Foreign Currency | Average Contract Rate | Notional Amount (In millions) | Fair Value Gain (Loss) (In millions) |
|---|---|---|---|
| Buy EUR sell MXN | 16.65 | $ 23.6 | $ 0.3 |
| Buy EUR sell MYR | 4.29 | $ 1.0 | $ |
| Buy EUR sell RUB | 40.33 | $ 1.7 | $ |
| Buy EUR sell USD | 1.37 | $ 81.6 | $ 2.7 |
| Buy EUR sell ZAR | 9.88 | $ 0.9 | $ |
| Buy GBP sell EUR | 0.87 | $ 3.2 | $ |
| Buy GBP sell ILS | 5.74 | $ 1.4 | $ |
| Buy GBP sell USD | 1.61 | $ 6.3 | $ |
| Buy INR sell USD | 45.53 | $ 0.8 | $ |
| Buy JPY sell EUR | 115.81 | $ 0.3 | $ |
| Buy JPY sell USD | 81.50 | $ 9.8 | $ (0.2) |
| Buy KRW sell USD | 1,125.00 | $ 14.2 | $ 0.3 |
| Buy MXN sell EUR | 16.65 | $ 4.7 | $ (0.1) |
| Buy MXN sell USD | 12.16 | $ 1.0 | $ |
| Buy MYR sell EUR | 4.28 | $ 0.2 | $ |
| Buy MYR sell USD | 3.07 | $ 12.3 | $ 0.2 |
| Buy PEN sell USD | 2.81 | $ 5.5 | $ |
| Buy RUB sell USD | 28.40 | $ 0.7 | $ |
| Buy USD sell BRL | 1.69 | $ 17.2 | $ (0.5) |
| Buy USD sell COP | 1,905.21 | $ 4.2 | $ (0.1) |
| Buy USD sell EUR | 1.37 | $ 65.9 | $ (2.2) |
| Buy USD sell GBP | 1.60 | $ 6.6 | $ |
| Buy USD sell INR | 45.48 | $ 4.4 | $ (0.1) |
| Buy USD sell JPY | 81.19 | $ 2.5 | $ 0.1 |
| Buy USD sell KRW | 1,123.70 | $ 0.9 | $ |
| Buy USD sell MXN | 12.04 | $ 1.7 | $ |
| Buy USD sell MYR | 3.06 | $ 0.9 | $ |
| Buy USD sell PHP | 43.60 | $ 3.2 | $ |
| Buy USD sell RUB | 29.36 | $ 1.3 | $ |
| Buy USD sell ZAR | 7.07 | $ 0.8 | $ |
| Buy ZAR sell EUR | 9.92 | $ 0.7 | $ |
| Buy ZAR sell USD | 7.01 | $ 0.2 | $ |
| Total forward contracts | | $ 292.8 | $ 0.7 |

Most of our foreign subsidiaries designate their local currencies as their functional currencies. At March 31, 2011 and December 31, 2010, the total amount of our foreign subsidiary cash was $245.6 million and $188.2 million, respectively, of which $21.3 million and $5.8 million, respectively, was invested in U.S. dollars.

Currency restrictions enacted by the Venezuelan government in 2003 have become more restrictive and have impacted the ability of our subsidiary in Venezuela, or Herbalife Venezuela, to obtain U.S. dollars in exchange for Venezuelan Bolivars, or Bolivars, at the official foreign exchange rates from the Venezuelan government and its foreign exchange commission, CADIVI. The application and approval processes have been intermittently delayed and the timing and ability to obtain U.S. dollars at the official exchange rates remains uncertain. In certain instances, we have made appropriate applications through CADIVI for approval to obtain U.S. dollars so that Herbalife Venezuela can pay for

imported products and an annual dividend, at the official exchange rate. As an alternative exchange mechanism, we have also participated in certain bond offerings from the Venezuelan government and from Petróleos de Venezuela, S.A. or PDVSA, a Venezuelan state-owned petroleum company, where we effectively purchased bonds with our Bolivars and then sold the bonds for U.S. dollars. In other instances, we used a legal but less favorable parallel market mechanism for currency exchange. In May 2010, this less favorable parallel market was discontinued.

In June 2010, the Venezuelan government introduced additional regulations under a newly regulated system, SITME, which is controlled by the Central Bank of Venezuela. SITME provides a mechanism to exchange Bolivars into U.S. dollars through the purchase and sale of U.S. dollar denominated bonds issued in Venezuela. However, SITME is only available in certain limited circumstances. Specifically, SITME can only be used for product purchases and it is not available for other matters such as the payment of dividends. Also, SITME can only be used for amounts of up to $50,000 per day and $350,000 per month and is generally only available to the extent that the applicant has not exchanged and received U.S. dollars via the CADIVI process within the previous 90 days.

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In late December 2010, Venezuela announced that the CADIVI official exchange rate of 2.6 Bolivars per U.S. dollar would be eliminated and the CADIVI official exchange of 4.3 Bolivars per U.S. dollar would be used for all essential items and non-essential items beginning January 2011. This devaluation did not have a material impact on our condensed consolidated financial statements. At March 31, 2011, we used the SITME rate of 5.3 Bolivars per U.S. dollar for remeasurement purposes. See Part I, Item 2 *Management s Discussion and Analysis of Financial Condition and Results of Operations,* for a further discussion on how the currency restrictions in Venezuela have impacted Herbalife Venezuela s operations and Venezuela s high inflationary economy.

**Interest Rate Risk**

As of March 31, 2011, $180 million of borrowings under the New Credit Facility is expected to mature and expire on March 9, 2016. The fair value of our senior secured credit facility approximates the New Credit Facility s carrying value of $180.0 million as of March 31, 2011 and the Prior Credit Facility s carrying value of $174.9 million as of December 31, 2010. The New Credit Facility bears, and the Prior Credit Facility bore, a variable interest rate, and on March 31, 2011 and December 31, 2010, the weighted average interest rate of the New Credit Facility and the Prior Credit Facility was 1.99% and 1.75%, respectively.

During August 2009, we entered into four interest rate swap agreements with an effective date of December 31, 2009. The agreements collectively provide for us to pay interest for less than a four-year period at a weighted average fixed rate of 2.78% on notional amounts aggregating to $140.0 million while receiving interest for the same period at the one month LIBOR rate on the same notional amounts. These agreements will expire in July 2013. These swaps at inception were designated as cash flow hedges against the variability in the LIBOR interest rate on our prior term loan or against the variability in the LIBOR interest rate on the replacement debt. Our prior term loan was terminated in March 2011 and refinanced with the New Credit Facility with a LIBOR interest rate as discussed further in Note 3, *Long-Term Debt,* to the Notes to Condensed Consolidated Financial Statements. Our swaps remain effective and continue to be designated as cash flow hedges against the variability in the LIBOR interest rate on the New Credit Facility at LIBOR plus 1.50% to 2.50%, thereby now fixing our weighted average effective rate on the notional amounts at 4.28% to 5.28%. There was no hedge ineffectiveness recorded as result of this refinancing event.

We formally assess, both at inception and at least quarterly thereafter, whether derivatives used in hedging transactions are effective in offsetting changes in cash flows of the hedged item. As of March 31, 2011, the hedge relationships qualified as effective hedges under the ASC 815. Consequently, all changes in the fair value of the derivatives are deferred and recorded in other comprehensive income (loss) until the related forecasted transactions are recognized in the consolidated statements of income. As of March 31, 2011, and December 31, 2010, the fair value of the interest rate swap agreements are based on third-party bank quotes and we recorded the interest rate swaps as a liability at fair value of $5.7 million and $6.6 million, respectively.

**Item 4. *Controls And Procedures***

*Evaluation of Disclosure Controls and Procedures.* Our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of March 31, 2011.

*Changes in Internal Control over Financial Reporting.* There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the first quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## FORWARD-LOOKING STATEMENTS

*This document contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact are forward-looking statements for purposes of federal and state securities laws, including any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing. Forward-looking statements may include the words may, will, estimate, intend, continue, believe, expect or anticipate and any other similar words.*

*Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and to inherent risks and uncertainties, such as those disclosed or incorporated by reference in our filings with the Securities and Exchange Commission. Important factors that could cause our actual results, performance and achievements, or industry results to differ materially from estimates or projections contained in our forward-looking statements include, among others, the following:*

- any collateral impact resulting from the ongoing worldwide financial crisis, including the availability of liquidity to us, our customers and our suppliers or the willingness of our customers to purchase products in a recessionary economic environment;
- our relationship with, and our ability to influence the actions of, our distributors;
- improper action by our employees or distributors in violation of applicable law;
- adverse publicity associated with our products or network marketing organization;
- changing consumer preferences and demands;
- our reliance upon, or the loss or departure of any member of, our senior management team which could negatively impact our distributor relations and operating results;
- the competitive nature of our business;
- regulatory matters governing our products, including potential governmental or regulatory actions concerning the safety or efficacy of our products and network marketing program, including the direct selling market in which we operate;
- legal challenges to our network marketing program;
- risks associated with operating internationally and the effect of economic factors, including foreign exchange, inflation, disruptions or conflicts with our third party importers, pricing and currency devaluation risks, especially in countries such as Venezuela;
- uncertainties relating to the application of transfer pricing, duties, value added taxes, and other tax regulations, and changes thereto;
- uncertainties relating to interpretation and enforcement of recently enacted legislation in China governing direct selling;

our inability to obtain the necessary licenses to expand our direct selling business in China;

adverse changes in the Chinese economy, Chinese legal system or Chinese governmental policies;

our dependence on increased penetration of existing markets;

contractual limitations on our ability to expand our business;

our reliance on our information technology infrastructure and outside manufacturers;

the sufficiency of trademarks and other intellectual property rights;

product concentration;

changes in tax laws, treaties or regulations, or their interpretation;

taxation relating to our distributors;

product liability claims; and

whether we will purchase any of our shares in the open markets or otherwise.

*Additional factors that could cause actual results to differ materially from our forward-looking statements are set forth in this Quarterly Report on Form 10-Q, including under the heading Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and in our Condensed Consolidated Financial Statements and the related Notes.*

*Forward-looking statements in this Quarterly Report on Form 10-Q speak only as of the date hereof, and forward-looking statements in documents attached that are incorporated by reference speak only as of the date of those documents. We do not undertake any obligation to update or release any revisions to any forward-looking statement or to report any events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law.*

## PART II. OTHER INFORMATION

### Item 1. *Legal Proceedings*

See discussion under Note 4, *Contingencies*, to the Notes to the Condensed Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

### Item 1A. RISK FACTORS

***The worldwide financial and economic crisis could negatively impact our access to credit and the sales of our products and could harm our financial condition and operating results.***

We are closely monitoring various aspects of the current worldwide financial and economic crisis and its potential impact on us, our liquidity, our access to capital, our operations and our overall financial condition. While we have historically met our funding needs utilizing cash flow from operating activities and while we believe we will have sufficient resources to meet current debt service obligations in a timely manner, no assurances can be given that the current overall downturn in the world economy will not significantly adversely impact us and our business operations. We note economic and financial markets are fluid and we cannot ensure that there will not be in the near future a material adverse deterioration in our sales or liquidity.

***Our failure to establish and maintain distributor relationships for any reason could negatively impact sales of our products and harm our financial condition and operating results.***

We distribute our products exclusively through approximately 2.3 million independent distributors, and we depend upon them directly for substantially all of our sales. To increase our revenue, we must increase the number of, or the productivity of, our distributors. Accordingly, our success depends in significant part upon our ability to recruit, retain and motivate a large base of distributors. The loss of a significant number of distributors for any reason could negatively impact sales of our products and could impair our ability to attract new distributors. In our efforts to attract and retain distributors, we compete with other network marketing organizations, including those in the weight management, dietary and nutritional supplement and personal care and cosmetic product industries. Our operating results could be harmed if our existing and new business opportunities and products do not generate sufficient interest to retain existing distributors and attract new distributors.

Our distributor organization has a high turnover rate, which is a common characteristic found in the direct selling industry. In light of this fact, we have our sales leaders re-qualify annually in order to maintain a more accurate count of their numbers. For the latest twelve month re-qualification period ending January 2011, approximately 49% of our sales leaders re-qualified. Distributors who purchase our product for personal consumption or for short-term income goals may stay with us for several months to one year. Sales leaders who have committed time and effort to build a sales organization will generally stay for longer periods. Distributors have highly variable levels of training, skills and capabilities. The turnover rate of our distributors, and our operating results, can be adversely impacted if we, and our senior distributor leadership, do not provide the necessary mentoring, training and business support tools for new distributors to become successful sales people in a short period of time.

We estimate that, of our approximately 2.3 million independent distributors, we had approximately 368,000 sales leaders as of March 31, 2011. These sales leaders, together with their downline sales organizations, account for substantially all of our revenues. Our distributors, including our sales leaders, may voluntarily terminate their distributor agreements with us at any time. The loss of a group of leading sales leaders, together with their downline sales organizations, or the loss of a significant number of distributors for any reason, could negatively impact sales of our products, impair our ability to attract new distributors and harm our financial condition and operating results.

***Since we cannot exert the same level of influence or control over our independent distributors as we could were they our own employees, our distributors could fail to comply with our distributor policies and procedures, which could result in claims against us that could harm our financial condition and operating results.***

Excluding our China sales employees, our distributors are independent contractors and, accordingly, we are not in a position to directly provide the same direction, motivation and oversight as we would if distributors were our own employees. As a result, there can be no assurance that our distributors will participate in our marketing strategies or plans, accept our introduction of new products, or comply with our distributor policies and procedures.

Extensive federal, state and local laws regulate our business, products and network marketing program. Because we have expanded into foreign countries, our policies and procedures for our independent distributors differ due to the different legal requirements of each country in which we do business. While we have implemented distributor policies and procedures designed to govern distributor conduct and to protect the goodwill associated with Herbalife trademarks and tradenames, it can be difficult to enforce these policies and procedures because of the large number of distributors and their independent status. Violations by our independent distributors of applicable law or of our policies and procedures in dealing with customers could reflect negatively on our products and operations and harm our business reputation. In addition, it is possible that a court could hold us civilly or criminally accountable based on vicarious liability because of the actions of our independent distributors.

***Adverse publicity associated with our products, ingredients or network marketing program, or those of similar companies, could harm our financial condition and operating results.***

The size of our distribution force and the results of our operations may be significantly affected by the public s perception of the Company and similar companies. This perception is dependent upon opinions concerning:

- the safety and quality of our products and ingredients;
- the safety and quality of similar products and ingredients distributed by other companies;
- our distributors;
- our network marketing program; and
- the direct selling business generally.

Adverse publicity concerning any actual or purported failure of our Company or our independent distributors to comply with applicable laws and regulations regarding product claims and advertising, good manufacturing practices, the regulation of our network marketing program, the licensing of our products for sale in our target markets or other aspects of our business, whether or not resulting in enforcement actions or the imposition of penalties, could have an adverse effect on the goodwill of our Company and could negatively affect our ability to attract, motivate and retain

distributors, which would negatively impact our ability to generate revenue. We cannot ensure that all distributors will comply with applicable legal requirements relating to the advertising, labeling, licensing or distribution of our products.

In addition, our distributors and consumers perception of the safety and quality of our products and ingredients as well as similar products and ingredients distributed by other companies can be significantly influenced by media attention, publicized scientific research or findings, widespread product liability claims and other publicity concerning our products or ingredients or similar products and ingredients distributed by other companies. For example, in May 2008 public allegations were made that certain of our products contain excessive amounts of lead thereby triggering disclosure and labeling requirements under California Proposition 65. Following an investigation, these allegations were publicly withdrawn by the allegations initiator. While we have confidence in our products because they fall within FDA suggested guidelines as well as applicable state regulations for the amount of lead that consumers can safely ingest and do not believe they trigger disclosure or labeling requirements under California Proposition 65, negative publicity such as this can disrupt our business. Adverse publicity, whether or not accurate or resulting from consumers use or misuse of our products, that associates consumption of our products or ingredients or any similar products or ingredients with illness or other adverse effects, questions the benefits of our or similar products or claims that any such products are ineffective, inappropriately labeled or have inaccurate instructions as to their use, could lead to lawsuits or other legal challenges and could negatively impact our reputation, the market demand for our products, or our general business.

From time to time we receive inquiries from government agencies and third parties requesting information concerning our products. We fully cooperate with these inquiries including, when requested, by the submission of detailed technical dossiers addressing product composition, manufacturing, process control, quality assurance, and contaminant testing. We understand that such materials are undergoing review by regulators in certain markets. Further, we periodically respond to requests from regulators for additional information regarding product-specific adverse events. We are confident in the safety of our products when used as directed. However, there can be no assurance that regulators in these or other markets will not take actions that might delay or prevent the introduction of new products, or require the reformulation or the temporary or permanent withdrawal of certain of our existing products from their markets.

Adverse publicity relating to us, our products or our operations, including our network marketing program or the attractiveness or viability of the financial opportunities provided thereby, has had, and could again have, a negative effect on our ability to attract, motivate and retain distributors. In the mid-1980 s, our products and marketing program became the subject of regulatory scrutiny in the United States, resulting in large part from claims and representations made about our products by our independent distributors, including impermissible therapeutic claims. The resulting adverse publicity caused a rapid, substantial loss of distributors in the United States and a corresponding reduction in sales beginning in 1985. We expect that negative publicity will, from time to time, continue to negatively impact our business in particular markets.

***Our failure to appropriately respond to changing consumer preferences and demand for new products or product enhancements could significantly harm our distributor and customer relationships and product sales and harm our financial condition and operating results.***

Our business is subject to changing consumer trends and preferences, especially with respect to weight management products. Our continued success depends in part on our ability to anticipate and respond to these changes, and we may not respond in a timely or commercially appropriate manner to such changes. Furthermore, the nutritional supplement industry is characterized by rapid and frequent changes in demand for products and new product introductions and enhancements. Our failure to accurately predict these trends could negatively impact consumer opinion of our products, which in turn could harm our customer and distributor relationships and cause the loss of sales. The success of our new product offerings and enhancements depends upon a number of factors, including our ability to:

- accurately anticipate customer needs;
- innovate and develop new products or product enhancements that meet these needs;
- successfully commercialize new products or product enhancements in a timely manner;
- price our products competitively;

- manufacture and deliver our products in sufficient volumes and in a timely manner; and
- differentiate our product offerings from those of our competitors.

If we do not introduce new products or make enhancements to meet the changing needs of our customers in a timely manner, some of our products could be rendered obsolete, which could negatively impact our revenues, financial condition and operating results.

***Due to the high level of competition in our industry, we might fail to retain our customers and distributors, which would harm our financial condition and operating results.***

The business of marketing weight management and nutrition products is highly competitive and sensitive to the introduction of new products or weight management plans, including various prescription drugs, which may rapidly capture a significant share of the market. These market segments include numerous manufacturers, distributors, marketers, retailers and physicians that actively compete for the business of consumers both in the United States and abroad. In addition, we anticipate that we will be subject to increasing competition in the future from sellers that utilize electronic commerce. Some of these competitors have longer operating histories, significantly greater financial, technical, product development, marketing and sales resources, greater name recognition, larger established customer bases and better-developed distribution channels than we do. Our present or future competitors may be able to develop products that are comparable or superior to those we offer, adapt more quickly than we do to new technologies, evolving industry trends and standards or customer requirements, or devote greater resources to the development, promotion and sale of their products than we do. For example, if our competitors develop other diet or weight loss treatments that prove to be more effective than our products, demand for our products could be reduced. Accordingly, we may not be able to compete effectively in our markets and competition may intensify.

We are also subject to significant competition for the recruitment of distributors from other network marketing organizations, including those that market weight management products, dietary and nutritional supplements and personal care products as well as other types of products. We compete for global customers and distributors with regard to weight management, nutritional supplement and personal care products. Our competitors include both direct selling companies such as NuSkin Enterprises, Nature s Sunshine, Alticor/Amway, Melaleuca, Avon Products, Oriflame, Tupperware and Mary Kay, as well as retail establishments such as Weight Watchers, Jenny Craig, General Nutrition Centers, Wal-Mart and retail pharmacies.

In addition, because the industry in which we operate is not particularly capital intensive or otherwise subject to high barriers to entry, it is relatively easy for new competitors to emerge who will compete with us for our distributors and customers. In addition, the fact that our distributors may easily enter and exit our network marketing program contributes to the level of competition that we face. For example, a distributor can enter or exit our network marketing system with relative ease at any time without facing a significant investment or loss of capital because (1) we have a low upfront financial cost to become a Herbalife distributor, (2) we do not require any specific amount of time to work as a distributor, (3) we do not insist on any special training to be a distributor and (4) we do not prohibit a new distributor from working with another company. Our ability to remain competitive therefore depends, in significant part, on our success in recruiting and retaining distributors through an attractive compensation plan, the maintenance of an attractive product portfolio and other incentives. We cannot ensure that our programs for recruitment and retention of distributors will be successful and if they are not, our financial condition and operating results would be harmed.

***We are affected by extensive laws, governmental regulations, administrative determinations, court decisions and similar constraints both domestically and abroad, and our failure or our distributors failure to comply with these constraints could lead to the imposition of significant penalties or claims, which could harm our financial condition and operating results.***

In both domestic and foreign markets, the formulation, manufacturing, packaging, labeling, distribution, importation, exportation, licensing, sale and storage of our products are affected by extensive laws, governmental regulations, administrative determinations, court decisions and similar constraints. Such laws, regulations and other constraints may exist at the federal, state or local levels in the United States and at all levels of government in foreign jurisdictions. There can be no assurance that we or our distributors are in compliance with all of these regulations. Our failure or our distributors failure to comply with these regulations or new regulations could disrupt our distributors sale of our products, or lead to the imposition of significant penalties or claims and could negatively impact our business. In addition, the adoption of new regulations or changes in the interpretations of existing regulations may result in significant compliance costs or discontinuation of product sales and may negatively impact the marketing of our products, resulting in significant loss of sales revenues.

In April 2006, the FTC issued a notice of proposed rulemaking which, if implemented in its originally proposed form, would have regulated all sellers of business opportunities in the United States. As originally proposed this rule would have applied to us and, if adopted in its originally proposed form, could have adversely impacted our U.S. business. On March 18, 2008, the FTC issued a revised proposed rule and, as indicated in the announcement accompanying the proposed rule, the revised proposal does not attempt to cover multilevel marketing companies such as Herbalife. If the revised rule were implemented as it is now proposed, we believe that it would not significantly impact our U.S. business. Based on information currently available, we anticipate that the rule may become final within the year.

The FTC has approved revisions to its Guides Concerning the Use of Endorsements and Testimonials in Advertising, or Guides, which became effective on December 1, 2009. Although the Guides are not binding, they explain how the FTC interprets Section 5 of the FTC Act s prohibition on unfair or deceptive acts or practices. Consequently, the FTC could bring a Section 5 enforcement action based on practices that are inconsistent with the Guides. Under the revised Guides, advertisements that feature a consumer and convey his or her atypical experience with a product or service will be required to clearly disclose the results that consumers can generally expect. In contrast to the 1980 version of the Guides, which allowed advertisers to describe atypical results in a testimonial as long as they included a disclaimer such as results not typical , the revised Guides no longer contain such a safe harbor. The revised Guides also add new examples to illustrate the long-standing principle that material connections between advertisers and endorsers (such as payments or free products), connections that consumers might not expect, must be disclosed. Herbalife has revised its marketing materials to be compliant with the revised Guides. However, it is possible that our use, and that of our independent distributors, of testimonials in the advertising and promotion of our products, including but not limited to our weight management products and of our income opportunity will be significantly impacted and therefore might negatively impact our sales.

Governmental regulations in countries where we plan to commence or expand operations may prevent or delay entry into those markets. In addition, our ability to sustain satisfactory levels of sales in our markets is dependent in significant part on our ability to introduce additional products into such markets. However, governmental regulations in our markets, both domestic and international, can delay or prevent the introduction, or require the reformulation or withdrawal, of certain of our products. Any such regulatory action, whether or not it results in a final determination adverse to us, could create negative publicity, with detrimental effects on the motivation and recruitment of distributors and, consequently, on sales.

The FDA has published its final rule for current good manufacturing practice, or cGMPs, for the manufacture, packing, labeling and holding of dietary supplements distributed in the United States. Herbalife has implemented a comprehensive quality assurance program that is designed to maintain compliance with the cGMPs for dietary supplements manufactured by or on behalf of Herbalife for distribution in the United States. However, if Herbalife should be found not to be in compliance with cGMNPs for the products it self-manufactures it could negatively impact our reputation and ability to sell our products even after any such situation had been rectified. Further, if contract manufacturers whose products bear Herbalife labels fail to comply with the cGMPs, this could negatively impact Herbalife s reputation and ability to sell its products even though Herbalife is not directly liable under the cGMPs for such compliance. In complying with the dietary supplement cGMPs, we have experienced increases in some product costs as a result of the necessary increase in testing of raw ingredients and finished products and this may cause us to seek alternate suppliers.

***Our network marketing program could be found to be not in compliance with current or newly adopted laws or regulations in one or more markets, which could prevent us from conducting our business in these markets and harm our financial condition and operating results.***

Our network marketing program is subject to a number of federal and state regulations administered by the FTC and various state agencies in the United States as well as regulations on direct selling in foreign markets administered by foreign agencies. We are subject to the risk that, in one or more markets, our network marketing program could be found not to be in compliance with applicable law or regulations. Regulations applicable to network marketing organizations generally are directed at preventing fraudulent or deceptive schemes, often referred to as pyramid or chain sales schemes, by ensuring that product sales ultimately are made to consumers and that advancement within an organization is based on sales of the organization s products rather than investments in the organization or other non-retail sales-related criteria. The regulatory requirements concerning network marketing programs do not include bright line rules and are inherently fact-based and, thus, we are subject to the risk that these laws or regulations or the enforcement or interpretation of these laws and regulations by governmental agencies or courts can change. The failure of our network marketing program to comply with current or newly adopted regulations could negatively impact our business in a particular market or in general.

We are also subject to the risk of private party challenges to the legality of our network marketing program. The multi-level marketing programs of other companies have been successfully challenged in the past and in a current

lawsuit allegations have been made challenging the legality of our network marketing program in Belgium. Test Ankoop-Test Achat, a Belgian consumer protection organization, sued Herbalife International Belgium, S.V., or HIB, on August 26, 2004, alleging that HIB violated Article 84 of the Belgian Fair Trade Practices Act by engaging in pyramid selling, *i.e.*, establishing a network of professional or non-professional sales people who hope to make a profit more through the expansion of that network rather than through the sale of products to end-consumers. The plaintiff is seeking a payment of  25,000 (equal to approximately $35,000 as of March 31, 2011) per purported violation as well as costs of the trial. For the year ended December 31, 2010, our net sales in Belgium were approximately $16.8 million. The plaintiffs filed their initial brief on September 27, 2005 and on May 9, 2006 we filed a reply brief. On December 9, 2008 plaintiffs filed a responsive brief and on June 24, 2009 we filed a reply brief. An oral hearing was held on November 3, 2010. The Court issued an interim judgment on November 24, 2010 ordering the parties to address a change in the underlying Belgian statute. A hearing scheduled for March 2, 2011 was postponed until May 11, 2011. An adverse judicial determination with respect to our network marketing program, or in proceedings not involving us directly but which challenge the legality of multi-level marketing systems, in Belgium or in any other market in which we operate, could negatively impact our business. We believe that we have meritorious defenses to the suit.

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On April 16, 2007 Herbalife International of America, Inc. filed a Complaint in the United States District Court for the Central District of California against certain former Herbalife distributors who had left the Company to join a competitor. The Complaint alleged breach of contract, misappropriation of trade secrets, intentional interference with prospective economic advantage, intentional interference with contract, unfair competition, constructive trust and fraud and seeks monetary damages, attorney s fees and injunctive relief (*Herbalife International of America, Inc. v. Robert E. Ford, et al*). The court entered a Preliminary Injunction against the defendants enjoining them from further use and/or misappropriation of the Company s trade secrets on December 11, 2007. Defendants appealed the court s entry of the Preliminary Injunction to the U.S. Court of Appeals for the Ninth Circuit. That court affirmed, in relevant part, the Preliminary Injunction. On December 3, 2007 the defendants filed a counterclaim alleging that the Company had engaged in unfair and deceptive business practices, intentional and negligent interference with prospective economic advantage, false advertising and that the Company was an endless chain scheme in violation of California law and seeking restitution, contract rescission and an injunction. Both sides engaged in discovery and filed cross motions for Summary Judgment. On August 25, 2009 the court granted partial summary judgment for Herbalife on all of defendants claims except the claim that the Company is an endless chain scheme which under applicable law is a question of fact that can only be determined at trial. The court denied defendants motion for Summary Judgment on Herbalife s claims for misappropriation of trade secrets and breach of contract. On May 5, 2010, the District Court granted summary judgment for Herbalife on defendants endless chain-scheme counterclaim. Herbalife voluntarily dismissed its remaining claims, and on May 14, 2010 the District Court issued a final judgment dismissing all of the parties claims. On June 10, 2010 the defendants appealed from that judgment and on June 21, 2010 Herbalife cross-appealed. The parties have reached a settlement of the case which they are in the process of documenting. Herbalife will incur no financial liability in this settlement.

***A substantial portion of our business is conducted in foreign markets, exposing us to the risks of trade or foreign exchange restrictions, increased tariffs, foreign currency fluctuations, disruptions or conflicts with our third party importers and similar risks associated with foreign operations.***

Approximately 78% of our net sales for the year ended December 31, 2010, were generated outside the United States, exposing our business to risks associated with foreign operations. For example, a foreign government may impose trade or foreign exchange restrictions or increased tariffs, which could negatively impact our operations. We are also exposed to risks associated with foreign currency fluctuations. For instance, purchases from suppliers are generally made in U.S. dollars while sales to distributors are generally made in local currencies. Accordingly, strengthening of the U.S. dollar versus a foreign currency could have a negative impact on us. Although we engage in transactions to protect against risks associated with foreign currency fluctuations, we cannot be certain any hedging activity will effectively reduce our exchange rate exposure. Additionally we may be negatively impacted by conflicts with or disruptions caused or faced by our third party importers, as well as conflicts between such importers and local governments or regulating agencies. Our operations in some markets also may be adversely affected by political, economic and social instability in foreign countries. As we continue to focus on expanding our existing international operations, these and other risks associated with international operations may increase, which could harm our financial condition and operating results.

Currency restrictions enacted by the Venezuelan government in 2003 have become more restrictive and have impacted the ability of our subsidiary in Venezuela, or Herbalife Venezuela, to obtain U.S. dollars in exchange for Venezuelan Bolivars, or Bolivars, at the official foreign exchange rates from the Venezuelan government and its foreign exchange commission, CADIVI. The application and approval processes have been intermittently delayed and the timing and ability to obtain U.S. dollars at the official exchange rates remains uncertain. In certain instances, we have made appropriate applications through CADIVI for approval to obtain U.S. dollars so that Herbalife Venezuela can pay for imported products and an annual dividend, at the official exchange rate. As an alternative exchange mechanism, we have also participated in certain bond offerings from the Venezuelan government and from Petróleos de Venezuela, S.A. or PDVSA, a Venezuelan state-owned petroleum company, where we effectively purchased bonds with our Bolivars and then sold the bonds for U.S. dollars. In other instances, we used a lawful but less favorable parallel market mechanism for currency exchange. In May 2010, this less favorable parallel market was discontinued.

In June 2010, the Venezuelan government introduced additional regulations under a newly regulated system, SITME, which is controlled by the Central Bank of Venezuela. SITME provides a mechanism to exchange Bolivars into U.S. dollars through the purchase and sale of U.S. dollar denominated bonds issued in Venezuela. However, SITME is only available in certain limited circumstances. Specifically, SITME can only be used for product purchases and it is not available for other matters such as the payment of dividends. Also, SITME can only be used for amounts of up to $50,000 per day and $350,000 per month and is generally only available to the extent that the applicant has not exchanged and received U.S. dollars via the CADIVI process within the previous 90 days. While we currently plan to continue to import products into Venezuela and exchange Bolivars for U.S. dollars based on the exchange mechanisms prescribed by the Venezuelan government, if the current currency restrictions are not lifted or eased, our product supplies in the Venezuelan market may be limited and we may make changes to Herbalife Venezuela s operations each of which could negatively impact our business.

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If the foreign currency restrictions in Venezuela intensify or do not improve, we may be required to deconsolidate Herbalife Venezuela for U.S. GAAP purposes and would be subject to the risk of impairment. If any of these events were to occur it could result in a negative impact to our consolidated earnings. See Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations,* within our 2010 10-K for a further discussion on Venezuela.

***Our expansion in China is subject to general, as well as industry-specific, economic, political and legal developments and risks in China and requires that we utilize a different business model from that which we use elsewhere in the world.***

Our expansion of operations into China is subject to risks and uncertainties related to general economic, political and legal developments in China, among other things. The Chinese government exercises significant control over the Chinese economy, including but not limited to controlling capital investments, allocating resources, setting monetary policy, controlling foreign exchange and monitoring foreign exchange rates, implementing and overseeing tax regulations, providing preferential treatment to certain industry segments or companies and issuing necessary licenses to conduct business. Accordingly, any adverse change in the Chinese economy, the Chinese legal system or Chinese governmental, economic or other policies could have a material adverse effect on our business in China and our prospects generally.

In 2005, China published regulations governing direct selling and prohibiting pyramid promotional schemes, and a number of administrative methods and proclamations were issued in 2005 and in 2006. These regulations require us to use a business model different from that which we offer in other markets. To allow us to operate under these regulations, we have created and introduced a model specifically for China. In China, we have Company-operated retail stores that sell through employed sales personnel to customers and preferred customers. We provide training and certification procedures for sales personnel in China. We also have non-employee sales representatives who sell through our retail stores. Our sales representatives are permitted by the terms of our direct selling licenses to sell away from fixed retail locations in the provinces of Jiangsu, Guangdong, Shandong, Zhejiang, Guizhou, Beijing, Fujian, Sichuan, Hubei, Shanxi, Shanghai, Jiangxi, Liaoning, Jilin, Henan, and Chongqing. We have also engaged independent service providers that meet both the requirements to operate their own business under Chinese law as well as the conditions set forth by Herbalife to sell products and provide services to Herbalife customers. These features are not common to the business model we employ elsewhere in the world, and based on the direct selling licenses we have received and the terms of those which we hope to receive in the future to conduct a direct selling enterprise in China, our business model in China will continue in some part to incorporate such features. The direct selling regulations require us to apply for various approvals to conduct a direct selling enterprise in China. The process for obtaining the necessary licenses to conduct a direct selling business is protracted and cumbersome and involves multiple layers of Chinese governmental authorities and numerous governmental employees at each layer. While direct selling licenses are centrally issued, such licenses are generally valid only in the jurisdictions within which related approvals have been obtained. Such approvals are generally awarded on local and provincial bases, and the approval process requires involvement with multiple ministries at each level. Our participation and conduct during the approval process is guided not only by distinct Chinese practices and customs, but is also subject to applicable laws of China and the other jurisdictions in which we operate our business, including the U.S., as well as our internal code of ethics. There is always a risk that in attempting to comply with local customs and practices in China during the application process or otherwise, we will fail to comply with requirements applicable to us in China itself or in other jurisdictions, and any such failure to comply with applicable requirements could prevent us from obtaining the direct selling licenses or related local or provincial approvals. Furthermore, we rely on certain key personnel in China to assist us during the approval process, and the loss of any such key personnel could delay or hinder our ability to obtain licenses or related approvals. For all of the above reasons, there can be no assurance that we will obtain additional direct-selling licenses, or obtain related approvals to expand into any or all of the localities or provinces in China that are important to our business. Our inability to obtain, retain, or renew any or all of the licenses or related approvals that are required for us to operate in China could negatively impact our business.

Additionally, although certain regulations have been published with respect to obtaining such approvals, operating under such approvals and otherwise conducting business in China, other regulations are pending, and there is

uncertainty regarding the interpretation and enforcement of Chinese regulations. The regulatory environment in China is evolving, and officials in the Chinese government exercise broad discretion in deciding how to interpret and apply regulations. We cannot be certain that our business model will continue to be deemed by national or local Chinese regulatory authorities to be compliant with any such regulations. The Chinese government rigorously monitors the direct selling market in China, and in the past has taken serious action against companies that the government believed were engaging in activities they regarded to be in violation of applicable law, including shutting down their businesses and imposing substantial fines. As a result, there can be no guarantee that the Chinese government s current or future interpretation and application of the existing and new regulations will not negatively impact our business in China, result in regulatory investigations or lead to fines or penalties against us or our Chinese distributors.

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Chinese regulations prevent persons who are not Chinese nationals from engaging in direct selling in China. We cannot guarantee that any of our distributors living outside of China or any of our sales representatives, employed sales personnel or independent service providers in China have not engaged or will not engage in activities that violate our policies in this market, or that violate Chinese law or other applicable law, and therefore result in regulatory action and adverse publicity.

China enacted a labor contract law which took effect January 1, 2008 and on September 18, 2008 an implementing regulation took effect. On October 28, 2010 China enacted a social insurance law that will come into effect on July 1, 2011. We have reviewed and will continue to review our employment contracts and contractual relations with employees in China, which include certain of our employed sales personnel, and have made and will make such changes as we believe to be necessary or appropriate to bring these contracts and contractual relations into compliance with these laws and their implementing regulations. In addition, we continue to monitor the situation to determine how these laws and regulations will be implemented in practice. There is no guarantee that these laws will not adversely impact us, require us to change our treatment of our employed sales personnel, cause us to change our operating plan for China or otherwise have an adverse impact on our business operations in China.

If our operations in China are successful, we may experience rapid growth in China, and there can be no assurances that we will be able to successfully manage rapid expansion of manufacturing operations and a rapidly growing and dynamic sales force. There also can be no assurances that we will not experience difficulties in dealing with or taking employment related actions (such as hiring, terminations and salary administration, including social benefit payments) with respect to our employed sales personnel, particularly given the highly regulated nature of the employment relationship in China. If we are unable to effectively manage such growth and expansion of our retail stores, manufacturing operations or our employed sales personnel, our government relations may be compromised and our operations in China may be harmed.

Our China business model, particularly with regard to sales management responsibilities and remuneration, differs from our traditional business model. There is a risk that such changes and transitions may not be understood by our distributors or employees, may be viewed negatively by our distributors or employees, or may not be correctly utilized by our distributors or employees. If that is the case, our business could be negatively impacted.

***If we fail to further penetrate existing markets or successfully expand our business into new markets, then the growth in sales of our products, along with our operating results, could be negatively impacted.***

The success of our business is to a large extent contingent on our ability to continue to grow by entering new markets and further penetrating existing markets. Our ability to further penetrate existing markets or to successfully expand our business into additional countries in Eastern Europe, Southeast Asia, South America or elsewhere, to the extent we believe that we have identified attractive geographic expansion opportunities in the future, is subject to numerous factors, many of which are out of our control.

In addition, government regulations in both our domestic and international markets can delay or prevent the introduction, or require the reformulation or withdrawal, of some of our products, which could negatively impact our business, financial condition and results of operations. Also, our ability to increase market penetration in certain countries may be limited by the finite number of persons in a given country inclined to pursue a direct selling business opportunity or consumers willing to purchase Herbalife products. Moreover, our growth will depend upon improved training and other activities that enhance distributor retention in our markets. While we have recently experienced significant growth in certain of our markets, we cannot assure you that such growth levels will continue in the immediate or long term future. Furthermore, our efforts to support growth in such international markets could be hampered to the extent that our infrastructure in such markets is deficient when compared to our more developed markets, such as the U.S. Therefore, we cannot assure you that our general efforts to increase our market penetration and distributor retention in existing markets will be successful. If we are unable to continue to expand into new markets or further penetrate existing markets, our operating results could suffer.

***Our contractual obligation to sell our products only through our Herbalife distributor network and to refrain from changing certain aspects of our marketing plan may limit our growth.***

We are a party to an agreement with our distributors that provides assurances that we will not sell Herbalife products through any distribution channel other than our network of independent Herbalife distributors. Thus, we are contractually prohibited from expanding our business by selling Herbalife products through other distribution channels that may be available to our competitors, such as over the internet, through wholesale sales, by establishing retail stores or through mail order systems. Since this is an open-ended commitment, there can be no assurance that we will be able to take advantage of innovative new distribution channels that are developed in the future.

In addition, this agreement with our distributors provides that we will not change certain aspects of our marketing plan without the consent of a specified percentage of our distributors. For example, our agreement with our distributors provides that we may increase, but not decrease, the discount percentages available to our distributors for the purchase of products or the applicable royalty override percentages, including roll-ups, and production and other bonus percentages available to our distributors at various qualification levels within our distributor hierarchy. We may not modify the eligibility or qualification criteria for these discounts, royalty overrides and production and other bonuses unless we do so in a manner to make eligibility and/or qualification easier than under the applicable criteria in effect as of the date of the agreement. Our agreement with our distributors further provides that we may not vary the criteria for qualification for each distributor tier within our distributor hierarchy, unless we do so in such a way so as to make qualification easier.

Although we reserved the right to make these changes to our marketing plan without the consent of our distributors in the event that changes are required by applicable law or are necessary in our reasonable business judgment to account for specific local market or currency conditions to achieve a reasonable profit on operations, there can be no assurance that our agreement with our distributors will not restrict our ability to adapt our marketing plan to the evolving requirements of the markets in which we operate. As a result, our growth may be limited.

***We depend on the integrity and reliability of our information technology infrastructure, and any related inadequacies may result in substantial interruptions to our business.***

Our ability to provide products and services to our distributors depends on the performance and availability of our core transactional systems. We upgraded our back office systems globally to the Oracle Enterprise Suite which is supported by a robust hardware and network infrastructure. The Oracle Enterprise Suite is a scalable and stable solution that provides a solid foundation upon which we are building our next generation Distributor facing Internet toolset. While we continue to invest in our information technology infrastructure, there can be no assurance that there will not be any significant interruptions to such systems or that the systems will be adequate to meet all of our future business needs.

The most important aspect of our information technology infrastructure is the system through which we record and track distributor sales, volume points, royalty overrides, bonuses and other incentives. We have encountered, and may encounter in the future, errors in our software or our enterprise network, or inadequacies in the software and services supplied by our vendors, although to date none of these errors or inadequacies has had a meaningful adverse impact on our business. Any such errors or inadequacies that we may encounter in the future may result in substantial interruptions to our services and may damage our relationships with, or cause us to lose, our distributors if the errors or inadequacies impair our ability to track sales and pay royalty overrides, bonuses and other incentives, which would harm our financial condition and operating results. Such errors may be expensive or difficult to correct in a timely manner, and we may have little or no control over whether any inadequacies in software or services supplied to us by third parties are corrected, if at all.

***Since we rely on independent third parties for the manufacture and supply of certain of our products, if these third parties fail to reliably supply products to us at required levels of quality and which are manufactured in compliance with applicable laws, including the dietary supplement cGMPs, then our financial condition and operating results would be harmed.***

The majority of our products are manufactured at third party contract manufacturers, with the exception of our products sold in China, which are manufactured in our Suzhou China facility, and certain of our top selling products which are starting to be manufactured in our manufacturing facility located in Lake Forest, California. It is the

Company s intention to expand the capacity of this recently acquired manufacturing facility to produce additional products for our North America and international markets. We cannot assure you that our outside contract manufacturers will continue to reliably supply products to us at the levels of quality, or the quantities, we require, and in compliance with applicable laws, including under the FDA s cGMP regulations. While we are not presently aware of any current liquidity issues with our suppliers, we cannot assure you that they will not experience financial hardship as a result of the current global financial crisis.

Our supply contracts generally have a two-year term. Except for force majeure events such as natural disasters and other acts of God, and non-performance by Herbalife, our manufacturers generally cannot unilaterally terminate these contracts. These contracts can generally be extended by us at the end of the relevant time period and we have exercised this right in the past. Globally we have over 40 suppliers of our products. For our major products, we have both primary and secondary suppliers. Our major suppliers include Nature s Bounty (U.S.) and Fine Foods (Italy) for meal replacements, protein powders and nutritional supplements, Valentine Enterprises (U.S.) for meal replacements and protein powders and PharmaChem Labs for teas and *Niteworks*®. Additionally we use contract manufacturers in India, Brazil, Korea, Japan and Germany to support our global business. In the event any of our contract manufacturers were to become unable or unwilling to continue to provide us with products in required volumes and at suitable quality levels, we would be required to identify and obtain acceptable replacement manufacturing sources. There is no assurance that we would be able to obtain alternative manufacturing sources on a timely basis. An extended interruption in the supply of products would result in the loss of sales. In addition, any actual or perceived degradation of product quality as a result of reliance on contract manufacturers may have an adverse effect on sales or result in increased product returns and buybacks. Also, as we experience ingredient and product price pressure in the areas of soy, dairy products, plastics, and transportation reflecting global economic trends, we believe that we have the ability to mitigate some of these cost increases through improved optimization of our supply chain coupled with select increases in the retail prices of our products.

***If we fail to protect our trademarks and tradenames, then our ability to compete could be negatively affected, which would harm our financial condition and operating results.***

The market for our products depends to a significant extent upon the goodwill associated with our trademark and tradenames. We own, or have licenses to use, the material trademark and trade name rights used in connection with the packaging, marketing and distribution of our products in the markets where those products are sold. Therefore, trademark and trade name protection is important to our business. Although most of our trademarks are registered in the United States and in certain foreign countries in which we operate, we may not be successful in asserting trademark or trade name protection. In addition, the laws of certain foreign countries may not protect our intellectual property rights to the same extent as the laws of the United States. The loss or infringement of our trademarks or tradenames could impair the goodwill associated with our brands and harm our reputation, which would harm our financial condition and operating results.

Unlike in most of the other markets in which we operate, limited protection of intellectual property is available under Chinese law. Accordingly, we face an increased risk in China that unauthorized parties may attempt to copy or otherwise obtain or use our trademarks, copyrights, product formulations or other intellectual property. Further, since Chinese commercial law is relatively undeveloped, we may have limited legal recourse in the event we encounter significant difficulties with intellectual property theft or infringement. As a result, we cannot assure you that we will be able to adequately protect our product formulations or other intellectual property.

We permit the limited use of our trademarks by our independent distributors to assist them in the marketing of our products. It is possible that doing so may increase the risk of unauthorized use or misuse of our trademarks in markets where their registration status differs from that asserted by our independent distributors, or they may be used in association with claims or products in a manner not permitted under applicable laws and regulations. Were this to occur it is possible that this could diminish the value of these marks or otherwise impair our further use of these marks.

***If our distributors fail to comply with labeling laws, then our financial condition and operating results would be harmed.***

Although the physical labeling of our products is not within the control of our independent distributors, our distributors must nevertheless advertise our products in compliance with the extensive regulations that exist in certain jurisdictions, such as the United States, which considers product advertising to be labeling for regulatory purposes.

Our products are sold principally as foods, dietary supplements and cosmetics and are subject to rigorous FDA and related legal regimens limiting the types of therapeutic claims that can be made for our products. The treatment or cure of disease, for example, is not a permitted claim for these products. While we train our distributors and attempt to monitor our distributors marketing materials, we cannot ensure that all such materials comply with applicable

regulations, including bans on therapeutic claims. If our distributors fail to comply with these restrictions, then we and our distributors could be subjected to claims, financial penalties, mandatory product recalls or relabeling requirements, which could harm our financial condition and operating results. Although we expect that our responsibility for the actions of our independent distributors in such an instance would be dependent on a determination that we either controlled or condoned a noncompliant advertising practice, there can be no assurance that we could not be held vicariously liable for the actions of our independent distributors.

***If our intellectual property is not adequate to provide us with a competitive advantage or to prevent competitors from replicating our products, or if we infringe the intellectual property rights of others, then our financial condition and operating results would be harmed.***

Our future success and ability to compete depend upon our ability to timely produce innovative products and product enhancements that motivate our distributors and customers, which we attempt to protect under a combination of copyright, trademark and trade secret laws, confidentiality procedures and contractual provisions. However, our products are generally not patented domestically or abroad, and the legal protections afforded by common law and contractual proprietary rights in our products provide only limited protection and may be time-consuming and expensive to enforce and/or maintain. Further, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our proprietary rights or from independently developing non-infringing products that are competitive with, equivalent to and/or superior to our products.

Monitoring infringement and/or misappropriation of intellectual property can be difficult and expensive, and we may not be able to detect every infringement or misappropriation of our proprietary rights. Even if we do detect infringement or misappropriation of our proprietary rights, litigation to enforce these rights could cause us to divert financial and other resources away from our business operations. Further, the laws of some foreign countries do not protect our proprietary rights to the same extent as do the laws of the United States.

Additionally, third parties may claim that products or marks that we have independently developed or which bear certain of our trademarks infringe upon their intellectual property rights and there can be no assurance that one of more of our products or marks will not be found to infringe upon third party intellectual property rights in the future. For example, in a pending action in the U.S. federal courts, the adidas companies have alleged that certain uses of Herbalife s Tri-Leaf device mark upon sports apparel items infringe upon their Trefoil mark associated with such goods. They have also alleged that such uses of Herbalife s Tri-Leaf device and certain Herbalife trademark applications constitute a breach of a 1998 agreement between the parties. The trial court has recently granted a partial summary judgment in favor of the adidas companies on its breach of contract claim, but this judgment contains no enforceable provisions directed at Herbalife s conduct, nor does it impose monetary damages on Herbalife. We continue to contest adidas interpretation of the 1998 agreement and are considering an appeal of the partial summary judgment after trial on the remaining claims. We do not believe that we have breached the 1998 agreement, nor that we are infringing on any third party intellectual property rights. Nevertheless it remains possible that an adverse judgment on one or more outstanding claims might issue, awarding monetary damages and/or injunctive relief to adidas that could limit Herbalife s ability to display its Tri-Leaf mark in connection with certain sports apparel, sports equipment, or sports-related marketing and services.

***Since one of our products constitutes a significant portion of our retail sales, significant decreases in consumer demand for this product or our failure to produce a suitable replacement should we cease offering it would harm our financial condition and operating results.***

Our Formula 1 meal replacement product constitutes a significant portion of our sales, accounting for approximately 28% of net sales for the fiscal year ended December 31, 2010, and approximately 29% of net sales for the fiscal years ended December 31, 2009 and 2008. If consumer demand for this product decreases significantly or we cease offering this product without a suitable replacement, then our financial condition and operating results would be harmed.

***If we lose the services of members of our senior management team, then our financial condition and operating results could be harmed.***

We depend on the continued services of our Chairman and Chief Executive Officer, Michael O. Johnson, and our current senior management team as they work closely with the senior distributor leadership to create an environment of inspiration, motivation and entrepreneurial business success. Although we have entered into employment agreements with certain members of our senior management team, and do not believe that any of them are planning to leave or retire in the near term, we cannot assure you that our senior managers will remain with us. The loss or departure of any member of our senior management team could adversely impact our distributor relations and operating results. If any of these executives do not remain with us, our business could suffer. Also, the loss of key personnel, including our regional and country managers, could negatively impact our ability to implement our business strategy, and our continued success will also be dependent on our ability to retain existing, and attract

additional, qualified personnel to meet our needs. We currently do not maintain key person life insurance with respect to our senior management team.

***The covenants in our existing indebtedness limit our discretion with respect to certain business matters, which could limit our ability to pursue certain strategic objectives and in turn harm our financial condition and operating results.***

Our credit facility contains financial and operating covenants that restrict our and our subsidiaries ability to, among other things:

- pay dividends, redeem share capital or capital stock and make other restricted payments and investments;
- incur or guarantee additional debt;
- impose dividend or other distribution restrictions on our subsidiaries;
- create liens on our and our subsidiaries assets;
- engage in transactions with affiliates; and
- merge, consolidate or sell all or substantially all of our assets and the assets of our subsidiaries.

In addition, our credit facility requires us to meet certain financial ratios and financial conditions. Our ability to comply with these covenants may be affected by events beyond our control, including prevailing economic, financial and industry conditions. Failure to comply with these covenants could result in a default causing all amounts to become due and payable under our credit facility, which is secured by substantially all of our domestic assets, against which the lenders thereunder could proceed to foreclose.

***If we do not comply with transfer pricing, customs duties, VAT, and similar regulations, then we may be subjected to additional taxes, duties, interest and penalties in material amounts, which could harm our financial condition and operating results.***

As a multinational corporation, in many countries including the United States we are subject to transfer pricing and other tax regulations designed to ensure that our intercompany transactions are consummated at prices that have not been manipulated to produce a desired tax result, that appropriate levels of income are reported as earned by our United States or local entities, and that we are taxed appropriately on such transactions. In addition, our operations are subject to regulations designed to ensure that appropriate levels of customs duties are assessed on the importation of our products. We are currently subject to pending or proposed audits that are at various levels of review, assessment or appeal in a number of jurisdictions involving transfer pricing issues, income taxes, customs duties, value added taxes, withholding taxes, sales and use and other taxes and related interest and penalties in material amounts. For example, we are currently appealing tax assessments in Spain, Brazil, and Mexico. In some circumstances, additional taxes, interest and penalties have been assessed and we will be required to pay the assessments or post surety, in order to challenge the assessments. The imposition of new taxes, even pass-through taxes such as VAT, could have an impact on our perceived product pricing and therefore a potential negative impact on our business. We have reserved in the consolidated financial statements an amount that we believe represents the most likely outcome of the resolution of these disputes, but if we are incorrect in our assessment we may have to pay the full amount asserted which could potentially be material. Ultimate resolution of these matters may take several years, and the outcome is uncertain. If the United States Internal Revenue Service or the taxing authorities of any other jurisdiction were to successfully challenge our transfer pricing practices or our positions regarding the payment of income taxes, customs duties, value added taxes, withholding taxes, sales and use, and other taxes, we could become subject to higher taxes and our revenue and earnings could be adversely affected. On May 7, 2010, we received an administrative assessment from the Mexican Tax Administration Service in an amount equivalent to approximately $96 million, translated at the period ended spot rate, for various items, the majority of which was VAT allegedly owed on certain of our products imported into Mexico during years 2005 and 2006. This assessment is subject to interest and inflationary adjustments. The Company did not record a provision as the Company, based on analysis and guidance from its advisors, does not believe a loss is probable. Further, we are currently unable to reasonably estimate a possible loss or range of loss that could result from an unfavorable outcome in respect to this assessment or any additional assessments that may be

issued for these or other periods. We believe that we have meritorious defenses and are vigorously pursuing the appeal, but final resolution of this matter could take several years. Any adverse outcomes in these matters could have a material impact on our financial condition and operating results.

***Changes in tax laws, treaties or regulations, or their interpretation could adversely affect us.***

A change in applicable tax laws, treaties or regulations or their interpretation could result in a higher effective tax rate on our worldwide earnings and such change could be significant to our financial results. Tax legislative proposals intending to eliminate some perceived tax advantages of companies that have legal domiciles outside the U.S. but have certain U.S. connections have repeatedly been introduced in the U.S. Congress. If these proposals are enacted, the result would increase our effective tax rate and could have a material adverse effect on the Company s financial condition and results of operations.

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***We may be held responsible for certain taxes or assessments relating to the activities of our distributors, which could harm our financial condition and operating results.***

Our distributors are subject to taxation, and in some instances, legislation or governmental agencies impose an obligation on us to collect taxes, such as value added taxes, and to maintain appropriate records. In addition, we are subject to the risk in some jurisdictions of being responsible for social security and similar taxes with respect to our distributors. In the event that local laws and regulations or the interpretation of local laws and regulations change to require us to treat our independent distributors as employees, or that our distributors are deemed by local regulatory authorities in one or more of the jurisdictions in which we operate to be our employees rather than independent contractors under existing laws and interpretations, we may be held responsible for social security and related taxes in those jurisdictions, plus any related assessments and penalties, which could harm our financial condition and operating results.

***We may incur material product liability claims, which could increase our costs and harm our financial condition and operating results.***

Our products consist of vitamins, minerals and botanicals and other ingredients that are classified as foods or dietary supplements and are not subject to pre-market regulatory approval in the United States. Our products could contain contaminated substances, and some of our products contain some ingredients that do not have long histories of human consumption. We rely upon published raw material, single ingredient, clinical studies and conduct limited clinical studies on some key products but not all products. Previously unknown adverse reactions resulting from human consumption of these ingredients could occur. As a marketer of dietary and nutritional supplements and other products that are ingested by consumers or applied to their bodies, we have been, and may again be, subjected to various product liability claims, including that the products contain contaminants, the products include inadequate instructions as to their uses, or the products include inadequate warnings concerning side effects and interactions with other substances. It is possible that widespread product liability claims could increase our costs, and adversely affect our revenues and operating income. Moreover, liability claims arising from a serious adverse event may increase our costs through higher insurance premiums and deductibles, and may make it more difficult to secure adequate insurance coverage in the future. In addition, our product liability insurance may fail to cover future product liability claims, thereby requiring us to pay substantial monetary damages and adversely affecting our business. Finally, given the higher level of self-insured retentions that we have accepted under our current product liability insurance policies, which are as high as approximately $10 million, in certain cases we may be subject to the full amount of liability associated with any injuries, which could be substantial.

Several years ago, a number of states restricted the sale of dietary supplements containing botanical sources of ephedrine alkaloids and on February 6, 2004, the FDA banned the use of such ephedrine alkaloids. Until late 2002, we had sold *Thermojetics®* original green herbal tablets, *Thermojetics®* green herbal tablets and *Thermojetics®* gold herbal tablets, all of which contained ephedrine alkaloids. Accordingly, we run the risk of product liability claims related to the ingestion of ephedrine alkaloids contained in those products. Currently, we have been named as a defendant in product liability lawsuits seeking to link the ingestion of certain of the aforementioned products to subsequent alleged medical problems suffered by plaintiffs. Although we believe that we have meritorious defenses to the allegations contained in these lawsuits, and are vigorously defending these claims, there can be no assurance that we will prevail in our defense of any or all of these matters.

***We are subject to, among other things, requirements regarding the effectiveness of internal controls over financial reporting. In connection with these requirements, we conduct regular audits of our business and operations. Our failure to identify or correct deficiencies and areas of weakness in the course of these audits could adversely affect our financial condition and operating results.***

We are required to comply with various corporate governance and financial reporting requirements under the Sarbanes-Oxley Act of 2002, as well as new rules and regulations adopted by the SEC, the Public Company Accounting Oversight Board and the New York Stock Exchange. In particular, we are required to include management and auditor reports on the effectiveness of internal controls over financial reporting as part of our annual reports on Form 10-K, pursuant to Section 404 of the Sarbanes-Oxley Act. We expect to continue to spend significant amounts of time and money on compliance with these rules. Our failure to correct any noted weaknesses in internal

controls over financial reporting could result in the disclosure of material weaknesses which could have a material adverse effect upon the market value of our stock.

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On a regular and on-going basis, we conduct audits through our internal audit department of various aspects of our business and operations. These internal audits are conducted to insure compliance with our policies and to strengthen our operations and related internal controls. The Audit Committee of our Board of Directors regularly reviews the results of these internal audits and, when appropriate, suggests remedial measures and actions to correct noted deficiencies or strengthen areas of weakness. There can be no assurance that these internal audits will uncover all material deficiencies or areas of weakness in our operations or internal controls. If left undetected and uncorrected, such deficiencies and weaknesses could have a material adverse effect on our financial condition and results of operations.

From time to time, the results of these internal audits may necessitate that we conduct further investigations into aspects of our business or operations. In addition, our business practices and operations may periodically be investigated by one or more of the many governmental authorities with jurisdiction over our worldwide operations. In the event that these investigations produce unfavorable results, we may be subjected to fines, penalties or loss of licenses or permits needed to operate in certain jurisdictions, any one of which could have a material adverse effect on our financial condition or operating results.

***Holders of our common shares may face difficulties in protecting their interests because we are incorporated under Cayman Islands law.***

Our corporate affairs are governed by our amended and restated memorandum and articles of association, by the Companies Law (2010 Revision), or the Companies Law, and the common law of the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as under statutes or judicial precedent in existence in jurisdictions in the United States. Therefore, shareholders may have more difficulty in protecting their interests in the face of actions by our management or board of directors than would shareholders of a corporation incorporated in a jurisdiction in the United States, due to the comparatively less developed nature of Cayman Islands law in this area.

Shareholders of Cayman Islands exempted companies such as Herbalife have no general rights under Cayman Islands law to inspect corporate records and accounts or to obtain copies of lists of our shareholders. Our directors have discretion under our articles of association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

A shareholder can bring a suit personally where its individual rights have been, or are about to be, infringed. Where an action is brought to redress any loss or damage suffered by us, we would be the proper plaintiff, and a shareholder could not ordinarily maintain an action on our behalf, except where it was permitted by the courts of the Cayman Islands to proceed with a derivative action. Our Cayman Islands counsel, Maples and Calder, is not aware of any reported decisions in relation to a derivative action brought in a Cayman Islands court. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, a shareholder may be permitted to bring a claim derivatively on the Company s behalf, where:

- a company is acting or proposing to act illegally or outside the scope of its corporate authority;
- the act complained of, although not acting outside the scope of its corporate authority, could be effected only if authorized by more than a simple majority vote; or
- those who control the company are perpetrating a fraud on the minority .

***Provisions of our articles of association and Cayman Islands corporate law may impede a takeover or make it more difficult for shareholders to change the direction or management of the Company, which could reduce shareholders opportunity to influence management of the Company.***

Our articles of association permit our board of directors to issue preference shares from time to time, with such rights and preferences as they consider appropriate. Our board of directors could authorize the issuance of preference shares with terms and conditions and under circumstances that could have an effect of discouraging a takeover or other transaction.

In addition, our articles of association contain certain other provisions which could have an effect of discouraging a takeover or other transaction or preventing or making it more difficult for shareholders to change the direction or management of our Company, including a classified board, the inability of shareholders to act by written consent, a limitation on the ability of shareholders to call special meetings of shareholders and advance notice provisions. As a result, our shareholders may have less input into the management of our Company than they might otherwise have if these provisions were not included in our articles of association.

The Cayman Islands have provisions under the Companies Law to facilitate mergers and consolidations between Cayman Islands companies and non-Cayman Islands companies. These provisions, contained within Part XVA of the Companies Law, are broadly similar to the merger provisions as provided for under Delaware Law.

There are however a number of important differences that could impede a takeover. First, the thresholds for approval of the merger plan by shareholders are higher. The thresholds are (a) a shareholder resolution by majority in number representing 75% in value of the shareholders voting together as one class or (b) if the shares to be issued to each shareholder in the consolidated or surviving company are to have the same rights and economic value as the shares held in the constituent company, a special resolution of the shareholders (being 66 2/3% of those present in person or by proxy and voting) voting together as one class.

As it is not expected that the shares would have the same rights and economic value following a takeover by way of merger, it is expected that the first test is the one which would commonly apply. This threshold essentially has three requirements: a majority in number of the shareholders of the Company must approve the transaction, such approving majority must hold at least 75% in value of all the outstanding shares and the shareholders must vote together as one class.

Additionally, the consent of each holder of a fixed or floating security interest (in essence a documented security interest as opposed to one arising by operation of law) is required to be obtained unless the Grand Court of the Cayman Islands waives such requirement.

The merger provisions contained within Part XVA of the Companies Law do contain shareholder appraisal rights similar to those provided for under Delaware law. Such rights are limited to a merger under Part XVA and do apply to schemes of arrangement as discussed below.

The Companies Law also contains separate statutory provisions that provide for the merger, reconstruction and amalgamation of companies. Those are commonly referred to in the Cayman Islands as schemes of arrangement.

The procedural and legal requirements necessary to consummate these transactions are more rigorous and take longer to complete than the procedures typically required to consummate a merger in the United States. Under Cayman Islands law and practice, a scheme of arrangement in relation to a solvent Cayman Islands company must be approved at a shareholders meeting by a majority of each class of the company s shareholders who are present and voting (either in person or by proxy) at such meeting. The shares voted in favor of the scheme of arrangement must also represent at least 75% of the value of each relevant class of the company s shareholders present and voting at the meeting. The convening of these meetings and the terms of the amalgamation must also be sanctioned by the Grand Court of the Cayman Islands. Although there is no requirement to seek the consent of the creditors of the parties involved in the scheme of arrangement, the Grand Court typically seeks to ensure that the creditors have consented to the transfer of their liabilities to the surviving entity or that the scheme of arrangement does not otherwise materially adversely affect creditors interests. Furthermore, the court will only approve a scheme of arrangement if it is satisfied that:

- the statutory provisions as to majority vote have been complied with;
- the shareholders who voted at the meeting in question fairly represent the relevant class of shareholders to which they belong;
- the scheme of arrangement is such as a businessman would reasonably approve; and
- the scheme of arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

If the scheme of arrangement is approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of U.S. corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

In addition, if an offer by a third party to purchase shares in us has been approved by the holders of at least 90% of our outstanding shares (not including such a third party) pursuant to an offer within a four-month period of making such an offer, the purchaser may, during the two months following expiration of the four-month period, require the holders of the remaining shares to transfer their shares on the same terms on which the purchaser acquired the first 90% of our

outstanding shares. An objection can be made to the Grand Court of the Cayman Islands, but this is unlikely to succeed unless there is evidence of fraud, bad faith, collusion or inequitable treatment of the shareholders.

***There is uncertainty as to shareholders ability to enforce certain foreign civil liabilities in the Cayman Islands.***

We are incorporated as an exempted company with limited liability under the laws of the Cayman Islands. A material portion of our assets are located outside of the United States. As a result, it may be difficult for our shareholders to enforce judgments against us or judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal securities laws of the United States or any state of the United States.

We have been advised by our Cayman Islands counsel, Maples and Calder, that although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, the courts of the Cayman Islands will based on the principle that a judgment by a competent foreign court imposes upon the judgment debtor an obligation to pay the sum for which judgment has been given recognize and enforce a foreign judgment of a court of competent jurisdiction if such judgment is final, for a liquidated sum, not in respect of taxes or a fine or penalty, is not inconsistent with a Cayman Islands judgment in respect of the same matters, and was not obtained in a manner, and is not of a kind, the enforcement of which is contrary to the public policy of the Cayman Islands. There is doubt, however, as to whether the Grand Court of the Cayman Islands will (1) recognize or enforce judgments of U.S. courts predicated upon the civil liability provisions of the federal securities laws of the United States or any state of the United States, or (2) in original actions brought in the Cayman Islands, impose liabilities predicated upon the civil liability provisions of the federal securities laws of the United States or any state of the United States, on the grounds that such provisions are penal in nature.

The Grand Court of the Cayman Islands may stay proceedings if concurrent proceedings are being brought elsewhere.

**Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds***

(a) On January 19, 2011, warrants to purchase 242,718 common shares were exercised at an exercise price of $15.50 per common share. The holder of the warrant elected to use a cashless exercise feature of the warrants resulting in a net issuance of 187,807 common shares. The issuance was exempt from registration under Securities Act of 1933, as amended, in reliance on Section 4(2) as a transaction by an issuer not involving any public offering. No general solicitation or advertising was involved.

(b) None.

(c) Our original share repurchase program announced on April 18, 2007, expired on April 17, 2009 pursuant to its terms. On April 30, 2009, our board of directors authorized a new program to repurchase up to $300 million of our common shares during the next two years, at such times and prices as determined by management. On May 3, 2010, our board of directors approved an increase to the share repurchase authorization from $300 million to $1 billion. In addition, our board of directors approved the extension of the expiration date of the share repurchase program from April 2011 to December 2014. We did not repurchase any common shares in the open market during the three months ended March 31, 2011. As of March 31, 2011, the remaining authorized capacity under the Company s share repurchase program was approximately $776.7 million.

**Item 3. *Defaults Upon Senior Securities***

None.

**Item 4. (*Removed and Reserved)***

None.

**Item 5. *Other Information***

(a) None.

(b) None.

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**Item 6.** ***Exhibits***
(a) Exhibit Index:

**EXHIBIT INDEX**

| Exhibit Number | Description | Reference |
|---|---|---|
| 3.1 | Form of Amended and Restated Memorandum and Articles of Association of Herbalife Ltd. | (d) |
| 4.1 | Form of Share Certificate | (d) |
| 10.1 | Form of Indemnity Agreement between Herbalife International Inc. and certain officers and directors of Herbalife International Inc. | (a) |
| 10.2# | Herbalife International of America, Inc. s Senior Executive Deferred Compensation Plan, effective January 1, 1996, as amended | (a) |
| 10.3# | Herbalife International of America, Inc. s Management Deferred Compensation Plan, effective January 1, 1996, as amended | (a) |
| 10.4# | Master Trust Agreement between Herbalife International of America, Inc. and Imperial Trust Company, Inc., effective January 1, 1996 | (a) |
| 10.5# | Herbalife International Inc. 401K Profit Sharing Plan and Trust, as amended | (a) |
| 10.6 | Notice to Distributors regarding Amendment to Agreements of Distributorship, dated as of July 18, 2002 between Herbalife International, Inc. and each Herbalife Distributor | (a) |
| 10.7 | Indemnity agreement dated as of July 31, 2002, by and among WH Holdings (Cayman Islands) Ltd., WH Acquisition Corp., Whitney & Co., LLC, Whitney V, L.P., Whitney Strategic Partners V, L.P., GGC Administration, L.L.C., Golden Gate Private Equity, Inc., CCG Investments (BVI), L.P., CCG Associates-AI, LLC, CCG Investment Fund-AI, LP, CCG AV, LLC-Series C, CCG AV, LLC-Series C, CCG AV, LLC-Series E, CCG Associates-QP, LLC and WH Investments Ltd. | (a) |
| 10.8# | WH Holdings (Cayman Islands) Ltd. Stock Incentive Plan, as restated, dated as of November 5, 2003 | (a) |
| 10.9# | Non-Statutory Stock Option Agreement, dated as of April 3, 2003 between WH Holdings (Cayman Islands) Ltd. and Michael O. Johnson | (a) |
| 10.10# | Side Letter Agreement dated as of April 3, 2003 by and among WH Holdings (Cayman Islands) Ltd., Michael O. Johnson and the Shareholders listed therein | (a) |
| 10.11# | Form of Non-Statutory Stock Option Agreement (Non-Executive Agreement) | (a) |
| 10.12# | Form of Non-Statutory Stock Option Agreement (Executive Agreement) | (a) |
| 10.13 | Indemnity Agreement, dated as of February 9, 2004, among WH Capital Corporation and Brett R. Chapman | (a) |
| 10.14 | First Amendment to Amended and Restated WH Holdings (Cayman Islands) Ltd. Stock Incentive Plan, dated November 5, 2003 | (a) |
| 10.15 | Registration Rights Agreement, dated as of July 31, 2002, by and among WH Holdings (Cayman Islands) Ltd., Whitney V, L.P., Whitney Strategic Partners V, L.P., WH Investments Ltd., CCG Investments (BVI), L.P., CCG Associates-QP, LLC, CCG Associates-AI, LLC, CCG Investment Fund-AI, L.P., CCG AV, LLC-Series C and CCG AV, LLC-Series E. | (b) |
| 10.16 | Share Purchase Agreement, dated as of July 31, 2002, by and among WH Holdings (Cayman Islands) Ltd., Whitney Strategic Partners V, L.P., WH Investments Ltd., Whitney V, L.P., CCG Investments (BVI), L.P., CCG Associates-QP, LLC, CCG Associates-AI, LLC, CCG Investment Fund-AI, LP, | (b) |

| | | |
|---|---|---|
| | CCG AV, LLC-Series C and CCG AV, LLC-Series E. | |
| 10.17 | Form of Indemnification Agreement between Herbalife Ltd. and the directors and certain officers of Herbalife Ltd. | (c) |
| 10.18# | Herbalife Ltd. 2004 Stock Incentive Plan, effective December 1, 2004 | (c) |
| 10.19 | Indemnification Agreement, dated as of December 13, 2004, by and among Herbalife Ltd., Herbalife International, Inc., Whitney V, L.P., Whitney Strategic Partners V, L.P., CCG Investments (BVI), L.P., CCG Associates-QP, LLC, CCG Associates-AI, LLC, CCG Investment Fund-AI, LP, CCG AV, LLC-Series C, CCG AV, LLC-Series E, CCG CI, LLC and GGC Administration, LLC. | (d) |

| Exhibit Number | Description | Reference |
|---|---|---|
| 10.20# | Amendment No. 1 to Herbalife Ltd. 2004 Stock Incentive Plan | (e) |
| 10.21# | Form of 2004 Herbalife Ltd. 2004 Stock Incentive Plan Stock Option Agreement | (n) |
| 10.22# | Form of 2004 Herbalife Ltd. 2004 Stock Incentive Plan Non-Employee Director Stock Option Agreement | (n) |
| 10.23# | Amended and Restated Herbalife Ltd. 2005 Stock Incentive Plan | (f) |
| 10.24# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement | * |
| 10.25# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement | * |
| 10.26# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Michael O Johnson | * |
| 10.27# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Michael O. Johnson | * |
| 10.28# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Messrs. Richard P. Goudis and Brett R. Chapman | * |
| 10.29# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Messrs. Richard P. Goudis and Brett R. Chapman | * |
| 10.30# | Amendment dated October 24, 2006, to Stock Option Agreement by and between Herbalife Ltd. and Richard P. Goudis dated June 14, 2004 | (g) |
| 10.31# | Amendment dated October 24, 2006, to Stock Option Agreement by and between Herbalife Ltd. and Richard P. Goudis dated September 1, 2004 | (g) |
| 10.32# | Amendment dated October 24, 2006, to Stock Option Agreement by and between Herbalife Ltd. and Richard P. Goudis dated December 1, 2004 | (g) |
| 10.33# | Amendment dated October 24, 2006, to Stock Option Agreement by and between Herbalife Ltd. and Richard P. Goudis dated April 27, 2005 | (g) |
| 10.34# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Mr. Michael O. Johnson | (h) |
| 10.35# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Mr. Michael O. Johnson | (h) |
| 10.36# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Messrs. Brett R. Chapman and Richard Goudis | (h) |
| 10.37# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Messrs. Brett R. Chapman and Richard Goudis | (h) |
| 10.38# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement | (h) |
| 10.39# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement | (h) |
| 10.40# | Herbalife Ltd. Employee Stock Purchase Plan | (i) |
| 10.41# | Employment Agreement dated as of March 27, 2008 between Michael O. Johnson and Herbalife International of America, Inc. | (j) |
| 10.42# | Stock Unit Award Agreement by and between Herbalife Ltd. and Michael O. Johnson, dated March 27, 2008. | (j) |
| 10.43# | Stock Appreciation Right Award Agreement by and between Herbalife Ltd. and Michael O. Johnson, dated March 27, 2008. | (j) |
| 10.44# | Stock Appreciation Right Award Agreement by and between Herbalife Ltd. and Michael O. Johnson, dated March 27, 2008. | (j) |

| | | |
|---|---|---|
| 10.45# | Amendment to Herbalife International Inc. 401K Profit Sharing Plan and Trust | (k) |
| 10.46# | Form of Independent Directors Stock Appreciation Right Award Agreement | (l) |
| 10.47# | Herbalife Ltd. Amended and Restated Independent Directors Deferred Compensation and Stock Unit Plan | (l) |
| 10.48# | Amended and Restated Employment Agreement by and between Richard P. Goudis and Herbalife International of America, Inc., dated as of January 1, 2010. | (m) |
| 10.49# | Severance Agreement by and between Desmond Walsh and Herbalife International of America, Inc., dated as of January 1, 2010. | (m) |
| 10.50# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement | (n) |
| 10.51# | Amended and Restated Non-Management Directors Compensation Plan | (n) |

| Exhibit Number | Description | Reference |
|---|---|---|
| 10.52# | Amendment to Form of Non-Employee Directors Stock Appreciation Right Award Agreement | (n) |
| 10.53# | Amended and Restated Employment Agreement by and between Brett Chapman and Herbalife International of America, Inc., dated as of June 1, 2010. | (o) |
| 10.54# | First Amendment to the Amended and Restated Employment Agreement by and between Richard P. Goudis and Herbalife International of America, Inc., dated as of December 28, 2010. | (p) |
| 10.55# | First Amendment to the Amended and Restated Employment Agreement by and between Brett R. Chapman and Herbalife International of America, Inc., dated as of December 26, 2010. | (p) |
| 10.56# | Severance Agreement by and between John DeSimone and Herbalife International of America, Inc., dated as of February 23, 2011. | (q) |
| 10.57# | Amended and Restated Severance Agreement, dated as of February 23, 2011, by Desmond Walsh and Herbalife International of America, Inc. | (q) |
| 10.58 | Form of Credit Agreement, dated as of March 9, 2011, by and among Herbalife International, Inc. ( HII ), Herbalife Ltd.., Herbalife International Luxembourg S.a.R.L., certain subsidiaries of HII as guarantors, the lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer. | * |
| 31.1 | Rule 13a-14(a) Certification of Chief Executive Officer | * |
| 31.2 | Rule 13a-14(a) Certification of Chief Financial Officer | * |
| 32.1 | Section 1350 Certification of Chief Executive Officer and Chief Financial Officer | * |
| 101.INS | XBRL Instance Document | ** |
| 101.SCH | XBRL Taxonomy Extension Schema Document | ** |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | ** |
| 101.LAB | Taxonomy Extension Label Linkbase Document | ** |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | ** |

* Filed herewith.

** Furnished, not filed.

# Management contract or compensatory plan or arrangement.

(a) Previously filed on October 1, 2004 as an Exhibit to the Company s registration statement on Form S-1 (File No. 333-119485) and is incorporated herein by reference.

(b) Previously filed on November 9, 2004 as an Exhibit to Amendment No. 2 to the Company s registration statement on Form S-1 (File No. 333-119485) and is incorporated herein by reference.

(c) Previously filed on December 2, 2004 as an Exhibit to Amendment No. 4 to the Company s registration statement on Form S-1 (File No. 333-119485) and is incorporated herein by reference.

(d)

Previously filed on December 14, 2004 as an Exhibit to Amendment No. 5 to the Company s registration statement on Form S-1 (File No. 333-119485) and is incorporated herein by reference.

(e) Previously filed on February 17, 2005 as an Exhibit to the Company s registration statement on Form S-8 (File No. 333-122871) and is incorporated herein by reference.

(f) Previously filed on April 30, 2010 as an Exhibit to the Company s Current Report on Form 8-K and is incorporated herein by reference.

(g) Previously filed on October 26, 2006 as an Exhibit to the Company s Current Report on Form 8-K and is incorporated herein by reference.

(h) Previously filed on June 1, 2007 as an Exhibit to the Company s Current Report on Form 8-K and is incorporated herein by reference.

(i) Previously filed on February 26, 2008 as an Exhibit to the Company s Annual Report on Form 10-K for the year ended December 31, 2007 and is incorporated herein by reference.

(j) Previously filed on April 7, 2008 as an Exhibit to the Company s Current Report on Form 8-K and is incorporated herein by reference.

(k) Previously filed on May 4, 2009 as an Exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 and is incorporated by reference.

(l) Previously filed on May 3, 2010 as an Exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 and is incorporated by reference.

(m) Previously filed on June 17, 2010 as an Exhibit to the Company s Current Report on Form 8-K and is incorporated herein by reference.

(n) Previously filed on August 2, 2010 as an Exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 and is incorporated by reference.

(o) Previously filed on August 3, 2010 as an Exhibit to the Company s Current Report on Form 8-K and is incorporated herein by reference.

(p) Previously filed on December 29, 2010 as an Exhibit to the Company s Current Report on Form 8-K and is incorporated herein by reference.

(q) Previously filed on March 1, 2011 as an Exhibit to the Company s Current Report on Form 8-K and is incorporated herein by reference.

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**HERBALIFE LTD.**

By: /s/ JOHN DESIMONE
John DeSimone
Chief Financial Officer

Dated: May 2, 2011