HERBALIFE LTD.
Form 10-Q
October 29, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

OR

¨ **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 **(State or other jurisdiction of incorporation or organization)**	**98-0377871** **(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 x No ¨

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 x No ¨

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	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	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 ¨ No x

Number of shares of registrant s common shares outstanding as of October 24, 2012 was 108,001,495

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HERBALIFE LTD.

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

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PART I. FINANCIAL INFORMATION

Item 1. *FINANCIAL STATEMENTS*

HERBALIFE LTD.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2012	December 31, 2011
	(In thousands, except share and par value amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 321,722	$ 258,775
Receivables, net of allowance for doubtful accounts of $2,029 (2012) and $2,250 (2011)	114,161	89,660
Inventories	313,581	247,696
Prepaid expenses and other current assets	124,095	117,073
Deferred income taxes	51,628	55,615
Total current assets	925,187	768,819
Property, at cost, net of accumulated depreciation and amortization of $242,693 (2012) and $193,735 (2011)	198,562	193,703
Deferred compensation plan assets	23,977	20,511
Deferred financing costs, net	8,121	4,797
Other assets	45,477	41,125
Marketing related intangibles and other intangible assets, net	311,283	311,764
Goodwill	105,490	105,490
Total assets	$ 1,618,097	$ 1,446,209
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 80,119	$ 57,095
Royalty overrides	223,839	197,756
Accrued compensation	87,493	76,435
Accrued expenses	169,722	152,744
Current portion of long-term debt	50,384	1,542
Advance sales deposits	38,890	31,702
Income taxes payable	13,501	31,415
Total current liabilities	663,948	548,689
NON-CURRENT LIABILITIES:		
Long-term debt, net of current portion	450,053	202,079
Deferred compensation plan liability	28,717	23,702
Deferred income taxes	62,808	72,348
Other non-current liabilities	41,166	39,203

Total liabilities	1,246,692	886,021
CONTINGENCIES		
SHAREHOLDERS EQUITY:		
Common shares, $0.001 par value; 1.0 billion shares authorized; 107.9 million (2012) and 115.8 million (2011) shares outstanding	108	116
Paid-in-capital in excess of par value	297,879	291,950
Accumulated other comprehensive loss	(36,625)	(37,809)
Retained earnings	110,043	305,931
Total shareholders equity	371,405	560,188
Total liabilities and shareholders equity	$ 1,618,097	$ 1,446,209

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		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	(In thousands, except per share amounts)			
Product sales	$ 869,542	$ 763,272	$ 2,574,256	$ 2,190,153
Shipping & handling revenues	147,345	131,946	438,754	379,815
Net sales	1,016,887	895,218	3,013,010	2,569,968
Cost of sales	201,597	175,308	601,478	509,124
Gross profit	815,290	719,910	2,411,532	2,060,844
Royalty overrides	330,247	290,842	982,975	844,451
Selling, general & administrative expenses	324,200	277,721	926,903	788,472
Operating income	160,843	151,347	501,654	427,921
Interest expense, net	3,546	345	8,088	3,848
Income before income taxes	157,297	151,002	493,566	424,073
Income taxes	39,518	42,980	134,257	116,852
NET INCOME	$ 117,779	$ 108,022	$ 359,309	$ 307,221
Earnings per share:				
Basic	$ 1.08	$ 0.92	$ 3.16	$ 2.60
Diluted	$ 1.04	$ 0.87	$ 3.01	$ 2.44
Weighted average shares outstanding:				
Basic	108,816	116,975	113,838	118,059
Diluted	113,646	124,275	119,376	125,889
Dividends declared per share	$ 0.30	$ 0.20	$ 0.90	$ 0.53

See the accompanying notes to unaudited condensed consolidated financial statements.

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HERBALIFE LTD.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	(In thousands)			
Net income	$ 117,779	$ 108,022	$ 359,309	$ 307,221
Other comprehensive income:				
Foreign currency translation adjustment, net of income taxes	9,113	(32,740)	5,189	(12,542)
Unrealized (loss) gain on derivatives, net of income taxes	(2,811)	3,644	(4,005)	3,815
Total other comprehensive income (loss)	6,302	(29,096)	1,184	(8,727)
Total comprehensive income	$ 124,081	$ 78,926	$ 360,493	$ 298,494

See the accompanying notes to unaudited condensed consolidated financial statements.

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HERBALIFE LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended	
	September 30, 2012	September 30, 2011
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 359,309	$ 307,221
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	55,402	54,440
Excess tax benefits from share-based payment arrangements	(28,073)	(24,030)
Share-based compensation expenses	20,850	17,244
Amortization of discount and deferred financing costs	1,135	721
Deferred income taxes	(9,246)	(7,000)
Unrealized foreign exchange transaction (gain) loss	(3,529)	8,324
Write-off of deferred financing costs		914
Other	172	1,383
Changes in operating assets and liabilities:		
Receivables	(26,444)	(31,834)
Inventories	(58,705)	(51,649)
Prepaid expenses and other current assets	(7,977)	(3,733)
Other assets	(3,098)	(4,742)
Accounts payable	22,674	19,484
Royalty overrides	22,432	33,851
Accrued expenses and accrued compensation	20,028	7,579
Advance sales deposits	7,384	27,416
Income taxes	22,561	35,914
Deferred compensation plan liability	5,015	2,123
NET CASH PROVIDED BY OPERATING ACTIVITIES	399,890	393,626
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(59,229)	(61,514)
Proceeds from sale of property, plant and equipment	243	213
Deferred compensation plan assets	(3,466)	(527)
NET CASH USED IN INVESTING ACTIVITIES	(62,452)	(61,828)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(102,687)	(62,177)
Borrowings from long-term debt	1,387,557	791,700
Principal payments on long-term debt	(1,090,748)	(747,896)
Deferred financing costs	(4,460)	(5,728)
Share repurchases	(506,331)	(268,795)
Excess tax benefits from share-based payment arrangements	28,073	24,030
Proceeds from exercise of stock options and sale of stock under employee stock purchase plan	10,819	15,947
NET CASH USED IN FINANCING ACTIVITIES	(277,777)	(252,919)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	3,286	(7,908)

NET CHANGE IN CASH AND CASH EQUIVALENTS		62,947		70,971
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		258,775		190,550
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	321,722	$	261,521
CASH PAID DURING THE PERIOD				
Interest paid	$	10,263	$	6,457
Income taxes paid	$	123,063	$	88,079

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 nutrition company that sells weight management products, nutritional supplements, energy, sports & fitness products and personal care products utilizing network marketing distribution. As of September 30, 2012, the Company sold its products to and through a network of 3.1 million independent distributors, which included 0.2 million in China. In China, the Company currently sells its products through retail stores, sales representatives, sales officers and independent service providers. The Company reports revenue in six geographic regions: North America; Mexico; South and Central America; EMEA, which consists of Europe, the Middle East and Africa; Asia Pacific (excluding China); 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, 2011 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 September 30, 2012, and for the three and nine months ended September 30, 2012 and 2011, 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 September 30, 2012, and for the three and nine months ended September 30, 2012 and 2011. 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, 2011, or the 2011 10-K. Operating results for the three and nine months ended September 30, 2012, are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

New Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2012-02, *Intangibles Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment.* This ASU allows an entity to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test for indefinite-lived intangible assets. An organization that elects to perform a qualitative assessment is required to perform the quantitative impairment test for an indefinite-lived intangible asset if it is more likely than not that the asset is impaired. This ASU, which applies to all public, private, and not-for-profit organizations, is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity s financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. The adoption of this ASU will not have a material impact on the Company s consolidated financial statements, as it is intended to simplify the impairment assessment for indefinite-lived intangible assets.

Venezuela

Currency restrictions enacted by the Venezuelan government in 2003 have become more restrictive and have impacted the ability of the Company s 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 remains uncertain. Effective January 1, 2012, additional laws were enacted that required companies to register with the Registry of Users of the System of Transactions with Securities in Foreign Currency, or RUSITME, prior to transacting with the SITME, the regulated system, which is controlled by the Central Bank of Venezuela. As an alternative exchange mechanism, the Company has 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 the Company effectively purchased bonds with its Bolivars and then sold the bonds for U.S. dollars. In other instances, the Company has also used other alternative legal exchange mechanisms for currency exchanges.

During the nine months ended September 30, 2012, the Company recognized $4.1 million of foreign exchange losses as a result of exchanging Bolivars for U.S. dollars using alternative legal exchange mechanisms that were approximately 41% less favorable than

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the 5.3 Bolivars per U.S. dollar published SITME rate. During the nine months ended September 30, 2012, the Company has exchanged 53.9 million Bolivars for $6.0 million U.S. dollars using these alternative legal exchange mechanisms. The Company did not exchange Bolivars for U.S. dollars using these alternative legal exchange mechanisms during the three months ended September 30, 2012. As of September 30, 2012, Herbalife Venezuela s net monetary assets and liabilities denominated in Bolivars were approximately $69.0 million, and included approximately $71.6 million in Bolivar denominated cash and cash equivalents. The majority of these Bolivar denominated assets and liabilities were remeasured at the SITME rate. The Company continues to remeasure its Bolivars at the published SITME rate given the limited availability of alternative exchange mechanisms and the uncertainty in the effective exchange rate for alternative exchange mechanisms. These remeasured amounts, including cash and cash equivalents, being reported on the Company s consolidated balance sheet using the published SITME rate may not accurately represent the amount of U.S. dollars that the Company could ultimately realize. While the Company continues to monitor the exchange mechanisms and restrictions under SITME, and assess and monitor the current economic and political environment in Venezuela, there is no assurance that the Company will be able to exchange Bolivars into U.S. dollars on a timely basis. Although Venezuela is an important market in the Company s South and Central America region, Herbalife Venezuela s net sales represented approximately 3% and 2% of the Company s consolidated net sales for the nine months ended September 30, 2012 and 2011, respectively, and its total assets represented approximately 6% and 3% of the Company s consolidated total assets as of September 30, 2012 and December 31, 2011, respectively.

See the Company s 2011 10-K for further information on Herbalife Venezuela and Venezuela s highly inflationary economy.

3. Inventories

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

	September 30, 2012	December 31, 2011
	(In millions)	
Raw materials	$ 20.6	$ 21.7
Work in process	1.9	2.5
Finished goods	291.1	223.5
Total	$ 313.6	$ 247.7

4. Long-Term Debt

Long-term debt consists of the following:

	September 30, 2012	December 31, 2011
	(In millions)	
Borrowings under the senior secured credit facility	$ 500.0	$ 202.0
Capital leases	0.2	1.4
Other debt	0.2	0.2
Total	500.4	203.6
Less: current portion	50.4	1.5
Long-term portion	$ 450.0	$ 202.1

On March 9, 2011, the Company entered into a new $700.0 million senior secured revolving credit facility, or the Credit Facility, with a syndicate of financial institutions as lenders and terminated its prior senior secured credit facility, or the Prior Credit Facility. The Credit Facility has a five year maturity and expires on March 9, 2016. Based on the Company s consolidated leverage ratio, U.S. dollar borrowings under the Credit Facility 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 base rate under the 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. The Company, based on its consolidated leverage ratio, pays a commitment fee between 0.25% and 0.50% per annum on the unused portion of the Credit Facility. The Credit Facility also permits the Company to borrow limited amounts in Mexican Peso and Euro currencies based on variable rates.

In March 2011, the Company used $196.0 million in U.S. dollar borrowings under the Credit Facility to repay all amounts outstanding under the Prior Credit Facility. The Company incurred approximately $5.7 million of debt issuance costs in connection with the Credit Facility. These debt issuance costs were recorded as deferred financing costs on the Company s consolidated balance sheet and are being amortized over the term of the Credit Facility.

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On July 26, 2012, the Company amended the Credit Facility to include a $500.0 million term loan with a syndicate of financial institutions as lenders, or the Term Loan. The Term Loan is a part of the Credit Facility and is in addition to the Company s current revolving credit facility. The Term Loan matures on March 9, 2016. The Company will make regular scheduled payments for the Term Loan consisting of both principal and interest components. Based on the Company s consolidated leverage ratio, the Term Loan bears 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% which are the same terms as the Company s revolving credit facility.

In July 2012, the Company used all $500.0 million of the borrowings under the Term Loan to pay down amounts outstanding under the Company s revolving credit facility. The Company incurred approximately $4.5 million of debt issuance costs in connection with the Term Loan. The debt issuance costs are recorded as deferred financing costs on the Company s condensed consolidated balance sheet and will be amortized over the life of the Term Loan. On September 30, 2012 and December 31, 2011, the weighted average interest rate for borrowings under the Credit Facility, which included borrowings under the Term Loan as of September 30, 2012, was 1.97% and 1.89%, respectively.

The Credit Facility requires the Company to comply with a leverage ratio and a coverage ratio. In addition, the 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, repurchase its common shares, merge or consolidate and enter into certain transactions with affiliates. As of September 30, 2012 and December 31, 2011, the Company was compliant with its debt covenants under the Credit Facility. The fair value of the Company s Credit Facility, including the Term Loan, approximated its carrying value as of September 30, 2012, due to its variable interest rate which reprices frequently and represents floating market rates. The fair value of the Credit Facility is determined by utilizing Level 2 inputs as defined in Note 12, *Fair Value Measurements*, such as observable market interest rates and yield curves.

During the three months ended March 31, 2012, the Company borrowed $112.0 million and paid a total of $86.0 million under the Credit Facility. During the three months ended June 30, 2012, the Company borrowed $692.0 million primarily to finance the share repurchase agreement described in Note 10, *Shareholders Equity*, and paid a total of $365.0 million under the Credit Facility. During the three months ended September 30, 2012, the Company borrowed $581.0 million and paid a total of $636.0 million under the Credit Facility primarily due to the addition of the Term Loan. As of September 30, 2012 and December 31, 2011, the U.S. dollar amount outstanding under the Credit Facility was $500.0 million and $202.0 million, respectively. There were no outstanding foreign currency borrowings as of September 30, 2012 and December 31, 2011 under the Credit Facility.

Interest expense was $5.0 million and $3.1 million for the three months ended September 30, 2012 and 2011, respectively, and $12.4 million and $9.5 million for the nine months ended September 30, 2012 and 2011, respectively. Interest expense for the nine months ended September 30, 2011 included a $0.9 million write-off of unamortized deferred financing costs resulting from the extinguishment of the Prior Credit Facility, as discussed above.

5. 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.

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 assessment from the Mexican Tax Administration Service in an amount equivalent to approximately $89 million, translated at the period ended spot rate, for various items, the majority of which was Value Added Tax, or VAT, 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. On May 13, 2011, the Mexican Tax Administration Service issued a resolution on the Company s administrative appeal. The resolution nullified the assessment. Since the Mexican Tax Administration Service can further review the tax audit findings and re-issue some or all of the original assessment, the Company commenced litigation in the Tax Court of Mexico in August 2011 to dispute the assertions made by the Mexican Tax Administration Service in the case. The Mexican Tax Administration Service filed a response which was received by the Company in April 2012. The response challenged the assertions that the Company made in its August 2011 filing.

The Mexican Tax Administration Service commenced audits of the Company s Mexican subsidiaries for the period from January to September 2007 and the 2011 year. On October 19, 2012, the Mexican Tax Administration Service issued a preliminary audit report for the 2007 period which primarily focused on VAT allegations. The final audit report is expected to be issued before the end of the year. Generally, any assessment would be issued after the final audit report.

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Prior to the nullification of the assessment relating to the 2005 and 2006 years 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 Credit Facility. These arrangements with the insurance companies remain in place in the event that the assessment is re-issued. The Company has not recognized a loss as the Company, based on its analysis and guidance from its advisors, does not believe a loss would be probable if the assessment is re-issued or if any additional assessment is issued. Further, the Company is currently unable to reasonably estimate a possible loss or range of loss that could result from an unfavorable outcome if the assessment was re-issued or any additional assessments were to be issued for these or other periods. The Company believes that it has meritorious defenses if the assessment is re-issued or would have meritorious defenses if any additional assessment is issued.

The Company received an assessment from the Spanish Tax Authority in an amount equivalent to approximately $4.1 million translated at the period ended spot rate, for withholding taxes, interest and penalties related to payments to Spanish distributors for the 2003-2004 period. The Company appealed the assessment to the National Appellate Court (Audiencia Nacional). Based on the ruling of the National Appellate Court, substantially all of the assessment was nullified. The Company began withholding taxes on payments to Spanish distributors for the 2012 year. If the Spanish Tax Authority raises the same issue in later years, the Company believes that it has meritorious defenses. The Company has not recognized a loss as the Company does not believe a loss is probable. The Company is currently unable to reasonably estimate a possible loss or range of loss that could result from an unfavorable outcome if additional assessments for other periods were to be issued.

The Company received a tax assessment in September 2009, from the Federal Revenue Office of Brazil in an amount equivalent to approximately $4.2 million U.S. dollars translated at the period ended spot rate, related to withholding/contributions based on payments to the Company s distributors during 2004. The Company has appealed this tax assessment to the Administrative Council of Tax Appeals (2nd level administrative appeal) as it believes it has meritorious defenses and it has not recognized a loss as the Company does not believe a loss is probable. The Company is currently unable to reasonably estimate the amount of the loss that may result from an unfavorable outcome if additional assessments for other periods were to be issued.

The Company received an order from a Rome Labor Court on behalf of the Social Security Authority on March 1, 2012, to pay an amount equivalent to approximately $6.9 million U.S. dollars translated at the period ended spot rate, for social contributions, interest and penalties related to payments to Italian distributors from 2002 through 2005. The Company has filed a writ with the Rome Labor Court appealing the order and the Social Security Authority filed a response brief. At a hearing on July 12, 2012, the Social Security Authority announced its intention to withdraw their claim as well as the order to pay the assessment. A hearing on this matter was originally scheduled for October 23, 2012 but it has been rescheduled for February 19, 2013.

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.

6. Segment Information

The Company is a nutrition company that sells a wide range of weight management products, nutritional supplements and personal care products within one industry segment as defined under 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 Lake Forest, California facility, and then are sold to independent distributors who both consume and sell Herbalife products to retail consumers or other distributors. Revenues reflect sales of products by the Company to its distributors and are categorized based on geographic location.

As of September 30, 2012, the Company sold products in 84 countries throughout the world and was 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:

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	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	(In millions)			
Net Sales:				
Primary Reporting Segment				
United States	$ 202.9	$ 175.1	$ 625.5	$ 516.7
Mexico	127.5	112.9	364.0	330.7
South Korea	109.3	100.5	314.9	251.0
Others	499.8	451.7	1,497.2	1,319.5
Total Primary Reporting Segment	939.5	840.2	2,801.6	2,417.9
China	77.4	55.0	211.4	152.1
Total Net Sales	$ 1,016.9	$ 895.2	$ 3,013.0	$ 2,570.0
Contribution Margin(1)(2):				
Primary Reporting Segment				
United States	$ 91.0	$ 79.2	$ 280.0	$ 225.3
Mexico	54.9	48.1	147.8	139.5
South Korea	53.9	47.6	150.9	119.1
Others	215.5	204.9	659.6	597.9
Total Primary Reporting Segment	415.3	379.8	1,238.3	1,081.8
China	69.7	49.2	190.3	134.6
Total Contribution Margin	$ 485.0	$ 429.0	$ 1,428.6	$ 1,216.4
Selling, general and administrative expenses(2)	324.2	277.7	926.9	788.5
Interest expense, net	3.5	0.3	8.1	3.8
Income before income taxes	157.3	151.0	493.6	424.1
Income taxes	39.5	43.0	134.3	116.9
Net Income	$ 117.8	$ 108.0	$ 359.3	$ 307.2
Net sales by product line:				
Weight Management	$ 635.9	$ 560.1	$ 1,884.5	$ 1,611.0
Targeted Nutrition	237.4	205.3	703.3	582.8
Energy, Sports and Fitness	54.8	45.7	155.4	124.6
Outer Nutrition	34.2	35.4	108.6	109.0
Literature, promotional and other(3)	54.6	48.7	161.2	142.6
Total Net Sales	$ 1,016.9	$ 895.2	$ 3,013.0	$ 2,570.0
Net sales by geographic region:				
North America	$ 208.8	$ 180.7	$ 644.2	$ 532.9
Mexico	127.5	112.9	364.0	330.7
South and Central America	167.5	143.7	485.6	399.1
EMEA	147.5	147.7	463.1	463.6
Asia Pacific	288.2	255.2	844.7	691.6
China	77.4	55.0	211.4	152.1
Total Net Sales	$ 1,016.9	$ 895.2	$ 3,013.0	$ 2,570.0

(1) Contribution margin consists of net sales less cost of sales and royalty overrides. See Part I, Item 2 *Management s Discussion and Analysis of Financial Condition and Results of Operations* in this Quarterly Report on Form 10-Q for a description of net sales, cost of sales and royalty overrides.

(2) Compensation to China sales employees and service fees to China independent service providers totaling $34.4 million and $25.2 million for the three months ended September 30, 2012 and 2011, respectively, and totaling $93.7 million and $70.7 million for the nine months ended September 30, 2012 and 2011, respectively, are included in selling, general and administrative expenses while distributor compensation for all other countries is included in contribution margin.

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(3) Product buybacks and returns in all product categories are included in the literature, promotional and other category.
As of September 30, 2012 and December 31, 2011, total assets for the Company s Primary Reporting Segment were $1,494.2 million and $1,357.4 million, respectively. Total assets for the China segment were $123.9 million and $88.8 million as of September 30, 2012 and December 31, 2011, 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 2011 10-K. During the nine months ended September 30, 2012, the Company granted stock awards subject to continued service, consisting of stock appreciation rights, or SARs, with vesting terms fully described in the 2011 10-K. There were no stock options granted during the nine months ended September 30, 2012 and 2011.

For the three months ended September 30, 2012 and 2011, share-based compensation expense amounted to $8.4 million and $6.1 million, respectively. For the nine months ended September 30, 2012 and 2011, share-based compensation expense amounted to $20.8 million and $17.2 million, respectively. As of September 30, 2012, the total unrecognized compensation cost related to all non-vested stock awards was $58.5 million and the related weighted-average period over which it is expected to be recognized is approximately 1.6 years.

The following tables summarize the activity under all share-based compensation plans for the nine months ended September 30, 2012:

Stock Options & SARs	Awards (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In millions)
Outstanding at December 31, 2011(1)	11,169	$ 22.54	5.5 years	$ 332.8
Granted	2,101	$ 45.08		
Exercised	(1,810)	$ 10.24		
Forfeited	(57)	$ 41.60		
Outstanding at September 30, 2012(1)	11,403	$ 28.55	6.1 years	$ 231.3
Exercisable at September 30, 2012(2)	5,781	$ 18.14	4.2 years	$ 170.6

(1) Includes 1.5 million market condition SARs and 0.9 million market and performance condition SARs.
(2) Includes 1.5 million market condition SARs.
The weighted-average grant date fair value of SARs granted during the three months ended September 30, 2012 and 2011 was $16.54 and $17.40, respectively. The weighted-average grant date fair value of SARs granted during the nine months ended September 30, 2012 and 2011 was $15.35 and $19.63, respectively. The total intrinsic value of stock options and SARs exercised during the three months ended September 30, 2012 and 2011 was $2.3 million and $36.8 million, respectively. The total intrinsic value of stock options and SARs exercised during the nine months ended September 30, 2012 and 2011 was $96.6 million and $100.9 million, respectively.

Incentive Plan and Independent Directors Stock Units	Shares (In thousands)	Weighted Average Grant Date Fair Value
Outstanding and nonvested December 31, 2011	717.6	$ 12.25
Granted		

Vested	(330.1)	$	10.64
Forfeited	(0.4)	$	6.82
Outstanding and nonvested at September 30, 2012	387.1	$	13.63

The total vesting date fair value of stock units which vested during the three months ended September 30, 2012 and 2011, was $1.1 million and $1.6 million, respectively. The total vesting date fair value of stock units which vested during the nine months ended September 30, 2012 and 2011, was $24.1 million and $19.5 million, respectively.

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The Company recognizes excess tax benefits associated with share-based compensation to shareholders equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, the Company follows the with-and-without approach. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company, which are also subject to applicable limitations. As of September 30, 2012, and December 31, 2011, the Company had $26.5 million and $20.6 million, respectively, of unrealized excess tax benefits.

8. Income Taxes

Income taxes were $39.5 million and $134.3 million for the three and nine months ended September 30, 2012, as compared to $43.0 million and $116.9 million for the same periods in 2011. The effective income tax rate was 25.1% and 27.2% for the three and nine months ended September 30, 2012, as compared to 28.5% and 27.6% for the same periods in 2011. The decrease in the effective tax rate for the three months ended September 30, 2012, as compared to the same period in 2011, was primarily due to an increase of net benefits from discrete events and by the impact of changes in the geographic mix of the Company s income. The decrease in the effective tax rate for the nine months ended September 30, 2012, as compared to the same period in 2011, was primarily due to the impact of changes in the geographic mix of the Company s income partially offset by lower net benefits from discrete events.

As of September 30, 2012, the total amount of unrecognized tax benefits, including related interest and penalties was $46.8 million. If the total amount of unrecognized tax benefits was recognized, $38.1 million of unrecognized tax benefits, $5.6 million of interest and $1.7 million of penalties would impact the effective tax rate.

The Company believes that it is reasonably possible that the amount of unrecognized tax benefits could decrease by up to approximately $28.3 million within the next twelve months. Of this possible decrease, $26.0 million would be due to the settlement of audits or resolution of administrative or judicial proceedings. The remaining possible decrease of $2.3 million would be due to the expiration of statute of limitations in various jurisdictions.

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 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 September 30, 2012, the maximum length of time over which the Company is hedging certain of these exposures is approximately ten 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 term loan under the Prior Credit Facility or against the variability in the LIBOR interest rate on any replacement debt. The Company s term loan under the Prior Credit Facility was terminated in March 2011 and refinanced with the Credit Facility as discussed further in Note 4, *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 Credit Facility at LIBOR plus 1.50% to 2.50%, 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 assesses hedge effectiveness and measures hedge ineffectiveness at least quarterly. During the three and nine months ended September 30, 2012 and 2011, the ineffective portion relating to these hedges was immaterial and the hedges remained effective as of September 30, 2012. 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 quotes. At September 30, 2012 and December 31, 2011, the Company recorded the interest rate swaps as liabilities at their fair value of $3.0 million and $5.1 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 these freestanding 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 quotes. The Company s foreign currency derivative contracts are generally executed on a monthly basis.

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The Company designates as cash-flow hedges those foreign currency forward contracts it entered into to hedge forecasted inventory transactions and intercompany management fees that are subject to foreign currency exposures. These contracts allow the Company to buy and sell certain currencies at specified contract rates. Forward contracts are used to hedge forecasted inventory transactions 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 September 30, 2012 and December 31, 2011, the aggregate notional amounts of all foreign currency contracts outstanding designated as cash flow hedges were approximately $131.6 million and $64.4 million, respectively. At September 30, 2012, these outstanding contracts were expected to mature over the next eight months. The Company s derivative financial instruments are recorded on the consolidated balance sheet at fair value based on third-party quotes. As of September 30, 2012, the Company recorded assets at fair value of $0.9 million and liabilities at fair value of $3.6 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. As of December 31, 2011, the Company recorded assets at fair value of $4.4 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 and nine months ended September 30, 2012 and 2011, the ineffective portion relating to these hedges was immaterial and the hedges remained effective as of September 30, 2012 and December 31, 2011.

As of September 30, 2012 and December 31, 2011, the majority of the Company s outstanding foreign currency forward contracts had maturity dates of less than eight months and fifteen months, respectively, with the majority of freestanding derivatives expiring within one month as of September 30, 2012 and December 31, 2011. There were no foreign currency option contracts outstanding as of September 30, 2012 and December 31, 2011. 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 September 30, 2012, where the Company had aggregate notional amounts of approximately $424.6 million of foreign currency contracts, inclusive of freestanding contracts and contracts designated as cash flow hedges.

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 and nine months ended September 30, 2012 and 2011:

	Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss)			
	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	(In millions)			
Derivatives designated as hedging instruments:				
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	$ (2.8)	$ 3.5	$ (3.0)	$ 1.0
Interest rate swaps	$ (0.2)	$ (0.7)	$ (0.6)	$ (2.2)

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The following table summarizes gains (losses) relating to derivative instruments recorded to income during the three and nine months ended September 30, 2012 and 2011:

	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011
		(In millions)			
Derivatives designated as hedging instruments:					
Foreign exchange currency contracts relating to inventory hedges and intercompany management fee hedges (1)	Selling, general and administrative expenses	$ (0.7)	$ (0.3)	$ (0.6)	(0.3)
Derivatives not designated as hedging instruments:					
Foreign exchange currency contracts	Selling, general and administrative expenses	$ (0.8)	$ 2.7	$ (11.6)	$ 3.8

(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 and nine months ended September 30, 2012 and 2011:

	Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011
		(In millions)			
Derivatives designated as hedging instruments:					
Foreign exchange currency contracts relating to inventory hedges	Cost of sales	$ 0.2		$ 0.4	$ (0.3)
Foreign exchange currency contracts relating to intercompany management fee hedges	Selling, general and administrative expenses	$ 1.5	$ (0.7)	$ 4.0	$ (2.2)
Interest rate swaps	Interest expense, net	$ (0.9)	$ (0.9)	$ (2.7)	$ (2.7)

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 September 30, 2012 and December 31, 2011.

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10. Shareholders Equity

Changes in shareholders equity for the nine months ended September 30, 2012 were as follows (in thousands):

Total shareholders equity as of December 31, 2011	$ 560,188
Net income	359,309
Issuance of common shares from exercise of stock options, SARs, restricted stock grants, warrants, and employee stock purchase plan	10,819
Excess tax benefit from exercise of stock options, SARs and restricted stock grants	28,073
Additional capital from share-based compensation	20,850
Repurchases of common shares	(506,331)
Dividends	(102,687)
Foreign currency translation adjustment, net of income taxes	5,189
Unrealized loss on derivatives, net of income taxes	(4,005)
Total shareholders equity as of September 30, 2012	$ 371,405

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 the Credit Facility and the terms of any other indebtedness that may be outstanding, cash requirements, future prospects and other factors deemed relevant by its board of directors. The Credit Facility permits payments of dividends as long as no default or event of default exists and the consolidated leverage ratio specified in the Credit Facility is not exceeded.

On February 21, 2012, the Company announced that its board of directors approved a cash dividend of $0.30 per common share in an aggregate amount of $35.2 million that was paid to shareholders on March 22, 2012. On April 30, 2012, the Company announced that its board of directors approved a cash dividend of $0.30 per common share in an aggregate amount of $35.1 million that was paid to shareholders on May 30, 2012. On July 30, 2012, the Company announced that its board of directors approved a cash dividend of $0.30 per common share in an aggregate amount of $32.4 million that was paid to shareholders on August 30, 2012.

The aggregate amount of dividends declared and paid during the three months ended September 30, 2012 and 2011 were $32.4 million and $23.5 million, respectively. The aggregate amount of dividends declared and paid during the nine months ended September 30, 2012 and 2011 were $102.7 million and $62.2 million, respectively.

Share Repurchases

Prior to July 2012, the Company had a $1 billion share repurchase program that was to expire during December 2014, or the Previous Repurchase Program. On May 2, 2012, the Company entered into an agreement with Merrill Lynch International to repurchase $427.9 million of its common shares, which was the remaining authorized capacity under the Previous Repurchase Program at that time. Under the terms of the repurchase agreement, the Company paid $427.9 million on May 4, 2012 and the agreement was to expire on July 27, 2012. The Company received 5.3 million and 3.9 million of its common shares under the repurchase agreement during June 2012 and July 2012, respectively, as described below. The total number of common shares repurchased under the agreement was determined generally upon a discounted volume-weighted average share price of the Company s common shares over the course of the agreement as disclosed below. On July 27, 2012, the Company completed the Previous Repurchase Program upon the final delivery of common shares repurchased under the repurchase agreement.

On July 30, 2012, the Company announced that its board of directors authorized a new $1 billion share repurchase program that will expire on June 30, 2017, or the New Repurchase Program. The New Repurchase Program allows the Company to repurchase its common shares, at such times and prices as determined by the Company s management as market conditions warrant. The Credit Facility permits the Company to repurchase its common shares as long as no default or event of default exists and the consolidated leverage ratio specified in the Credit Facility is not exceeded.

During the three months ended March 31, 2012, the Company repurchased approximately 0.7 million of its common shares through open market purchases at an aggregate cost of approximately $50.0 million or an average cost of $67.24 per share. During the three months ended June 30, 2012, the Company repurchased approximately 5.3 million of its common shares through open market purchases under the initial phase of the repurchase agreement described above at an adjusted aggregate cost of approximately $246.0 million or an adjusted average cost of $46.37 per share. During the three months ended September 30, 2012, the Company repurchased approximately 3.9 million of its common shares through open market purchases under the final phase of the repurchase agreement described above at an aggregate cost of approximately $181.9 million or an average cost of $46.37 per share. The aggregate cost and average cost per share of shares acquired during the three months ended June 30, 2012 under the repurchase agreement were adjusted based on the final cumulative discounted volume-weighted average share price which was determined upon completion of the program in July 2012. As of September 30, 2012, the remaining authorized capacity under the New Repurchase Program was $1.0 billion.

The Company reflects the aggregate purchase price of its common shares repurchased as a reduction to shareholders equity. The Company allocated 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 SARs 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 consolidated financial statements, as they reduce the number of shares that would have been issued upon vesting. These shares do not count against the authorized capacity under the Company s share repurchase programs described above.

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, SARs, stock units and warrants.

The following are the common share amounts used to compute the basic and diluted earnings per share for each period:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
Weighted average shares used in basic computations	108,816	116,975	113,838	118,059
Dilutive effect of exercise of equity grants outstanding	4,830	7,034	5,485	7,572
Dilutive effect of warrants		266	53	258
Weighted average shares used in diluted computations	113,646	124,275	119,376	125,889

There were an aggregate of 4.0 million and 2.6 million of equity grants that were outstanding during the three and nine months ended September 30, 2012, and an aggregate of 2.0 million and 2.1 million of equity grants that were outstanding during the three and nine months ended September 30, 2011, respectively, consisting of stock options, SARs, and stock units, but were not included in the computation of diluted earnings per share because their effect would be anti-dilutive.

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.

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 Level 2 derivatives and are shown below at their gross values at September 30, 2012, and December 31, 2011:

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Fair Value Measurements at Reporting Date

	Derivative Balance Sheet Location	Significant Other Observable Inputs (Level 2) Fair Value at September 30, 2012	Significant Other Observable Inputs (Level 2) Fair Value at December 31, 2011
		(in millions)	
ASSETS:			
Derivatives designated as cash flow hedging instruments:			
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	Prepaid expenses and other current assets	$ 0.9	$ 4.4
Derivatives not designated as cash flow hedging instruments:			
Foreign exchange currency contracts	Prepaid expenses and other current assets	$ 0.4	$ 0.8
		$ 1.3	$ 5.2
LIABILITIES:			
Derivatives designated as cash flow hedging instruments:			
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	Accrued expenses	$ 3.6	
Interest rate swaps	Accrued expenses	$ 3.0	$ 5.1
Derivatives not designated as hedging instruments:			
Foreign exchange currency contracts	Accrued expenses	$ 0.3	$ 0.7
		$ 6.9	$ 5.8

13. Subsequent Events

On October 29, 2012, the Company announced that its board of directors approved a cash dividend of $0.30 per common share, payable on November 28, 2012 to shareholders of record as of November 14, 2012.

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

Overview

We are a leading global nutrition company that sells weight management products, nutritional supplements, energy, sports & fitness products and personal care products utilizing network marketing distribution. As of September 30, 2012, we sold our products to and through a network of 3.1 million independent distributors, which included 0.2 million in China. In China, we currently sell our products through retail stores, sales representatives, sales officers and independent service providers. 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 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 32-year operating history. As of September 30, 2012, we sold our products in 84 countries.

Our sales are generated primarily from distributor purchases that are for reasons other than any requirements to earn multi-level compensation under the Company s marketing plan. The majority of our distributors have not sponsored another distributor and do not earn compensation relating to products sales made by or to other distributors. We believe these distributors have joined the network for reasons other than participating in our multi-level compensation plan such as personal consumption and reselling products to others.

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 through 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 employment and unemployment which can affect the recruitment and retention of distributors seeking part time or full time income opportunities.

While we continue to monitor the current global financial crisis, 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 DMOs, 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 also continues to monitor the Venezuelan market and especially the limited ability to repatriate cash.

We report revenue from our six regions:

- North America;
- Mexico;
- South and Central America;
- EMEA, which consists of Europe, the Middle East and Africa;
- Asia Pacific (excluding China); 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 changes, 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.

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 we use Volume Points for distributor qualification and recognition purposes and therefore we attempt 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 products or a marginal increase in sales of expensive products.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	% Change	2012	2011	% Change
	(Volume points in millions)					
North America	287.4	252.9	13.6%	890.8	754.9	18.0%
Mexico	211.2	180.6	16.9%	606.5	519.1	16.8%
South & Central America	186.0	149.7	24.2%	517.9	403.9	28.2%
EMEA	145.5	132.4	9.9%	445.9	407.3	9.5%
Asia Pacific (excluding China)	305.6	261.2	17.0%	893.2	703.8	26.9%
China	57.1	40.3	41.7%	156.0	110.7	40.9%
Worldwide	1,192.8	1,017.1	17.3%	3,510.3	2,899.7	21.1%

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 changes in the annual retention levels and future sales growth rate through utilization of daily consumption DMOs.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	% Change	2012	2011	% Change
North America	67,826	58,897	15.2%	65,395	55,788	17.2%
Mexico	60,123	49,772	20.8%	56,256	46,206	21.8%
South & Central America	46,466	35,993	29.1%	43,015	33,343	29.0%
EMEA	44,861	39,227	14.4%	43,055	37,604	14.5%
Asia Pacific (excluding China)	66,433	51,644	28.6%	61,156	45,885	33.3%
China	12,692	9,533	33.1%	11,391	8,393	35.7%
Worldwide(1)	288,397	236,191	22.1%	270,230	219,817	22.9%

(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, and the fact that some sales leaders are active in more than one region but are counted only once in the worldwide amount.

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)	2012	2011
	(In thousands)	

January 1 total sales leaders	501.3	434.2
January & February new sales leaders	34.8	28.9
Demoted sales leaders (did not re-qualify)	(151.3)	(144.8)
Other sales leaders (resigned, etc)	(0.8)	(0.8)
End of February total sales leaders	384.0	317.5

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The distributor statistics below further highlight the calculation for retention.

Sales Leaders Retention (Excluding China)	2012	2011
	(In thousands)	
Sales leaders needed to re-qualify	314.9	283.2
Demoted sales leaders (did not re-qualify)	(151.3)	(144.8)
Total re-qualified	163.6	138.4
Retention rate	52.0%	48.9%

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	
	2012	2011	2012	2011
North America	79,150	72,152	51.1%	48.6%
Mexico	67,959	54,526	59.2%	57.9%
South & Central America	65,653	50,288	55.7%	47.3%
EMEA	55,121	49,696	61.5%	58.6%
Asia Pacific (excluding China)	116,158	90,822	40.2%	38.4%
Total Sales Leaders	384,041	317,484	52.0%	48.9%
China	26,262	30,543		
Worldwide Total Sales Leaders	410,303	348,027		

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 by market. Consequently, increases in our sales are driven primarily 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 choosing the DMO or business methods that they intend to utilize to grow 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. We also offer reduced distributor allowances with respect to certain products worldwide.

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 are generally compensation to distributors for their services in managing the development, retention and improved productivity of their sales organizations and are paid to several levels of distributors on each sale. Due to restrictions on direct selling in China, our sales employees in China, prior to the transfer into independent service providers, were compensated with wages, bonuses and benefits and our independent service providers in China are compensated with service fees instead of the distributor allowances and royalty overrides utilized in our traditional marketing program. Compensation to China sales employees, sales officers and independent service providers are included in selling, general and administrative expenses. Because of local country regulatory constraints, we may be required to modify our typical distributor incentive plans as described above. We also pay reduced royalty overrides with respect to certain products worldwide. Consequently, the total royalty override percentage may vary over time.

Royalty overrides together with distributor allowances of up to 50% of retail sales prices represent the potential earnings to distributors of up to approximately 73% of retail sales.

Our *contribution 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 contribution 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 and nine months ended September 30, 2012 were $1,016.9 million and $3,013.0 million, respectively. Net sales increased $121.7 million, or 13.6%, and $443.0 million, or 17.2%, for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales for the three and nine months ended September 30, 2012 increased 20.6% and 23.4%, respectively, as compared to the same periods in 2011. The increase in net sales was primarily due to the continued successful adoption and operation of daily consumption DMOs; increased distributor engagement and an increase in average active sales leaders; branding activities and increased distributor recruiting.

Net income for the three and nine months ended September 30, 2012 was $117.8 million, or $1.04 per diluted share, and $359.3 million, or $3.01 per diluted share, respectively. Net income increased $9.8 million, or 9.0%, and $52.1 million, or 17.0%, for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. The increase for the three months ended September 30, 2012 was primarily due to higher contribution margin driven by the sales growth discussed above, and lower income taxes; partially offset by higher selling, general and administrative expenses to support the growth of our business and higher interest expense. The increase for the nine months ended September 30, 2012 was primarily due to higher contribution margin driven by the sales growth discussed above, partially offset by higher selling, general and administrative expenses to support the growth of our business, higher interest expense and higher income taxes.

Net income for the nine months ended September 30, 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 4, *Long Term Debt*, to the Condensed Consolidated Financial Statements for further information on our debt refinancing.

Results of Operations

Our results of operations for the periods below are not necessarily indicative of results of operations for the full year or 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		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Operations:				
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	19.8	19.6	20.0	19.8
Gross profit	80.2	80.4	80.0	80.2
Royalty overrides(1)	32.5	32.5	32.6	32.9
Selling, general and administrative expenses(1)	31.9	31.0	30.7	30.7
Operating income	15.8	16.9	16.7	16.6
Interest expense, net	0.3		0.3	0.1
Income before income taxes	15.5	16.9	16.4	16.5
Income taxes	3.9	4.8	4.5	4.6
Net income	11.6%	12.1%	11.9%	11.9%

(1) Compensation to our China sales employees and service fees to our independent service 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 September 30, 2012					2011					
	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Income	Net Sales	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	Change in Net Sales
	(In millions)										
North America	$ 331.9	$ (158.5)	$ 173.4	$ 35.4	$ 208.8	$ 287.2	$ (136.9)	$ 150.3	$ 30.4	$ 180.7	15.6%
Mexico	206.0	(100.5)	105.5	22.0	127.5	182.6	(89.1)	93.5	19.4	112.9	12.9%
South & Central America	280.9	(137.5)	143.4	24.1	167.5	233.6	(111.1)	122.5	21.2	143.7	16.6%
EMEA	240.4	(116.8)	123.6	23.9	147.5	236.3	(112.8)	123.5	24.2	147.7	(0.1)%
Asia Pacific	449.5	(203.3)	246.2	42.0	288.2	398.2	(179.7)	218.5	36.7	255.2	12.9%
China	92.8	(15.4)	77.4		77.4	65.8	(10.8)	55.0		55.0	40.7%
Worldwide	$ 1,601.5	$ (732.0)	$ 869.5	$ 147.4	$ 1,016.9	$ 1,403.7	$ (640.4)	$ 763.3	$ 131.9	$ 895.2	13.6%

	Nine Months Ended September 30, 2012					2011					
	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Income	Net Sales	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	Change in Net Sales
	(In millions)										
North America	$ 1,021.4	$ (486.3)	$ 535.1	$ 109.1	$ 644.2	$ 847.2	$ (403.8)	$ 443.4	$ 89.5	$ 532.9	20.9%
Mexico	588.4	(287.2)	301.2	62.8	364.0	534.5	(260.8)	273.7	57.0	330.7	10.1%
South & Central America	804.7	(388.2)	416.5	69.1	485.6	651.2	(309.6)	341.6	57.5	399.1	21.7%
EMEA	750.4	(362.8)	387.6	75.5	463.1	746.1	(358.2)	387.9	75.7	463.6	(0.1)%
Asia Pacific	1,319.8	(597.4)	722.4	122.3	844.7	1,083.0	(491.5)	591.5	100.1	691.6	22.1%
China	254.2	(42.8)	211.4		211.4	175.2	(23.1)	152.1		152.1	39.0%
Worldwide	$ 4,738.9	$ (2,164.7)	$ 2,574.2	$ 438.8	$ 3,013.0	$ 4,037.2	$ (1,847.0)	$ 2,190.2	$ 379.8	$ 2,570.0	17.2%

Changes in net sales are associated with sales leaders activity including recruiting, retention of our distributor force, retailing of our products, and the quality and completeness of our product offerings. 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 activity level 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, activity, 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 fluctuations during the three and nine months ended September 30, 2012 as compared to the same periods in 2011, as well as the unique growth or contraction factors specific to certain geographic regions or significant countries within a region. 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. The 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, Premium Herbalife Opportunity Meetings, the Healthy Breakfast concept, and the Internet/Sampling and Weight Loss Challenge. 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 $208.8 million and $644.2 million for the three and nine months ended September 30, 2012, respectively. Net sales increased $28.1 million, or 15.6%, and $111.3 million, or 20.9% for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales increased 15.6% and 21.0% for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. The overall increase in net sales in the region was primarily a result of net sales growth in the U.S. of $27.8 million, or 15.8%, and $108.8 million, or 21.1%, for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011.

In the U.S. we continue to see the success of our distributors converting their business focus toward daily consumption DMOs, especially the Nutrition Club.

Average active sales leaders in the region increased 15.2% and 17.2% for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. Average active sales leaders in the U.S. increased 15.1% and 17.2% for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. Total sales leaders in the region increased 9.0% as of September 30, 2012 compared to September 30, 2011.

The region hosted a series of Leadership Development Weekends in July 2012 with approximately 5,800 attendees.

Mexico

The Mexico region reported net sales of $127.5 million and $364.0 million for the three and nine months ended September 30, 2012, respectively. Net sales for the three and nine months ended September 30, 2012 increased $14.6 million, or 12.9%, and $33.3 million, or 10.1%, respectively, as compared to the same periods in 2011. In local currency, net sales for both the three and nine months ended September 30, 2012 increased 21.2%, as compared to the same periods in 2011. The fluctuation of foreign currency rates had an unfavorable impact of $9.5 million and $36.7 million on net sales for the three and nine months ended September 30, 2012, respectively.

The growth in net sales is primarily the result of increased distributor engagement as well as the continued success of the Nutrition Club DMO. One of the recent growth drivers in Mexico has been the ongoing transition from home clubs to commercial clubs by many distributors, which are able to generate higher volumes of sales through the servicing of more customers and longer operating hours.

Average active sales leaders in Mexico increased 20.8% and 21.8% for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. Total sales leaders in Mexico increased 20.9% as of September 30, 2012, compared to September 30, 2011.

In September 2012, the region hosted Extravaganzas in Mexico City and Guadalajara with approximately 21,200 and 12,200 attendees, respectively.

South and Central America

The South and Central America region reported net sales of $167.5 million and $485.6 million for the three and nine months ended September 30, 2012, respectively. Net sales increased $23.8 million, or 16.6%, and $86.5 million, or 21.7%, for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales increased 29.2% and 31.3% for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. The fluctuation of foreign currency rates had an $18.2 million and $38.5 million unfavorable impact on net sales for the three and nine months ended September 30, 2012, respectively. The increase in net sales for the three and nine months ended September 30, 2012 was due to growth in most of the countries in the region led by Venezuela. This growth was primarily driven by the adoption and expansion of the Nutrition Club and other daily consumption DMOs throughout the region.

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Net sales in Brazil decreased $6.7 million, or 8.5%, and increased $1.9 million, or 0.9%, for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales increased 14.1% and 18.0% for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. The increase in local currency net sales was primarily the result of the successful ongoing adoption of Nutrition Clubs and other daily consumption DMOs. We also had a price increase of approximately 5.5% in March 2012 which contributed to the increased sales. The fluctuation of foreign currency rates had a $17.9 million and $38.3 million unfavorable impact on net sales in Brazil for the three and nine months ended September 30, 2012, respectively.

Net sales in Venezuela increased $18.6 million, or 102.4%, and $47.8 million, or 112.4%, for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. The overall sales growth was primarily due to increased distributor engagement and growth in the Nutrition Club DMO. We also had price increases of 9.5% in January 2012 which contributed to the increase in sales. There was no exchange rate impact to sales for either the three or nine months ended September 30, 2012 as compared to the same periods in 2011 as the 5.3 Venezuelan Bolivars to U.S. dollar exchange rate for which we remeasure sales in Venezuela did not change during either of those comparative periods. See *Liquidity and Capital Resources Working Capital and Operating Activities* below for further discussion of currency exchange rate issues in Venezuela.

Average active sales leaders in the region increased 29.1% and 29.0% for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. Total sales leaders in the region increased 25.8% as of September 30, 2012 compared to September 30, 2011.

EMEA

The EMEA region reported net sales of $147.5 million and $463.1 million for the three and nine months ended September 30, 2012, respectively. Net sales were relatively flat for the three and nine months ended September 30, 2012, as compared to the same periods in 2011. In local currency, net sales increased 11.1% and 9.0% for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. The fluctuation of foreign currency rates had an unfavorable impact on net sales of $16.5 million and $42.0 million for the three and nine months ended September 30, 2012, respectively.

Net sales in Italy decreased $5.0 million, or 18.8%, and $17.8 million, or 19.3%, for the three and nine months ended September 30, 2012, respectively as compared to the same periods in 2011. In local currency, net sales decreased 8.0% and 11.5% for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. The decline in Italy is driven by a decrease in distributor activity. While too early to know for certain, indicators suggest that the market may be beginning to embrace daily consumption DMOs which generally cause short to medium term declines in the business. The fluctuation of foreign currency rates had a $2.9 million and $7.2 million unfavorable impact on net sales in Italy for the three and nine months ended September 30, 2012, respectively.

Net sales in Russia increased $5.3 million, or 29.2%, and $16.0 million, or 29.6%, for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales increased 42.6% and 40.1% for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. The increase in Russia was driven by the ongoing adoption of the Commercial Nutrition Club, additional sales centers which have increased access to our products and improving brand image including the sponsorship of FC Spartak Moscow football club. The fluctuation of foreign currency rates had a $2.4 million and $5.7 million unfavorable impact on net sales in Russia for the three and nine months ended September 30, 2012, respectively.

Net sales in Spain increased $0.5 million, or 3.6%, and $0.9 million, or 2.3%, for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales in Spain increased 17.0% and 12.7% for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. 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. The fluctuation of foreign currency rates had a $1.9 million and $4.0 million unfavorable impact on net sales in Spain for the three and nine months ended September 30, 2012, respectively.

Average active sales leaders in the region increased 14.4% and 14.5% for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. Total sales leaders in the region increased 6.3% as of September 30, 2012 compared to September 30, 2011.

In September 2012, the region hosted three Extravaganzas in Spain, Ukraine, and Turkey with over 23,200 total attendees.

Asia Pacific

The Asia Pacific region, which excludes China, reported net sales of $288.2 million and $844.7 million for the three and nine months ended September 30, 2012, respectively. Net sales increased $33.0 million, or 12.9%, and $153.1 million, or 22.1%, for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales increased 20.6% and 28.7% for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. The fluctuation of foreign currency rates had an unfavorable impact of $19.4 million and $45.5 million on net sales for the three and nine months ended September 30, 2012, respectively. The increase in net sales for the three and nine months ended September 30, 2012 reflected growth in almost all the countries in the region.

Net sales in South Korea increased $8.8 million, or 8.8%, and $63.9 million, or 25.4%, for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales increased 14.3% and 30.9% for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. The increase in net sales was primarily driven by the successful adoption and operation of the Nutrition Club and other daily consumption DMOs along with the Mega and Premium Herbalife Opportunity Meetings. The fluctuation of foreign currency rates had an unfavorable impact on net sales of $5.5 million and $13.7 million for the three and nine months ended September 30, 2012, respectively.

Net sales in Taiwan increased $0.6 million, or 1.5%, and decreased $2.3 million, or 2.0%, for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales increased 4.0% for the three months ended September 30, 2012 and were relatively flat for the nine months ended September 30, 2012, as compared to the same periods in 2011. The fluctuation of foreign currency rates had an unfavorable impact on net sales of $1.0 million and $2.5 million for the three and nine months ended September 30, 2012, respectively.

Net sales in Malaysia increased $6.2 million, or 27.3%, and $26.1 million, or 41.5%, for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales increased 32.0% and 45.0% for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. The increase in net sales was primarily driven by the continued success of the Road Show DMO and Mega Herbalife Opportunity Meetings which generated positive distributor momentum. Also contributing to growth for the period were increased recruiting and increased activity in Nutrition Clubs. The fluctuation of foreign currency rates had an unfavorable impact on net sales of $1.1 million and $2.2 million for the three and nine months ended September 30, 2012, respectively.

Net sales in India increased $6.1 million, or 19.5%, and $18.0 million, or 20.9%, for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales increased 44.5% and 42.0% for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. The increase in net sales for the three and nine months ended September 30, 2012 was primarily driven by increased product access and the successful adoption of the daily consumption DMOs, especially the Nutrition Club. The fluctuation of foreign currency rates had an unfavorable impact on net sales of $7.7 million and $18.1 million for the three and nine months ended September 30, 2012, respectively.

Net sales in Indonesia increased $7.4 million, or 58.5%, and $31.5 million, or 87.2%, for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales increased 75.1% and 100.2% for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. The primary catalyst driving the sales increase in Indonesia was the growth in Nutrition Clubs. The fluctuation of foreign currency rates had an unfavorable impact on net sales of $2.1 million and $4.7 million for the three and nine months ended September 30, 2012, respectively.

Average active sales leaders in the region increased 28.6% and 33.3% for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. Total sales leaders in the region increased 23.3% as of September 30, 2012 compared to September 30, 2011.

In September 2012, the region hosted an Asia Pacific University training in Macau with 11,300 attendees and a World Team School in India with 3,500 attendees.

China

Net sales in China were $77.4 million and $211.4 million for the three and nine months ended September 30, 2012, respectively. Net sales increased $22.4 million, or 40.7%, and $59.3 million, or 39.0%, for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales increased 39.3% and 35.6% for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. The increase in net sales was driven by the continuing adoption and acculturation of daily consumption DMOs. The fluctuation of foreign currency rates had a favorable impact of $0.8 million and $5.2 million on net sales for the three and nine months ended September 30, 2012, respectively.

The current focus in China is to expand the Nutrition Club DMO to enhance the emphasis on daily consumption DMOs. We believe that the Nutrition Club concept continues to gain traction. While we believe the Nutrition Club DMO has potential to expand throughout China, this process will most likely build gradually over the next few years.

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Average active sales leaders in China increased 33.1% and 35.7% for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. Total sales leaders in China decreased 2.3% as of September 30, 2012 compared to September 30, 2011. We believe that the increase in distributor engagement as reflected in the average active sales leader numbers is indicative of the market transitioning to daily consumption DMOs.

As of September 30, 2012, we were operating 67 retail stores in 29 provinces in China. During May 2012, we received direct selling licenses for 8 additional provinces in China, bringing the total provinces covered by our direct selling licenses to 24 out of the 29 provinces in which we operate as of September 30, 2012. We continue to seek additional provincial licenses where appropriate.

Sales by Product Category

	Three Months Ended September 30,										
	2012					2011					
	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	Retail Sales	Distributor Allowance	Product Sales	Handling & Freight Income	Net Sales	% Change in Net Sales
	(In millions)										
Weight Management	$ 1,026.8	$ (485.4)	$ 541.4	$ 94.5	$ 635.9	$ 900.5	$ (425.1)	$ 475.4	$ 84.7	$ 560.1	13.5%
Targeted Nutrition	383.1	(181.0)	202.1	35.3	237.4	330.1	(155.9)	174.2	31.1	205.3	15.6%
Energy, Sports and Fitness	88.4	(41.7)	46.7	8.1	54.8	73.6	(34.8)	38.8	6.9	45.7	19.9%
Outer Nutrition	55.3	(26.2)	29.1	5.1	34.2	57.0	(26.9)	30.1	5.3	35.4	(3.4)%
Literature, Promotional and Other	47.9	2.3	50.2	4.4	54.6	42.5	2.3	44.8	3.9	48.7	12.1%
Total	$ 1,601.5	$ (732.0)	$ 869.5	$ 147.4	$ 1,016.9	$ 1,403.7	$ (640.4)	$ 763.3	$ 131.9	$ 895.2	13.6%

	Nine Months Ended September 30,										
	2012					2011					
	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	Retail Sales	Distributor Allowance	Product Sales	Handling & Freight Income	Net Sales	% Change in Net Sales
	(In millions)										
Weight Management	$ 3,038.7	$ (1,435.6)	$ 1,603.1	$ 281.4	$ 1,884.5	$ 2,597.0	$ (1,230.3)	$ 1,366.7	$ 244.3	$ 1,611.0	17.0%
Targeted Nutrition	1,134.0	(535.7)	598.3	105.0	703.3	939.5	(445.1)	494.4	88.4	582.8	20.7%
Energy, Sports and Fitness	250.5	(118.3)	132.2	23.2	155.4	200.9	(95.2)	105.7	18.9	124.6	24.7%
Outer Nutrition	175.2	(82.8)	92.4	16.2	108.6	175.7	(83.2)	92.5	16.5	109.0	(0.4)%
Literature, Promotional and Other	140.5	7.7	148.2	13.0	161.2	124.1	6.8	130.9	11.7	142.6	13.0%
Total	$ 4,738.9	$ (2,164.7)	$ 2,574.2	$ 438.8	$ 3,013.0	$ 4,037.2	$ (1,847.0)	$ 2,190.2	$ 379.8	$ 2,570.0	17.2%

Net sales for all product categories increased for the three and nine months ended September 30, 2012 as compared to the same periods in 2011, except for a slight decrease in Outer Nutrition. The growth factors described in the above discussions of the individual geographic regions apply generally to all product categories.

Gross Profit

Gross profit was $815.3 million and $2,411.5 million for the three and nine months ended September 30, 2012, as compared to $719.9 million and $2,060.8 million for the same periods in 2011. As a percentage of net sales, gross profit for the three and nine months ended September 30, 2012 decreased to 80.2% and 80.0%, respectively, as compared to 80.4% and 80.2% for the same periods in 2011, or an unfavorable net decrease of 20 basis points for both periods. The decrease of 20 basis points for the three months ended September 30, 2012, as compared to the same period in 2011, was primarily due to unfavorable impacts from foreign currency fluctuations and country mix, partially offset by the benefit from our net source savings initiatives and lower inventory write-downs. The decrease of the 20 basis points for the nine months ended September 30, 2012, as compared to the same period in 2011, was primarily due to unfavorable impacts from country mix and other costs, partially offset by the benefit from our net source savings initiatives.

Royalty Overrides

Royalty overrides were $330.2 million and $983.0 million for the three and nine months ended September 30, 2012, respectively, as compared to $290.8 million and $844.5 million for the same periods in 2011. Royalty overrides as a percentage of net sales was 32.5% and 32.6% for the three and nine months ended September 30, 2012, respectively, as compared to 32.5% and 32.9% for the same periods in 2011. 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 sales employees, sales officers and independent service 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 $324.2 million and $926.9 million for the three and nine months ended September 30, 2012, respectively, as compared to $277.7 million and $788.5 million for the same periods in 2011. Selling, general and administrative expenses as a percentage of net sales were 31.9% and 30.7% for the three and nine months ended September 30, 2012, respectively, as compared to 31.0% and 30.7% for the same periods in 2011.

The increase in selling, general and administrative expenses for the three months ended September 30, 2012 included $13.7 million in higher salaries, bonuses and benefits; higher variable expenses including $16.7 million in higher distributor promotion and event costs, $9.2 million in higher expenses related to China sales employees, sales officers and independent service providers, and $3.7 million in higher professional fees.

The increase in selling, general and administrative expenses for the nine months ended September 30, 2012 included $43.5 million in higher salaries, bonuses and benefits; higher variable expenses including $26.4 million in higher distributor promotion and event costs, $23.0 million in higher expenses related to China sales employees, sales officers and independent service providers; and $6.3 million in higher non-income tax expenses such as value added tax and other miscellaneous taxes; and $10.1 million in higher professional fees.

Net Interest Expense

Net interest expense is as follows:

	Three Months Ended		Nine Months Ended	
Net Interest Expense	**September 30, 2012**	**September 30, 2011**	**September 30, 2012**	**September 30, 2011**
		(In millions)		
Interest expense	$ 5.0	$ 3.1	$ 12.4	$ 9.5
Interest income	(1.5)	(2.8)	(4.3)	(5.7)
Net interest expense	$ 3.5	$ 0.3	$ 8.1	$ 3.8

The increase in net interest expense for the three and nine months ended September 30, 2012 as compared to the same periods in 2011 was primarily due to higher outstanding balances on our senior secured credit facility, or the Credit Facility, and lower interest received related to non-income tax refunds. In addition, interest expense for the nine months ended September 30, 2011 included the write-off of deferred financing costs related to the extinguishment of our prior senior secured credit facility, or the Prior Credit Facility.

Income Taxes

Income taxes were $39.5 million and $134.3 million for the three and nine months ended September 30, 2012, as compared to $43.0 million and $116.9 million for the same period in 2011. The effective income tax rate was 25.1% and 27.2% for the three and nine months ended September 30, 2012, as compared to 28.5% and 27.6% for the same period in 2011. The decrease in the effective tax rate for the three months ended September 30, 2012, as compared to the same period in 2011, was primarily due to an increase of net benefits from discrete events and by the impact of changes in the geographic mix of the Company s income. The decrease in the effective tax rate for the nine months ended September 30, 2012, as compared to the same period in 2011, was primarily due to the impact of changes in the geographic mix of the Company s income partially offset by lower net benefits from discrete events.

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. 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, there are foreign currency restrictions in certain countries, such as Venezuela as discussed below, which could reduce the ability for us to timely obtain U.S. dollars. However, we believe we will have sufficient resources, including cash flow from operating activities, to meet debt service obligations in a timely manner and be able to continue to meet our objectives.

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 $1.9 billion. While a significant net sales decline could potentially affect the availability of funds, many of our largest expenses are 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 the Credit Facility, executed on March 9, 2011 and amended on July 26, 2012, which had $695.3 million of undrawn capacity as of September 30, 2012. As discussed further below, on July 26, 2012, we amended the Credit Facility and entered into a $500.0 million term loan with a syndicate of financial institutions which matures in March 2016, or the Term Loan.

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We utilized the majority of the proceeds from this Term Loan to pay down our outstanding balance on our revolving credit facility, which then provided us with additional undrawn capacity. This available undrawn capacity, in addition to cash flow from operations, can be used to support general corporate purposes, including, our future share repurchase programs, dividends, and strategic investment opportunities. Although we believe we will continue to have adequate cash flows from operations to fund our business objectives, the recent increase in our borrowing capacity will provide us with greater flexibility.

We also have a cash pooling arrangement with a financial institution for cash management purposes. This cash pooling arrangement allows certain of our participating subsidiaries to withdraw cash from this financial institution based upon our aggregate cash deposits held by subsidiaries who participate in the cash pooling arrangement. We did not owe any amounts to this financial institution under the pooling arrangement as of September 30, 2012.

For the nine months ended September 30, 2012, we generated $399.9 million of operating cash flow, as compared to $393.6 million for the same period in 2011. The increase in cash generated from operations was primarily due to an increase in operating income of $73.7 million driven by a 17.2% growth in net sales for the nine months ended September 30, 2012 as compared to the same period in 2011.

Capital expenditures, including capital leases, for the nine months ended September 30, 2012 and 2011 were $59.9 million and $61.5 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 $110 million to $120 million for the full year of 2012, which includes expenditures related to expected manufacturing expansion.

On March 9, 2011, we entered into the Credit Facility with a syndicate of financial institutions as lenders and terminated our Prior Credit Facility that consisted of a term loan and a revolving credit facility. The Credit Facility has a five year maturity and expires on March 9, 2016. Based on our consolidated leverage ratio, U.S. dollar borrowings under the Credit Facility 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 its consolidated leverage ratio, pay a commitment fee between 0.25% and 0.50% per annum on the unused portion of the Credit Facility. The Credit Facility also permits us to borrow limited amounts in Mexican Peso and Euro currencies based on variable rates. The base rate under the 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 Credit Facility to repay all amounts outstanding under the Prior Credit Facility. We incurred approximately $5.7 million of debt issuance costs in connection with the Credit Facility. These debt issuance costs were recorded as deferred financing costs on our consolidated balance sheet and are being amortized over the term of the Credit Facility.

On July 26, 2012, we amended the Credit Facility to include the Term Loan. The Term Loan is a part of the Credit Facility and is in addition to our current revolving credit facility. The Term Loan matures on March 9, 2016. We will make regular scheduled payments for the Term Loan consisting of both principal and interest components. Based on our consolidated leverage ratio, the Term Loan bears 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% which are the same terms as the Company s revolving credit facility.

In July 2012, we used all $500.0 million of the borrowings under the Term Loan to pay down amounts outstanding under our revolving credit facility. We incurred approximately $4.5 million of debt issuance costs in connection with the Term Loan. The debt issuance costs are recorded as deferred financing costs on our condensed consolidated balance sheet and will be amortized over the life of the Term Loan. On September 30, 2012 and December 31, 2011, the weighted average interest rate for borrowings under the Credit Facility, which included borrowings under the Term Loan as of September 30, 2012, was 1.97% and 1.89%, respectively.

The Credit Facility requires us to comply with a leverage ratio and a coverage ratio. In addition, the 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, repurchase our common shares, merge or consolidate and enter into certain transactions with affiliates. As of September 30, 2012 and December 31, 2011, we were compliant with our debt covenants under the Credit Facility.

During the three months ended March 31, 2012, we borrowed $112.0 million and paid a total of $86.0 million under the Credit Facility. During the three months ended June 30, 2012, we borrowed $692.0 million and paid a total of $365.0 million under the Credit Facility. During the three months ended September 30, 2012, the Company borrowed $581.0 million and paid a total of $636.0 million under the Credit Facility. As of September 30, 2012 the U.S. dollar amount outstanding under the Credit Facility was $500.0 million. As of September 30, 2012, the aggregate annual maturities, including interest, of the Credit Facility were expected to be $15.0 million for 2012, $154.9 million for 2013 and 2014, and $357.2 million for 2015 and 2016.

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During the nine months ended September 30, 2012, we extended our sponsorship agreement with the LA Galaxy through 2022. As of September 30, 2012, our total contractual obligations relating to the LA Galaxy for the years 2013 through 2022 are expected to be approximately $4.4 million each year.

Off-Balance Sheet Arrangements

At September 30, 2012 and December 31, 2011, 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 Credit Facility and the terms of any other indebtedness that may be outstanding, cash requirements, future prospects and other factors deemed relevant by our board of directors. The Credit Facility permits payments of dividends as long as no default or event of default exists and the consolidated leverage ratio specified in the Credit Facility is not exceeded.

On February 21, 2012, we announced that our board of directors approved a cash dividend of $0.30 per common share in an aggregate amount of $35.2 million that was paid to shareholders on March 22, 2012. On April 30, 2012, we announced that our board of directors approved a cash dividend of $0.30 per common share in an aggregate amount of $35.1 million that was paid to shareholders on May 30, 2012. On July 30, 2012, the Company announced that its board of directors approved a cash dividend of $0.30 per common share in an aggregate amount of $32.4 million that was paid to shareholders on August 30, 2012.

The aggregate amount of dividends declared and paid during the three months ended September 30, 2012 and 2011 were $32.4 million and $23.5 million, respectively. The aggregate amount of dividends declared and paid during the nine months ended September 30, 2012 and 2011 were $102.7 million and $62.2 million, respectively.

Share Repurchases

Prior to July 2012, we had a $1 billion share repurchase program that was to expire during December 2014, or the Previous Repurchase Program. On May 2, 2012, we entered into an agreement with Merrill Lynch International to repurchase $427.9 million of our common shares, which was the remaining authorized capacity under the Previous Repurchase Program at that time. Under the terms of the repurchase agreement, we paid $427.9 million on May 4, 2012 and the agreement was to expire on July 27, 2012. We received 5.3 million and 3.9 million of our common shares under the repurchase agreement during June 2012 and July 2012, respectively, as described below. The total number of common shares repurchased under the agreement was determined generally upon a discounted volume-weighted average share price of our common shares over the course of the agreement as discussed below. On July 27, 2012, we completed the Previous Repurchase Program upon the final delivery of common shares repurchased under the repurchase agreement.

On July 30, 2012, we announced that our board of directors authorized a new $1 billion share repurchase program that will expire on June 30, 2017, or the New Repurchase Program. The New Repurchase Program allows us to repurchase our common shares, at such times and prices as determined by our management as market conditions warrant. The Credit Facility permits us to repurchase our common shares as long as no default or event of default exists and the consolidated leverage ratio specified in the Credit Facility is not exceeded.

During the three months ended March 31, 2012, we repurchased approximately 0.7 million of our common shares through open market purchases at an aggregate cost of approximately $50.0 million or an average cost of $67.24 per share. During the three months ended June 30, 2012, we repurchased approximately 5.3 million of our common shares through open market purchases under the initial phase of the repurchase agreement described above at an adjusted aggregate cost of approximately $246.0 million or an adjusted average cost of $46.37 per share. During the three months ended September 30, 2012, we repurchased approximately 3.9 million of our common shares through open market purchases under the final phase of the repurchase agreement described above at an aggregate cost of approximately $181.9 million or an average cost of $46.37 per share. The aggregate cost and average cost per share of shares acquired during the three months ended June 30, 2012 under the repurchase agreement were adjusted based on the final cumulative discounted volume-weighted average share price which was determined upon completion of the program in July 2012. As of September 30, 2012, the remaining authorized capacity under the New Repurchase Program was $1.0 billion.

Working Capital and Operating Activities

As of September 30, 2012 and December 31, 2011, we had positive working capital of $261.2 million, and $220.1 million, respectively, or an increase of $41.1 million. This increase primarily reflected the increases in our cash and cash equivalents and inventory, partially offset by the increase in our long term debt due within one year relating to our Term Loan. The increase in inventory primarily relates to increases in finished goods to support sales growth and strategic sourcing initiatives.

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We expect that cash and funds provided from operations and available borrowings under the Credit Facility discussed above will provide sufficient working capital to operate our business, to make expected capital expenditures and to meet foreseeable liquidity requirements for the next twelve months and thereafter.

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 contribution 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 remains uncertain. Effective January 1, 2012, additional laws were enacted that required companies to register with the Registry of Users of the System of Transactions with Securities in Foreign Currency, or RUSITME, prior to transacting with the SITME, the regulated system, which is controlled by the Central Bank of Venezuela. As an alternative exchange mechanism, we have 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 have also used other alternative legal exchange mechanisms for currency exchanges.

During the nine months ended September 30, 2012, we recognized $4.1 million of foreign exchange losses as a result of exchanging Bolivars for U.S. Dollars using alternative legal exchange mechanisms that were approximately 41% less favorable than the 5.3 Bolivars per U.S. dollar published SITME rate. During the nine months ended September 30, 2012, we exchanged 53.9 million Bolivars for $6.0 million U.S. dollars using alternative legal exchange mechanisms. We did not exchange Bolivars for U.S. dollars using these alternative legal exchange mechanisms during the three months ended September 30, 2012. As of September 30, 2012, Herbalife Venezuela s net monetary assets and liabilities denominated in Bolivars were approximately $69.0 million, and included approximately $71.6 million in Bolivar denominated cash and cash equivalents. The majority of these Bolivar denominated assets and liabilities were remeasured at the SITME rate. We continue to remeasure our Bolivars at the published SITME rate given the limited availability of alternative exchange mechanisms and the uncertainty in the effective exchange rate for alternative exchange mechanisms. These remeasured amounts, including cash and cash equivalents, being reported on our consolidated balance sheet using the SITME rate may not accurately represent the amount of U.S. dollars that we could ultimately realize.

Consolidation of Herbalife Venezuela

We plan to continue our operation in Venezuela and to import products into Venezuela despite the foreign currency constraints that exist in the country. 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.

We plan to utilize the SITME market and CADIVI rate to the extent allowable under current restrictions in order to exchange Bolivars for U.S. dollars. We also plan to access government, PDVSA bond offerings, and alternative legal exchange mechanisms when they are made available. As discussed above, these alternative legal exchange mechanisms could cause us to recognize significant foreign exchange losses if they are less favorable than the SITME rate, which could also result in our Bolivar denominated cash and cash equivalents reported on our consolidated balance sheet being significantly reduced. To illustrate our sensitivity to potential future changes in the SITME rate or using unfavorable alternative legal exchange mechanisms to exchange Bolivars to U.S. dollars, if the exchange rate was approximately 41% less favorable than the current 5.3 SITME rate and this unfavorable exchange rate was used to convert our Bolivar denominated cash and cash equivalents as of September 30, 2012, our $71.6 million in Bolivar denominated cash and cash equivalents as of September 30, 2012 would be reduced by $29.4 million and result in a corresponding foreign exchange loss to our operating profit. 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.

Although Venezuela is an important market in our South and Central America Region, Herbalife Venezuela s net sales represented approximately 3% and 2% of our consolidated net sales for the nine months ended September 30, 2012 and 2011, respectively, and its total assets represented approximately 6% and 3% of our consolidated total assets as of September 30, 2012 and December 31, 2011, respectively.

See the 2011 10-K for further information on Herbalife Venezuela and Venezuela s highly inflationary economy.

Subsequent Events

On October 29, 2012, we announced that our board of directors approved a cash dividend of $0.30 per common share, payable on November 28, 2012 to shareholders of record as of November 14, 2012.

Contingencies

See Note 5, *Contingencies*, to the Notes to Condensed Consolidated Financial Statements for information on our contingencies as of September 30, 2012.

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, 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 nutrition 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 September 30, 2012, we sold products in 84 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 our historical return rates 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 0.3% of retail sales for both the three and nine months ended September 30, 2012, respectively, as compared to 0.3% and 0.4% for three and nine months ended September 30, 2011, respectively.

We adjust our inventories to lower of cost or market 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 inventory write-downs could be required. Likewise, favorable future demand and market conditions could positively impact future operating results if previously written down inventories are sold. We have obsolete and slow moving inventories which have been adjusted downward $20.7 million and $17.6 million to present them at their lower of cost or market in our consolidated balance sheets as of September 30, 2012 and December 31, 2011, respectively.

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. As discussed below, for goodwill impairment testing, we have the option to perform a qualitative assessment of whether it is more likely than not that a reporting unit s fair value is less than its carrying amount before applying the two-step goodwill impairment test. If we conclude it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then there is no need to perform the two-step impairment test. Currently, we do not use this qualitative assessment option but we could in the future elect to use this option. For our marketing related intangible assets a similar qualitative option is also currently available; we are currently assessing whether to do the qualitative assessment or continue with our quantitative assessment which is currently performed by using a discounted cash flow model, which is also known as the income approach. We use the income approach to determine the fair value of our marketing related intangible assets in order to confirm there is no impairment required. For our marketing related intangible assets, if we do not use this qualitative assessment option, we could still in the future elect to use this option.

In order to estimate the fair value of goodwill, we also primarily use an 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 as determined in Step 2 of the goodwill impairment test. Also, if during Step 1 of a goodwill impairment test we determine we have reporting units with zero or negative carrying amounts, then we perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. During Step 2 of a goodwill impairment test, 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 both September 30, 2012 and December 31, 2011, we had goodwill of approximately $105.5 million and marketing related intangible assets of approximately $310.0 million. No marketing related intangibles or goodwill impairment was recorded during the three and nine months ended September 30, 2012 and 2011.

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. We also disclose material contingencies when we believe a loss is not probable but reasonably possible as required by ASC 450. Accounting for contingencies such as legal and non-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.

Deferred income tax assets have been established for net operating loss and interest carryforwards of certain foreign subsidiaries and have been reduced by a valuation allowance to reflect them at amounts estimated to be ultimately realized. Although realization is not assured, we believe it is more likely than not that the net carrying value will be realized. The amount of the carryforwards that is considered realizable, however, could change if estimates of future taxable income 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 us 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 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

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currency remeasurements are generally included in selling, general and administrative expenses in the accompanying consolidated statements of income.

New Accounting Pronouncements

See discussion under Note 2, *Significant Accounting Policies* to the Notes to the Condensed Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q, for information on new accounting pronouncements.

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 apply 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.

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 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 transactions 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 transactions and intercompany management fees as discussed below in this section, all of our foreign exchange contracts are designated as freestanding derivatives for which hedge accounting does not apply. The changes in the fair 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 freestanding 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 are based on third-party quotes. Our foreign currency derivative contracts are generally executed on a monthly basis.

We also purchase foreign currency forward contracts in order to hedge forecasted inventory transactions 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 buy and sell certain currencies at specified contract rates. As of September 30, 2012 and December 31, 2011, the aggregate notional amounts of these contracts outstanding were approximately $131.6 million and $64.4 million, respectively. At September 30, 2012, the outstanding contracts were expected to mature over the next eight months. Our derivative financial instruments are recorded on the consolidated balance sheet at fair value based on quoted market rates. For the forecasted inventory transactions, the forward contracts are used to hedge forecasted inventory transactions 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 September 30, 2012, we recorded assets at fair value of $0.9 million and liabilities at fair value of $3.6 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. As of December 31, 2011, we recorded assets at fair value of $4.4 million relating to all outstanding foreign currency

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contracts designated as cash-flow hedges. We assess hedge effectiveness and measure hedge ineffectiveness at least quarterly. During the three and nine months ended September 30, 2012 and 2011, the ineffective portion relating to these hedges was immaterial and the hedges remained effective as of September 30, 2012 and December 31, 2011.

As of September 30, 2012 and December 31, 2011, the majority of our outstanding foreign currency forward contracts had maturity dates of less than eight months and fifteen months, respectively, with the majority of freestanding derivatives expiring within one month as of both September 30, 2012 and December 31, 2011. There were no foreign currency option contracts outstanding as of September 30, 2012 and December 31, 2011.

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 September 30, 2012			
Buy EUR sell ARS	6.12	$ 5.0	$
Buy EUR sell AUD	1.24	$ 1.6	$
Buy EUR sell CLP	610.65	$ 1.4	$
Buy EUR sell CNY	8.16	$ 8.5	$
Buy EUR sell IDR	12,399.15	$ 6.2	$
Buy EUR sell MXN	17.10	$ 82.2	$ (1.7)
Buy EUR sell MYR	3.97	$ 5.5	$
Buy EUR sell PEN	3.35	$ 2.3	$
Buy EUR sell RUB	40.19	$ 0.8	$
Buy EUR sell USD	1.29	$ 72.0	$
Buy EUR sell ZAR	10.56	$ 0.6	$
Buy GBP sell CRC	830.89	$ 0.7	$
Buy GBP sell EUR	0.79	$ 2.4	$
Buy GBP sell ILS	6.36	$ 1.0	$
Buy JPY sell USD	77.59	$ 10.3	$
Buy KRW sell USD	1,122.70	$ 37.4	$ 0.1
Buy MYR sell EUR	3.99	$ 0.8	$
Buy MYR sell USD	3.09	$ 21.6	$
Buy USD sell COP	1,805.00	$ 6.6	$
Buy USD sell CRC	506.75	$ 0.7	$
Buy USD sell EUR	1.28	$ 108.8	$ (0.9)
Buy USD sell GBP	1.61	$ 8.0	$
Buy USD sell KRW	1,129.19	$ 5.1	$ (0.1)
Buy USD sell MXN	12.95	$ 30.8	$
Buy USD sell PEN	2.60	$ 0.8	$
Buy USD sell PHP	41.84	$ 2.9	$
Buy USD sell ZAR	8.21	$ 0.6	$
Total forward contracts		$ 424.6	$ (2.6)

The majority of our foreign subsidiaries designate their local currencies as their functional currencies. At September 30, 2012 and December 31, 2011, the total amount of our foreign subsidiary cash was $312.5 million and $246.0 million, respectively, of which $4.7 million and $9.2 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 Herbalife Venezuela to obtain U.S. dollars in exchange for Bolivars at the official foreign exchange rates from the Venezuelan government. See Item 2 *Management s Discussion and Analysis of Financial Condition and Results of Operations,* for discussion on how the currency restrictions in

Venezuela have impacted Herbalife Venezuela s operations.

Interest Rate Risk

As of September 30, 2012, the aggregate annual maturities, including interest, of the Credit Facility were expected to be $15.0 million for 2012, $154.9 million for 2013 and 2014, and $357.2 million for 2015 and 2016. The fair value of the Credit Facility approximates its carrying value of $500.0 million as of September 30, 2012. The fair value of the Credit Facility approximated its carrying value of $202.0 million as of December 31, 2011. The Credit Facility bears a variable interest rate, and on

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September 30, 2012 and December 31, 2011, the weighted average interest rate of the Credit Facility, which included borrowings under the Term Loan as of September 30, 2012, was 1.97% and 1.89%, 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 term loan under the Prior Credit Facility or against the variability in the LIBOR interest rate on any replacement debt. Our term loan under the Prior Credit Facility was terminated in March 2011 and refinanced with the Credit Facility as discussed further in Note 4, *Long-Term Debt*, to the Condensed Consolidated Financial Statements. Our swaps remain effective and continue to be designated as cash flow hedges against the variability in certain LIBOR interest rate borrowings under the Credit Facility at LIBOR plus 1.50% to 2.50%, 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 assess hedge effectiveness and measure hedge ineffectiveness at least quarterly. During the three and nine months ended September 30, 2012 and 2011, the ineffective portion relating to these hedges was immaterial and the hedges remained effective as of September 30, 2012. 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 quotes. At September 30, 2012 and December 31, 2011, we recorded the interest rate swaps as liabilities at their fair value of $3.0 million and $5.1 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 September 30, 2012.

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 quarter ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 difficult 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 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 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 5, *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. While our current senior secured variable credit facility can also be used to support our current liquidity requirements, increases in interest rates could negatively affect the cost of financing our operations if our future borrowings were to increase.

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 to and through approximately 3.1 million independent distributors, including 0.2 million in China, 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 2012, approximately 52% of our sales leaders, excluding China, 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 3.1 million independent distributors, we had approximately 567,000 sales leaders as of September 30, 2012. 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.

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.

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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 of our independent 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. 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 management 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 in December, 2011 the FTC issued its final rule. This final rule does not attempt to cover multilevel marketing companies such as Herbalife.

The FTC revised 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 are 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 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.

We are subject to FDA rules for current good manufacturing practices, 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 cGMPs 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 product costs as a result of the necessary increase in testing of raw ingredients, work in process and finished products.

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. Some multi-level marketing programs of other companies have been successfully challenged in the past, while other challenges to multi-level marketing programs of other companies have been defeated. In 2004 Test Ankoop-Test Achat, a Belgian consumer protection organization, sued Herbalife International Belgium, S.V., or HIB, challenging the legality of our network marketing program in Belgium. On November 23, 2011, the Brussels Commercial Court rendered a judgment that HIB is in violation of the Belgian law on Unfair Commercial Practices by establishing, operating or promoting a pyramid scheme where a consumer gives consideration for the opportunity to receive compensation that is derived primarily from the introduction of other consumers into the scheme rather than from the sale or consumption of products. The court ordered cessation of the violation, and a penalty payment of EUR 5,000 per infringement (limited to a total amount of penalty payments of EUR 250,000) starting two months from the official notification of the judgment. HIB has not yet been officially notified of the judgment and therefore the conditions for possible penalty payments have not been fulfilled. The Company believes the trial court s judgment is flawed legally and factually and on March 8, 2012 filed an appeal of the judgment with the Court of Appeal of Brussels. A preliminary hearing was held on April 2, 2012 setting a briefing schedule. Since then Test Aankoop filed its reply on July 6, 2012 and Herbalife s response was filed on September 28, 2012. A further exchange of legal briefs is foreseen with the last brief due to be filed on February 12, 2013, after which date the parties can request the Court in Brussels to set a date for presentation of oral arguments. We believe that we have a meritorious basis to appeal this judgment. Nonetheless, the Company has implemented various clarifications and changes which we believe are consistent with the trial court s ruling pending the appeal procedure. This or other adverse judicial determinations with respect to our network marketing program, or

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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.

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 80% of our net sales for the year ended December 31, 2011, 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, or otherwise limit or restrict our ability to import products into a country, any of 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 have also used other alternative legal exchange mechanisms for currency exchanges, such as the legal parallel market mechanism which was discontinued in May 2010.

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.

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. In addition, if foreign currency restrictions do not improve, we may have to use alternative legal exchange mechanisms which are significantly less favorable than the official rate which could cause the Company to incur significant foreign exchange losses. Due to the current political and economic environment in Venezuela, there is also a risk that there could be a foreign currency devaluation which could cause our cash and cash equivalents to decrease. 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 2011 Annual Report on Form 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 can directly serve customers and preferred customers. We also have sales representatives who 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, Chongqing, Hebi, Shaanxi, Tianjin, Heilongjiang, Hunan, Guangxi, Hainan, and Anhui.

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 and operating under such approvals and otherwise conducting business in China, other regulations are pending and there continues to be 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.

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 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 came into effect on July 1, 2011. We have reviewed our employment contracts and contractual relations with employees in China, which include certain of our employed sales personnel, and have transferred those employed sales personnel into independent service providers and have made such other 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, 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. If we are unable to effectively manage such growth and expansion of our retail stores and manufacturing operations, our government relations may be compromised and our operations in China may be harmed.

If we fail to further penetrate existing markets and 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 further penetrate existing markets and to a much less extent enter into new markets. Our ability to further penetrate existing markets or to 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.

Our ability to effectively manage our network of independent distributors, and to ship products, and track royalty and bonus payments on a timely basis, depends significantly on our information systems. The failure of our information systems to operate effectively, or a breach in security of these systems, could adversely impact the promptness and accuracy of our product distribution and transaction processing. We could be required to make significant additional expenditures to remediate any such failure, problem or breach.

Anyone that is able to circumvent our security measures could misappropriate confidential or proprietary information, including that of third parties such as our independent distributors, cause interruption in our operations, damage our computers or otherwise damage our reputation and business. We may need to expend significant resources to protect against security breaches or to address problems caused by such breaches. Any actual security breaches could damage our reputation and expose us to a risk of loss or litigation and possible liability under various laws and regulations. In addition, employee error or malfeasance or other errors in the storage, use or transmission of any such information could result in a disclosure to third parties. If this should occur we could incur significant expenses addressing such problems. Since we collect and store distributor and vendor information, including credit card information, these risks are heightened.

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 produced in our manufacturing facility located in Lake Forest, California. It is the Company s intention to expand the capacity of its existing manufacturing facilities, and add additional facilities, 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. Additionally, 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 approximately 40 suppliers of our products. For our major products, we typically have both primary and secondary suppliers. Our major suppliers include Fine Foods (Italy) for meal replacements, protein powders and nutritional supplements, Valentine Enterprises (U.S.) for meal replacements and protein powders, Nature s Bounty (U.S.) for meal replacements, GNC (U.S.) for nutritional supplements and PharmaChem Labs (U.S.) for teas and *Niteworks*®. Additionally we use contract manufacturers in India, Brazil, Korea, Japan, Taiwan 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, fructose, dairy products, gums, 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 or more of our products or marks will not be found to infringe upon third party intellectual property rights in the future. For example, in an action in the U.S. federal courts, the adidas companies alleged that certain uses of Herbalife s Tri-Leaf device mark upon sports apparel items infringed upon their Trefoil mark associated with such goods. They also alleged that such uses of Herbalife s Tri-Leaf device and certain Herbalife trademark applications constituted a breach of a 1998 agreement between the parties. The trademark claims and all claims for money damages were dismissed. On May 18, 2012 the trial court issued a final judgment in favor of adidas on its breach of contract claim, though awarding neither money damages nor injunctive relief to adidas. Adidas moved for reconsideration of this result and amendment of the judgment but the Court denied adidas motion on August 9, 2012. Neither party appealed the final judgment.

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 29%, 28%, and 29% of net sales for the fiscal years ended December 31, 2011, 2010, and 2009, respectively. 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. 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 13, 2011, the Mexican Tax Administration Service issued a resolution nullifying a prior assessment in an amount equivalent to approximately $89 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. Since, the Mexican Tax Administration Service can re-issue some or all of the original assessment, the Company commenced litigation in the Tax Court of Mexico in August 2011 to dispute the assertions made by the Mexican Tax Administration Service in the case. The Mexican Tax Administration Service filed a response which was received by the Company in April, 2012. The response challenged the assertions that the Company made in its August 2011 filing.

The Mexican Tax Administration Service commenced audits of the Company s Mexican subsidiaries for the period from January to September 2007 and the 2011 year. On October 19, 2012, the Mexican Tax Administration Service issued a preliminary audit report for the 2007 period which primarily focused on VAT allegations. The final audit report is expected to be issued before the end of the year. Generally, any assessment would be issued after the final audit report.

The Company has not recognized a loss as the Company, based on its analysis and guidance from its advisors, does not believe a loss would be probable if the assessment is re-issued or if any additional assessment is issued. Further, we are currently unable to reasonably estimate a possible loss or range of loss that could result from an unfavorable outcome if the assessment was re-issued or any additional assessments were to be issued for these or other periods. We believe that we have meritorious defenses if the assessment is re-issued or would have meritorious defenses if any additional assessment is issued. 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.

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 social contributions, and to maintain appropriate records. In addition, we are subject to the risk in some jurisdictions of being responsible for social security, withholding or other taxes with respect to payments to our distributors. For example, in Spain, Brazil and Italy, the Company received tax assessments from the authorities for withholding taxes, social contributions, and related items in connection with payments made to distributors in those countries in prior periods. The Company has appealed the assessments. In the case of Spain substantially all the assessment was withdrawn and in the case of Italy the assessment is anticipated to be withdrawn. The Company believes it has meritorious defenses in other instances. In addition, 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 contributions, withholding 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 and unpublished safety information including clinical studies on ingredients used in our products 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.

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 (2012 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 XVI 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 threshold for approval of the merger plan by shareholders is higher. The threshold is a special resolution of the shareholders (being 66 2/3% of those present in person or by proxy and voting) together with such other authorization, if any, as may be specified in the articles of association.

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 XVI 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 XVI and do not 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. These 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

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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 natural justice or 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) None.

(b) None.

(c) On April 17, 2009, our share repurchase program adopted on April 18, 2007 expired pursuant to its terms. On April 30, 2009, we announced that our board of directors authorized the Previous Repurchase Program, which was a new program for us to repurchase up to $300 million of our common shares during the next two years, at such times and prices as determined by our management. On May 3, 2010, our board of directors approved an increase to the Previous Repurchase Program from $300 million to $1 billion. In addition, our board of directors approved the extension of the expiration date of the Previous Repurchase Program from April 2011 to December 2014.

On May 2, 2012, we entered into an agreement with Merrill Lynch International to repurchase $427.9 million of our common shares, which was the remaining authorized capacity under the Previous Repurchase Program at that time. Under the terms of the repurchase agreement, we paid $427.9 million on May 4, 2012 and the agreement was to expire on July 27, 2012. We received 5.3 million and 3.9 million of our common shares under the repurchase agreement during June 2012 and July 2012, respectively, as described below. The total number of common shares repurchased under the agreement was determined generally upon a discounted volume-weighted average share price of our common shares over the course of the agreement. On July 27, 2012, we completed the Previous Repurchase Program upon the final delivery of common shares repurchased under the repurchase agreement.

On July 30, 2012, we announced that our board of directors authorized the New Repurchase Program, a new $1 billion share repurchase program that will expire on June 30, 2017. The New Repurchase Program allows us to repurchase our common shares, at such times and prices as determined by our management as market conditions warrant. The Credit Facility permits us to repurchase our common shares as long as no default or event of default exists and the consolidated leverage ratio specified in the Credit Facility is not exceeded.

The following is a summary of our repurchases of common shares during the three months ended September 30, 2012:

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Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 July 31	3,922,115	$ 46.37	3,922,115	$ 1,000,000,000(1)
August 1 August 31				$ 1,000,000,000
September 1 September 30				$ 1,000,000,000
	3,922,115	$ 46.37	3,922,115	$ 1,000,000,000

(1) Amount reflects available capacity under the New Repurchase Program as of July 31, 2012. The 3,922,115 common shares repurchased in July 2012 were acquired pursuant to the share repurchase agreement described above under the Previous Repurchase Program. The $46.37 Average Price Paid Per Share represents the final discounted volume weighted-average share price determined under the share repurchase agreement.

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

None.

Item 4. ***Mine Safety Disclosures***

Not applicable.

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, CCG AV, LLC-Series C and CCG AV, LLC-Series E.	(b)

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)

Exhibit Number	Description	Reference
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)
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	(l)
10.22#	Form of 2004 Herbalife Ltd. 2004 Stock Incentive Plan Non-Employee Director Stock Option Agreement	(l)
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	(p)
10.25#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement	(p)
10.26#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Michael O. Johnson	(p)
10.27#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Michael O. Johnson	(p)
10.28#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Messrs. Richard P. Goudis and Brett R. Chapman	(p)
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	(p)
10.30#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Mr. Michael O. Johnson	(s)
10.31#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Mr. Michael O. Johnson	(s)
10.32#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Messrs. Brett R. Chapman and Richard Goudis	(s)
10.33#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Messrs. Brett R. Chapman and Richard Goudis	(s)
10.34#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement	(s)
10.35#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement	(s)
10.36#	Herbalife Ltd. Employee Stock Purchase Plan	(g)
10.37#	Employment Agreement dated as of March 27, 2008 between Michael O. Johnson and Herbalife International of America, Inc.	(h)
10.38#	Stock Unit Award Agreement by and between Herbalife Ltd. and Michael O. Johnson, dated March 27, 2008.	(h)
10.39#	Stock Appreciation Right Award Agreement by and between Herbalife Ltd. and Michael O. Johnson, dated March 27, 2008.	(h)
10.40#	Stock Appreciation Right Award Agreement by and between Herbalife Ltd. and Michael O. Johnson, dated March 27, 2008.	(h)
10.41#	Amendment to Herbalife International Inc. 401K Profit Sharing Plan and Trust	(i)
10.42#	Form of Independent Directors Stock Appreciation Right Award Agreement	(j)
10.43#	Herbalife Ltd. Amended and Restated Independent Directors Deferred Compensation and Stock Unit Plan	(j)
10.44#	Amended and Restated Employment Agreement by and between Richard P. Goudis and Herbalife International of America, Inc., dated as of January 1, 2010.	(k)

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Exhibit Number	Description	Reference
10.45#	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.	(n)
10.46#	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.	(n)
10.47#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement	(l)
10.48#	Amended and Restated Non-Management Directors Compensation Plan	(l)
10.49#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Non-Employee Directors Stock Appreciation Right Award Agreement	(l)
10.50#	Amended and Restated Employment Agreement by and between Brett Chapman and Herbalife International of America, Inc., dated as of June 1, 2010.	(m)
10.51#	Severance Agreement by and between John DeSimone and Herbalife International of America, Inc., dated as of February 23, 2011.	(o)
10.52#	Amended and Restated Severance Agreement, dated as of February 23, 2011, by Desmond Walsh and Herbalife International of America, Inc.	(o)
10.53	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.	(p)
10.54	First Amendment, dated July 26, 2012, to 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.	(s)
10.55#	Amendment to Amended and Restated Herbalife Ltd. 2005 Stock Incentive Plan	(q)
10.56#	Stock Appreciation Right Award Agreement, dated August 4, 2011, by and between Herbalife Ltd. and Michael O. Johnson	(r)
10.57	Confirmation between Merrill Lynch International and Herbalife Ltd.	(s)
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.DEF	XBRL Taxonomy Extension Definition Linkbase Document	*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	*

* Filed herewith.

\# 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 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.
(h) 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.
(i) 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.
(j) 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.
(k) 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.
(l) 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.
(m) 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.
(n) 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.
(o) 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.
(p) Previously filed on May 2, 2011 as an Exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 and is incorporated by reference.
(q) Previously filed on April 29, 2011 as an Exhibit to the Company s Current Report on Form 8-K and is incorporated herein by reference.
(r) Previously filed on August 10, 2011 as an Exhibit to the Company s Current Report on Form 8-K, and subsequently amended on August 24, 2011 as an Exhibit to the Company s Amendment No. 1 to Current Report on Form 8-K/A and is incorporated herein by reference.
(s) Previously filed on July 30, 2012 as an Exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 and is incorporated 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 G. DESIMONE
John G. DeSimone

Chief Financial Officer

Dated: October 29, 2012