HERBALIFE LTD.
Form 10-Q
August 03, 2009

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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from __________ to __________.

Commission file number: 1-32381

HERBALIFE LTD.
(Exact name of registrant as specified in its charter)

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

P.O. Box 309GT
Ugland House, South Church Street
Grand Cayman, Cayman Islands
(Address of principal executive offices) (Zip code)
(310) 410-9600
(Registrant s telephone number, including area code)

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

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

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

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

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

Number of shares of registrant s common shares outstanding as of July 30, 2009 was 61,692,937

HERBALIFE LTD.

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PART I. FINANCIAL INFORMATION

Item 1. ***FINANCIAL STATEMENTS***

HERBALIFE LTD.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2009	December 31, 2008
	(In thousands, except share amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 181,436	$ 150,847
Receivables, net of allowance for doubtful accounts of $8,989 (2009) and $8,988 (2008)	78,711	70,002
Inventories, net	125,870	134,392
Prepaid expenses and other current assets	89,540	89,214
Deferred income taxes	42,003	40,313
Total current assets	517,560	484,768
Property, at cost, net of accumulated depreciation and amortization of $116,135 (2009) and $89,411 (2008)	173,365	175,492
Deferred compensation plan assets	16,006	15,754
Deferred financing costs, net of accumulated amortization of $1,530 (2009) and $1,287 (2008)	1,746	1,989
Marketing related intangibles	310,060	310,060
Goodwill	110,677	110,677
Other assets	23,170	22,578
Total assets	$ 1,152,584	$ 1,121,318
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 43,125	$ 41,084
Royalty overrides	128,916	130,369
Accrued compensation	44,668	60,629
Accrued expenses	106,979	104,795
Current portion of long-term debt	13,387	15,117
Advance sales deposits	30,260	12,603
Income taxes payable	26,323	37,302
Total current liabilities	393,658	401,899
NON-CURRENT LIABILITIES:		
Long-term debt, net of current portion	300,578	336,514
Deferred compensation	14,535	13,979
Deferred income taxes	103,549	103,675
Other non-current liabilities	24,290	23,520

Total liabilities	836,610	879,587
CONTINGENCIES		
SHAREHOLDERS EQUITY:		
Common shares, $0.002 par value, 500.0 million shares authorized, 61.7 million (2009) and 61.4 million (2008) shares issued and outstanding	122	123
Paid-in-capital in excess of par value	207,385	197,715
Accumulated other comprehensive loss	(28,418)	(28,614)
Retained earnings	136,885	72,507
Total shareholders equity	315,974	241,731
Total liabilities and shareholders equity	$ 1,152,584	$ 1,121,318

See the accompanying notes to consolidated financial statements.

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HERBALIFE LTD.
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	(Unaudited) (In thousands, except per share amounts)			
Product sales	$ 490,899	$ 550,676	$ 937,847	$ 1,071,402
Handling & freight income	80,906	89,024	155,641	172,735
Net sales	571,805	639,700	1,093,488	1,244,137
Cost of sales	122,442	128,049	224,842	245,715
Gross profit	449,363	511,651	868,646	998,422
Royalty overrides	186,750	215,300	362,282	428,020
Selling, general & administrative expenses	190,794	203,113	372,252	387,513
Operating income	71,819	93,238	134,112	182,889
Interest expense, net	1,338	3,167	3,050	6,957
Income before income taxes	70,481	90,071	131,062	175,932
Income taxes	22,228	22,991	41,267	46,485
NET INCOME	$ 48,253	$ 67,080	$ 89,795	$ 129,447
Earnings per share:				
Basic	$ 0.78	$ 1.04	$ 1.46	$ 2.01
Diluted	$ 0.77	$ 1.01	$ 1.44	$ 1.94
Weighted average shares outstanding:				
Basic	61,642	64,282	61,583	64,301
Diluted	62,929	66,110	62,413	66,559
Dividends declared per share	$ 0.20	$ 0.20	$ 0.40	$ 0.40

See the accompanying notes to consolidated financial statements.

HERBALIFE, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	June 30, 2009	June 30, 2008
	(Unaudited) (In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 89,795	$ 129,447
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,686	22,244
Deficiency (Excess) tax benefits from share-based payment arrangements	982	(12,878)
Share based compensation expenses	10,024	8,721
Amortization of discount and deferred financing costs	244	238
Deferred income taxes	(1,657)	586
Unrealized foreign exchange transaction loss (gain)	2,545	(2,876)
Other	154	737
Changes in operating assets and liabilities:		
Receivables	(4,938)	(12,719)
Inventories	12,022	3,166
Prepaid expenses and other current assets	971	(24,109)
Other assets	(679)	(591)
Accounts payable	1,202	6,280
Royalty overrides	(3,622)	(2,821)
Accrued expenses and accrued compensation	(19,587)	(4,949)
Advance sales deposits	17,164	15,702
Income taxes payable	(12,599)	(4,314)
Deferred compensation plan liability	557	4
NET CASH PROVIDED BY OPERATING ACTIVITIES	122,264	121,868
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property	(26,801)	(37,590)
Proceeds from sale of property	60	27
Deferred compensation plan assets	(252)	263
NET CASH USED IN INVESTING ACTIVITIES	(26,993)	(37,300)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(24,617)	(25,586)
Borrowings from long-term debt	59,000	40,000
Principal payments on long-term debt	(97,009)	(61,603)
Share repurchases	(972)	(94,193)
(Deficiency) Excess tax benefits from share-based payment arrangements	(982)	12,878
Proceeds from exercise of stock options and sale of stock under employee stock purchase plan	791	15,609
NET CASH USED IN FINANCING ACTIVITIES	(63,789)	(112,895)

EFFECT OF EXCHANGE RATE CHANGES ON CASH		(893)		3,306
NET CHANGE IN CASH AND CASH EQUIVALENTS		30,589		(25,021)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		150,847		187,407
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	181,436	$	162,386
CASH PAID DURING THE PERIOD				
Interest paid	$	6,560	$	9,535
Income taxes paid	$	54,473	$	46,501
NON CASH ACTIVITIES				
Assets acquired under capital leases and other long-term debt	$	327	$	27,295

See the accompanying notes to consolidated financial statements.

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HERBALIFE LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization

Herbalife Ltd., a Cayman Islands exempted limited liability company, or Herbalife, incorporated on April 4, 2002. Herbalife Ltd. (and together with its subsidiaries, the Company) is a leading global network marketing company that sells weight management, nutritional supplement, energy, sports & fitness products and personal care products through a network of approximately 1.9 million independent distributors, except in China, where the Company currently sells its products through retail stores and an employed sales force. The Company reports revenue in six geographic regions: North America, which consists of the U.S., Canada and Jamaica; Mexico; South and Central America; EMEA, which consists of Europe, the Middle East and Africa; Asia Pacific (excluding China) which consists of Asia, New Zealand and Australia; and China.

2. 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, or GAAP, in the U.S. for complete financial statements. The Company s unaudited consolidated financial statements as of June 30, 2009, and for the three and six months ended June 30, 2009 and 2008, 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 consolidated financial statements as of June 30, 2009, and for the three and six months ended June 30, 2009 and 2008. These unaudited consolidated financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2008, or the 2008 10-K. Operating results for the three and six months ended June 30, 2009, are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. The Company has performed an evaluation of subsequent events through August 3, 2009, which is the date the financial statements were issued.

New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS, No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162*, or SFAS 168. The FASB Accounting Standards Codification, or the Codification, will be the single source of authoritative nongovernmental U.S. GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC reporting companies. SFAS 168 is effective for interim and annual financial periods ending after September 15, 2009. All existing non-SEC accounting standards are superseded as described in SFAS 168. All other non-SEC accounting literature not included in the Codification is non-authoritative. The Codification is not expected to have a significant impact on the Company s financial statements.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, or SFAS 165. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 sets forth (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009. The adoption of SFAS 165 did not have a significant impact on the Company s financial statements.

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3. Long-Term Debt

Long-term debt consists of the following:

	As of	
	June 30, 2009	December 31, 2008
	(In millions)	
Borrowings under senior secured credit facility	$ 298.1	$ 324.5
Capital leases	6.1	6.9
Other debt	9.8	20.2
Total	314.0	351.6
Less: current portion	13.4	15.1
Long-term portion	$ 300.6	$ 336.5

Interest expense was $2.9 million and $4.9 million for the three months ended June 30, 2009 and 2008, respectively, and $6.2 million and $10.4 million for the six months ended June 30, 2009 and 2008, respectively.

On July 21, 2006, the Company entered into a $300.0 million senior secured credit facility, comprised of a $200.0 million term loan and a $100.0 million revolving credit facility, with a syndicate of financial institutions as lenders that replaced a $225.0 million senior secured credit facility, originally entered into on December 21, 2004. In September 2007, the Company and its lenders amended the senior secured credit facility, increasing the amount of the revolving credit facility by an aggregate principal amount of $150.0 million to $250.0 million. The term loan bears interest at LIBOR plus a margin of 1.5%, or the base rate plus a margin of 0.50%, and matures on July 21, 2013. The revolving credit facility bears interest at LIBOR plus a margin of 1.25%, or the base rate plus a margin of 0.25%, and is available until July 21, 2012. On June 30, 2009 and December 31, 2008, the weighted average interest rate for the senior secured credit facility was 1.70% and 3.04%, respectively.

The senior secured credit facility requires the Company to comply with a leverage ratio and an interest coverage ratio. In addition, the senior secured 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, merge or consolidate and enter into certain transactions with affiliates.

As of June 30, 2009, the Company is obligated to pay approximately $0.4 million of the term loan every quarter until June 30, 2013, and the remaining principal on July 21, 2013. As of June 30, 2009 and December 31, 2008, the amounts outstanding under the term loan were $146.1 million and $146.8 million, respectively.

During the first quarter of 2009, the Company borrowed an additional $19.0 million under the revolving credit facility and paid $14.7 million of the revolving credit facility. During the second quarter of 2009, the Company borrowed an additional $40.0 million under the revolving credit facility and paid $70.0 million of the revolving credit facility. As of June 30, 2009 and December 31, 2008, the amounts outstanding under the revolving credit facility were $152.0 million and $177.7 million, respectively.

Through the course of conducting regular business operations, certain vendors and government agencies may require letters of credit to be issued. As of June 30, 2009 and December 31, 2008, the Company had an aggregate of $2.8 million of issued but undrawn letters of credit.

4. Contingencies

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

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

existing claims is not material to the Company. The Company believes that it has meritorious defenses to the allegations contained in the lawsuits. The Company currently maintains product liability insurance with an annual deductible of $10 million.

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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.

These matters may take several years to resolve, and the Company cannot be sure of their ultimate resolution. However, it is the opinion of management that adverse outcomes, if any, will not likely result in a material adverse effect on the Company s financial condition and operating results. This opinion is based on the belief that any losses suffered in excess of amounts reserved would not be material, and that the Company has meritorious defenses. Although the Company has reserved an amount that the Company believes represents the most likely outcome of the resolution of these disputes, if the Company is incorrect in the assessment the Company may have to record additional expenses.

5. Comprehensive Income

Total comprehensive income consisted of the following:

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	(In millions)			
Net income	$ 48.3	$ 67.1	$ 89.8	$ 129.4
Unrealized gain/(loss) on derivative instruments	(1.3)	0.8	0.7	(0.1)
Foreign currency translation adjustment	10.2	(0.7)	(0.5)	0.3
Comprehensive income	$ 57.2	$ 67.2	$ 90.0	$ 129.6

6. Segment Information

The Company is a network marketing company that sells a wide range of weight management products, nutritional supplements and personal care products within one industry segment as defined under SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. The Company s products are manufactured by third party providers and then sold to independent distributors who sell Herbalife products to retail consumers or other distributors.

The Company sells products in 70 countries throughout the world and is organized and managed by geographic regions. The Company aggregates its operating segments, excluding China, into one reporting segment, or the Primary Reporting Segment, as management believes that the Company s operating segments have similar operating characteristics and similar long term operating performance. In making this determination, management believes that the operating segments are similar in the nature of the products sold, the product acquisition process, the types of customers to whom products are sold, the methods used to distribute the products, and the nature of the regulatory environment. China has been identified as a separate reporting segment as it does not meet the criteria for aggregation. Revenues reflect sales of products to distributors based on the distributors geographic location.

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During the first quarter of 2009, the Company changed its geographic regions as part of the Company s restructuring program by designating Mexico as its own region and combining South America and Central America into one region. These changes in geographic regions were implemented to create growth opportunities for distributors, support faster decision making across the organization by reducing the number of layers of management, improve the sharing of ideas and tools and accelerate growth in the Company s high potential markets. Historical information presented related to the Company s geographic regions has been reclassified to conform with the current geographic presentation. The operating information for the Primary Reporting Segment and China, and sales by product line are as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	(In millions)			
Net Sales:				
Primary Reporting Segment				
United States	$ 134.2	$ 127.7	$ 253.2	$ 241.7
Mexico	66.4	102.7	125.6	196.3
Others	330.6	370.5	647.3	742.8
Total Primary Reporting Segment	531.2	600.9	1,026.1	1,180.8
China	40.6	38.8	67.4	63.3
Total Net Sales	$ 571.8	$ 639.7	$ 1,093.5	$ 1,244.1
Operating Margin(1):				
Primary Reporting Segment				
United States	$ 57.7	$ 53.5	$ 114.6	$ 100.7
Mexico	25.1	43.3	51.4	82.1
Others	143.8	168.1	281.8	333.5
Total Primary Reporting Segment	226.6	264.9	447.8	516.3
China (2)	36.0	31.5	58.6	54.1
Total Operating Margin	$ 262.6	$ 296.4	$ 506.4	$ 570.4
Selling, general and administrative expenses	190.8	203.1	372.3	387.5
Interest expense, net	1.3	3.2	3.0	7.0
Income before income taxes	70.5	90.1	131.1	175.9
Income taxes	22.2	23.0	41.3	46.5
Net Income	$ 48.3	$ 67.1	$ 89.8	$ 129.4

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	(In millions)			
Net sales by product line:				
Weight Management	$ 363.8	$ 405.2	$ 693.0	$ 786.0

Targeted Nutrition	120.9	130.5	230.9	256.1
Energy, Sports and Fitness	24.0	26.5	45.6	50.5
Outer Nutrition	32.3	39.3	63.8	79.5
Literature, promotional and other(3)	30.8	38.2	60.2	72.0
Total Net Sales	$ 571.8	$ 639.7	$ 1,093.5	$ 1,244.1
Net sales by geographic region:				
North America(4)	$ 138.3	$ 133.2	$ 261.4	$ 251.8
Mexico	66.4	102.7	125.6	196.3
South and Central America	85.4	98.7	160.7	204.7
EMEA(5)	126.6	159.9	249.9	317.9
Asia Pacific(6)	114.5	106.4	228.5	210.1
China	40.6	38.8	67.4	63.3
Total Net Sales	$ 571.8	$ 639.7	$ 1,093.5	$ 1,244.1

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

(2) Compensation to our China sales employees is included in selling, general and administrative expenses while distributor compensation for all other countries is included in royalty overrides.

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

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

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

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

As of June 30, 2009 and December 31, 2008, total assets for the Company s Primary Reporting Segment was $1,104.3 million and $1,074.3 million, respectively. Total assets for the China segment was $48.3 million and $47.0 million as of June 30, 2009 and December 31, 2008, respectively.

7. Stock Based Compensation

The Company has five stock-based compensation plans, which are more fully described in Note 9 to the Consolidated Financial Statements in the 2008 10-K. During the six months ended June 30, 2009, the Company granted stock awards subject to continued service, consisting of stock units and stock appreciation rights, with vesting terms fully described in the 2008 10-K. During the six months ended June 30, 2009, the Company also granted other stock units and stock appreciation rights, subject to continued service, one-third of which vest on the third anniversary of the date of grant, one-third of which vest on the fourth anniversary of the date of grant, and the remaining one-third of which vest on the fifth anniversary of the date of grant.

For the three months ended June 30, 2009 and 2008, stock-based compensation expense amounted to $5.3 million and $3.6 million, respectively. For the six months ended June 30, 2009 and 2008, stock-based compensation expense amounted to $10.2 million and $8.7 million, respectively. As of June 30, 2009, the total unrecognized compensation cost related to all non-vested stock awards was $42.8 million and the related weighted-average period over which it is expected to be recognized is approximately 2.4 years.

The following tables summarize the activity under all stock-based compensation plans for the six months ended June 30, 2009:

Stock Options & SARS	**Shares**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term**	**Aggregate Intrinsic Value**
	(In thousands)			**(In millions)**
Outstanding at December 31, 2008	6,967	$ 26.32	6.2 years	$ 27.6
Granted	1,488	13.79		
Exercised	(91)	5.23		
Forfeited	(213)	28.49		
Outstanding at June 30, 2009	8,151	$ 24.21	6.3 years	$ 10.8
Exercisable at June 30, 2009	4,358	$ 19.68	5.0 years	$ 12.9

Incentive Plan and Independent Directors Stock Units	**Shares**	**Weighted Average Grant Date Fair Value**	**Aggregate Fair Value**
	(In thousands)		**(In millions)**
Outstanding and nonvested at December 31, 2008	476.3	$ 43.41	$ 20.7
Granted	414.6	13.78	5.7
Vested	(151.0)	42.71	(6.4)
Cancelled	(20.7)	37.84	(0.8)
Outstanding and nonvested at June 30, 2009	719.2	$ 26.63	$ 19.2

The weighted-average grant date fair value of stock awards granted during the three months ended June 30, 2009 and 2008 was $10.76 and $23.64, respectively. The weighted-average grant date fair value of stock awards granted during the six months ended June 30, 2009 and 2008, was $5.95 and $21.97, respectively. The total intrinsic value of stock awards exercised during the three months ended June 30, 2009 and 2008, was $0.6 million and $7.5 million, respectively, and during the six months ended June 30, 2009 and 2008, it was $1.8 million and $40.4 million, respectively.

8. Income Taxes

As of June 30, 2009, the total amount of unrecognized tax benefits, related interest and penalties was $43.0 million, $9.4 million and $3.2 million, respectively. During the six months ended June 30, 2009, the Company recorded tax and interest related to uncertain tax positions of $2.0 million and $0.9 million, respectively. The unrecognized tax benefits relate primarily to uncertainties from international transfer pricing issues and the deductibility of certain operating expenses in various jurisdictions. If the total amount of unrecognized tax benefits were recognized, $43.0 million of unrecognized tax benefits, $9.4 million of interest and $3.2 million of penalties, would impact the effective tax rate.

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During the six months ended June 30, 2009, the Company benefited from the terms of a tax holiday in the People s Republic of China. The tax holiday commenced on January 1, 2008 and will conclude on December 31, 2012. Under the terms of the holiday, the Company is subject to a zero tax rate in China during 2008 and 2009 and a concessionary tax rate in China for the remaining years included in the holiday period.

9. Derivative Instruments and Hedging Activities

The Company adopted SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133,* or SFAS 161, on January 1, 2009. The adoption of SFAS 161 did not have any financial impact on the Company s consolidated financial statements and only required additional financial statement disclosures on derivative instruments. The Company has applied the requirements of SFAS 161 on a prospective basis. Accordingly, disclosures related to interim and annual periods prior to the date of adoption have not been presented.

Interest Rate Risk Management

The Company engages in an interest rate hedging strategy for which the hedged transactions are forecasted interest payments on the Company s variable rate term loan. 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 June 30, 2009 the maximum length of time over which the Company is hedging these exposures is approximately three months.

Under its senior secured credit facility, the Company is obligated to enter into interest rate hedges for up to 25% of the aggregate principal amount of the term loan for a minimum of three years. On August 23, 2006, the Company entered into an interest rate swap agreement. The agreement provides for the Company to pay interest for a three-year period at a fixed rate of 5.26% on various notional amounts while receiving interest for the same period at the LIBOR rate on the same notional principal amounts. The swap has been designated as a cash flow hedge against the variability in the LIBOR interest rate on the new term loan at LIBOR plus 1.50%, thereby fixing the Company s effective rate on the notional amounts at 6.76%. The Company formally assesses, both at inception and at least quarterly thereafter, whether the derivatives used in hedging transactions are effective in offsetting changes in cash flows of the hedged item. As of June 30, 2009 and December 31, 2008, the hedge relationship qualified as an effective hedge under SFAS No. 133, *Accounting For Derivative Instruments and Hedging Activities*, or SFAS 133. Consequently, all changes in the fair value of the derivative are deferred and recorded in other comprehensive income (loss) until the related forecasted transaction is recognized in the consolidated statements of income. As of June 30, 2009 and December 31, 2008, the swap notional amount was $20.0 million and $40.0 million, respectively. The fair value of the interest rate swap agreement is based on third-party bank quotes and the Company recorded the interest rate swap as a liability at fair value of $0.2 million and $1.0 million as of June 30, 2009 and December 31, 2008, respectively.

On June 26, 2009, the Company entered into an interest rate swap agreement, which is effective June 30, 2009, and will expire on September 30, 2009. The swap notional amount is $20 million, where the Company pays three month LIBOR and will receive one month LIBOR plus 0.185%. As of June 30, 2009, the fair value of the interest rate swap is zero. The Company has elected not to apply hedge accounting for this interest rate swap.

Foreign Currency Instruments

The Company also designates certain derivatives, such as certain foreign currency forward and option contracts, as freestanding derivatives for which hedge accounting does not apply. The changes in the fair market value of the derivatives are included in selling, general and administrative expenses in the Company s consolidated statements of income. The Company uses foreign currency forward contracts to hedge foreign-currency-denominated intercompany transactions and to partially mitigate the impact of foreign currency fluctuations. The Company also uses foreign currency option contracts to partially mitigate the impact of foreign currency fluctuations. The fair value of the forward and option contracts are based on third-party bank quotes. As of June 30, 2009, all of the Company s outstanding foreign currency forward contracts have maturity dates of less than one year, with the majority maturing within 90 days. There were no foreign currency option contracts outstanding as of June 30, 2009. 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 June 30, 2009.

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The Company also purchases forward contracts in order to hedge forecasted inventory purchases that are designated as cash-flow hedges and are subject to foreign currency exposures. The Company applied the hedge accounting rules as required by SFAS 133 for these hedges. These contracts allow the Company to sell Euros in exchange for US dollars at specified contract rates. As of June 30, 2009, approximately $24.0 million of these contracts were outstanding and were expected to mature over the next six months. The Company s derivative financial instruments are recorded on the consolidated balance sheet at fair value based on quoted market rates. These forward contracts are used to hedge forecasted inventory purchases over specific months. Changes in the fair value of forward contracts, excluding forward points, designated as cash-flow hedges are recorded in other comprehensive income (loss), and are recognized in cost of sales in the period which approximates the time the hedged inventory is sold. As of June 30, 2009 and December 31, 2008, the Company recorded a liability at fair value of $0.3 million and $0.1 million, respectively, relating to outstanding contracts. The Company assesses hedge effectiveness and measures hedge ineffectiveness at least quarterly. During the three and six months ended June 30, 2009, the ineffective portion relating to these hedges was immaterial and the hedges remained effective as of June 30, 2009.

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 six months ended June 30, 2009:

	Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss)	
	For The Three Months Ended June 30, 2009	**For The Six Months Ended June 30, 2009**
	(In millions)	
Derivatives designated as hedging instruments:		
Foreign exchange contracts	$ (1.8)	$ 0.6
Interest rate contracts		

The following table summarizes gains (losses) relating to derivative instruments recorded to income during the three and six months ended June 30, 2009:

	Amount of Gain (Loss) Recognized in Income		**Location of Gain (Loss) Recognized in Income**
	For The Three Months Ended June 30, 2009	**For The Six Months Ended June 30, 2009**	
	(In millions)		
Derivatives designated as hedging instruments:			
Foreign exchange contracts(1)	$ 0.2	$	Selling, general and administrative expenses
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	$(9.5)	$ (9.8)	Selling, general and administrative

expenses

(1) For foreign exchange contracts designated as hedging instruments, the $0.2 million gain recognized in income represents the amounts excluded from the assessment of hedge effectiveness. There were no ineffective amounts reported for derivatives designated as hedging instruments.

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The following table summarizes gains (losses) relating to derivative instruments reclassified from accumulated other comprehensive loss into income during the three and six months ended June 30, 2009:

	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income		Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Effective Portion)
	For The Three Months Ended June 30, 2009	For The Six Months Ended June 30, 2009	
	(In millions)		
Derivatives designated as hedging instruments:			
Foreign exchange contracts	$ 0.4	$ 0.4	Cost of sales
Interest rate contracts	$ (0.4)	$ (0.8)	Interest expense, net

SFAS 133 requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. See Note 13, *Fair Value Measurements,* for information on derivative fair values in the Company s consolidated balance sheet as of June 30, 2009.

10. Restructuring Reserve

The Company recorded $0.2 million and $0.8 million of professional fees, severance and related costs for the three and six months ended June 30, 2009, respectively, related to restructurings. The Company recorded $1.4 million and $1.8 million of professional fees, severance and related costs for the three and six months ended June 30, 2008, respectively, related to restructurings. All such amounts were included in selling, general and administrative expenses. The Company s restructuring program, initiated during the fourth quarter of 2008, is expected to be completed during 2009.

The following table summarizes the components of this reserve as of June 30, 2009:

	Severance	Retention Benefits	Others	Total
	(In millions)			
Balance as of December 31, 2008	$ 3.3	$	$	$ 3.3
Charges	0.6		0.2	0.8
Cash payments	(3.4)		(0.2)	(3.6)
Balance as of June 30, 2009	$ 0.5	$	$	$ 0.5

11. Shareholders Equity

Dividends

On February 20, 2009, the Company s board of directors approved a quarterly cash dividend of $0.20 per common share in an aggregate amount of $12.3 million, for the fourth quarter of 2008 that was paid to shareholders on March 17, 2009. On April 30, 2009, the Company s board of directors approved a quarterly cash dividend of $0.20 per common share in an aggregate amount of $12.3 million, for the first quarter of 2009 that was paid to shareholders on June 5, 2009.

The aggregate amount of dividends declared and paid during the three months ended June 30, 2009 and 2008 were $12.3 million and $12.7 million, respectively. The aggregate amount of dividends declared and paid during the six months ended June 30, 2009 and 2008, were $24.6 million and $25.6 million, respectively.

Share Repurchases

On April 17, 2009, the Company s share repurchase program adopted on April 18, 2007 expired pursuant to its terms. On April 30, 2009, the Company announced that its board of directors authorized a new program for the Company to repurchase up to $300 million of Herbalife common shares during the next two years, at such times and prices as determined by the Company s management. During the three and six months ended June 30, 2009, the Company did not repurchase any of its common shares.

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For certain restricted stock units granted, pursuant to the Company s stock-based compensation plans as discussed in Note 7, the number of shares issued on the date the restricted stock units vest is net of the statutory withholding requirements that the Company pays on behalf of its employees. Although shares withheld are not issued, they are treated as common stock repurchases for accounting purposes, as they reduce the number of shares that would have been issued upon vesting.

12. Earnings Per Share

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Weighted average shares used in basic computations	61,642	64,282	61,583	64,301
Dilutive effect of exercise of equity grants outstanding	1,175	1,633	748	2,064
Dilutive effect of warrants	112	195	82	194
Weighted average shares used in diluted computations	62,929	66,110	62,413	66,559

Equity grants, such as stock options, stock appreciation rights, or stock units, to purchase or acquire 2.9 million and 1.4 million common shares were outstanding during the three months ended June 30, 2009 and 2008, respectively, but were not included in the computation of diluted earnings per share because the exercise prices were greater than the average market price of a common share and therefore such equity grants would be anti-dilutive. Equity grants, such as stock options, stock appreciation rights, or stock units, to purchase or acquire 3.5 million and 1.4 million common shares were outstanding during the six months ended June 30, 2009 and 2008, respectively, but were not included in the computation of diluted earnings per share because the exercise prices were greater than the average market price of a common share and therefore such equity grants would be anti-dilutive.

13. Fair Value Measurements

The Company currently applies the provisions of SFAS No. 157, *Fair Value Measurements,* or SFAS 157, for its financial and non-financial assets and liabilities. SFAS 157 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. SFAS 157 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.

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The Company measures certain assets and liabilities at fair value consisting of derivative instruments. All derivative assets are recorded as prepaid expenses and other current assets, and all derivative liabilities are recorded as accrued expenses. The Company s derivatives were in a liability position as of June 30, 2009. Derivative liabilities that have recurring measurements are shown below:

Fair Value Measurements at Reporting Date Using

Description	Balance Sheet Location	June 30, 2009	Quoted Prices in Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In millions)		
Liabilities:					
Derivatives designated as cash flow hedging instruments:					
Interest rate swap	Accrued expenses	$ 0.2	$	$ 0.2	$
Foreign currency forward contracts	Accrued expenses	0.3		0.3	
Derivatives not designated as hedging instruments:					
Foreign currency forward contracts	Accrued expenses	0.1		0.1	
Total liabilities		$ 0.6	$	$ 0.6	$

14. Subsequent Event

The Company has performed an evaluation of subsequent events through August 3, 2009, which is the date the financial statements were issued.

On August 3, 2009, the Company announced that its board of directors has authorized a $0.20 per common share cash dividend for the second quarter of 2009, payable on September 10, 2009 to shareholders of record on August 28, 2009.

Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Overview

We are a global network marketing company that sells weight management products, nutritional supplements, energy, sports & fitness products and personal care products. We pursue our mission of changing people s lives by providing a financially rewarding business opportunity to distributors and quality products to distributors and their customers who seek a healthy lifestyle. We are one of the largest network marketing companies in the world with net sales of approximately $2.4 billion for the year ended December 31, 2008. As of June 30, 2009, we sold our products in 70 countries through a network of approximately 1.9 million independent distributors. In China, we sell our products through retail stores and an employed sales force. 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 29-year operating history.

Our products are grouped in four principal categories: weight management, targeted nutrition, energy, sports & fitness and Outer Nutrition, along with literature and promotional items. Our products are often sold in programs that are

comprised of a series of related products and literature designed to simplify weight management and nutrition for consumers and maximize our distributors cross-selling opportunities.

Industry-wide factors that affect us and our competitors include the increasing prevalence of obesity and the aging of the worldwide population, which are driving demand for nutrition and wellness-related products along with the global increase in under and unemployment which can affect the recruitment and retention of distributors.

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While we are closely monitoring the current global economic crisis, the Company remains 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 including China, the U.S., Brazil, Mexico and Russia, globalizing successful distributor methods of operation 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 remains intently focused on the Venezuela market and especially the limited ability to repatriate cash at the official exchange rate.

During the first quarter of 2009, we changed our geographic regions, designating Mexico as its own region and combining South America and Central America into a single region. These changes in geographic regions were implemented to create growth opportunities for distributors, support faster decision making across the organization by reducing the number of layers of management, improve the sharing of ideas and tools and accelerate growth in high potential markets. Under the new geographic regions, we report revenue from:

North America, which consists of the U.S., Canada and Jamaica;
Mexico;
South and Central America;
EMEA, which consists of Europe, the Middle East and Africa;
Asia Pacific (excluding China), which consists of Asia, New Zealand and Australia; and
China.

Historical information presented in this Quarterly Report on Form 10-Q relating to our geographic regions has been reclassified to conform with our current geographic presentation

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 unit measure of product sales volume. It is a useful measure that we rely on as it excludes the impact of foreign currency fluctuations and ignores the differences generated by varying retail pricing across geographic markets. The Volume Point measure, in the aggregate and in each region, can be a measure of our sales volume as well as of sales volume trends. In general, an increase in Volume Points in a particular geographic region or country indicates an increase in our sales volume which results in an increase in our local currency net sales; a decrease in Volume Points in a particular geographic region or country indicates a decrease in our sales volume, which results in decreasing local currency net sales.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	2008	% Change	2009	2008	% Change
	(Volume points in millions)					
North America	200.5	205.3	(2.3)%	387.0	383.4	0.9%
Mexico	124.3	152.8	(18.7)%	244.7	300.9	(18.7)%
South & Central America	98.0	111.2	(11.9)%	200.5	230.1	(12.9)%
EMEA	117.3	129.0	(9.1)%	241.4	266.1	(9.3)%
Asia Pacific (excluding China)	125.4	110.4	13.6%	270.4	216.7	24.8%
China	32.8	33.4	(1.8)%	53.6	54.1	(0.9)%
Worldwide	698.3	742.1	(5.9)%	1,397.6	1,451.3	(3.7)%

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Number of New Sales Leaders by Geographic Region during the Reporting Period

Another key non-financial measure on which we focus is the number of distributors qualified as new sales leaders under our compensation system. Excluding China, distributors qualify for supervisor status based on their Volume Points. The changes in the total number of sales leaders or changes in the productivity of sales leaders may cause Volume Points to increase or decrease. The fluctuation in the number of new sales leaders is a general indicator of the level of distributor recruitment.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	2008	% Change	2009	2008	% Change
North America	10,633	13,129	(19.0)%	18,526	22,139	(16.3)%
Mexico	6,316	8,212	(23.1)%	10,667	15,567	(31.5)%
South & Central America	8,121	13,128	(38.1)%	15,836	25,908	(38.9)%
EMEA	6,704	8,522	(21.3)%	11,940	15,055	(20.7)%
Asia Pacific (excluding China)	13,183	11,367	16.0%	23,920	20,144	18.7%
Total New Supervisors	44,957	54,358	(17.3)%	80,889	98,813	(18.1)%
New China Sales Employees	6,771	7,867	(13.9)%	11,098	12,217	(9.2)%
Worldwide Total New Sales Leaders	51,728	62,225	(16.9)%	91,987	111,030	(17.2)%

Number of Supervisors and Retention Rates by Geographic Region as of Re-qualification Period

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

Supervisor Statistics (Excluding China)	**2009**	**2008**
	(In thousands)	
January 1 total supervisors	456.9	451.6
January & February new supervisors	20.6	28.6
Demoted supervisors (did not re-qualify)	(181.4)	(167.7)
Other supervisors (resigned, etc)	(1.4)	(2.8)
End of February total supervisors	294.7	309.7

The distributor statistics below further highlight the calculation for retention.

Supervisor Retention (Excluding China)	**2009**	**2008**
	(In thousands)	
Supervisors needed to re-qualify	304.0	284.0
Demoted supervisors (did not re-qualify)	(181.4)	(167.7)
Total re-qualified	122.6	116.3
Retention rate	40.3%	41.0%

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

	Number of Sales Leaders		**Supervisors Retention Rate**	
	2009	**2008**	**2009**	**2008**
North America	63,726	64,383	42.2%	43.5%
Mexico	50,099	60,685	45.2%	44.4%
South and Central America	67,876	67,808	32.2%	34.7%
EMEA	53,371	59,446	48.7%	46.6%
Asia Pacific (excluding China)	59,631	57,355	35.1%	34.3%
Total Supervisors	294,703	309,677	40.3%	41.0%
China Sales Employees	29,684	25,294		
Worldwide Total Sales Leaders	324,387	334,971		

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

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The value of the average monthly purchase of Herbalife products by our sales leaders has remained relatively constant over time. Consequently, increases in our sales are driven primarily by our retention of supervisors and by our recruitment and retention of distributors, rather than through increases in the productivity of our overall supervisor base.

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

Presentation

Retail sales represent the gross sales amounts on our invoices to distributors before distributor allowances, as defined below, and *net sales,* which reflect distribution allowances and handling and freight income, 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 Generally Accepted Accounting Principles in the U.S., or GAAP. You should not consider retail sales in isolation from, nor as a substitute for, net sales and other consolidated income or cash flow statement data prepared in accordance with GAAP, or as a measure of profitability or liquidity. A reconciliation of net sales to retail sales is presented below under Results of Operations. *Product sales* represent the actual product purchase price paid to us by our distributors, after giving effect to distributor discounts referred to as distributor allowances, which approximate 50% of retail sales prices. Distributor allowances as a percentage of retail sales may vary by country depending upon regulatory restrictions that limit or otherwise restrict distributor allowances.

Our *gross profit* consists of net sales less *cost of sales,* which represents the prices we pay to our raw material suppliers and manufacturers of our products as well as 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 and Outer Nutrition products; and
- other discretionary incentive cash bonuses to qualifying distributors.

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

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

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

Most of our sales to distributors outside the United States are made in the respective local currencies. In preparing our financial statements, we translate revenues into U.S. dollars using average exchange rates. Additionally, the majority of our purchases from our suppliers generally are made in U.S. dollars. Consequently, a strengthening of the U.S. dollar versus a foreign currency can have a negative impact on our reported sales and operating margins and can generate transaction losses on intercompany transactions. Throughout the last five years, foreign currency exchange rates have fluctuated significantly. From time to time, we enter into foreign exchange forward and option contracts to mitigate our foreign currency exchange risk as discussed in further detail in Part I, Item 3 *Quantitative and Qualitative Disclosures about Market Risk.*

Summary Financial Results

Net sales for the three and six months ended June 30, 2009 was $571.8 million and $1,093.5 million, respectively. Net sales decreased $67.9 million, or 10.6%, and $150.6 million, or 12.1%, for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. The decrease was primarily due to the unfavorable impact of currency fluctuations of $68.0 million and $145.2 million for the three and six months ended June 30, 2009, respectively. In local currency, net sales for the three and six months ended June 30, 2009 was relatively flat compared to the same periods in 2008. For the three months ended June 30, 2009, net sales in some of our top countries including Mexico, Japan, Venezuela, and Brazil decreased 35.3%, 36.1%, 15.6% and 5.3%, respectively, as compared to the same period in 2008, while other top countries including the U.S., South Korea, Malaysia and Taiwan increased 5.1%, 22.6%, 44.2% and 9.1%, respectively, as compared to the same period in 2008. For the six months ended June 30, 2009, net sales in Mexico, Japan, Venezuela and Brazil declined 36.0%, 31.6%, 23.2% and 6.4%, respectively, while net sales in Taiwan, the U.S., Malaysia and South Korea increased 24.9%, 4.8%, 39.9% and 14.7%, respectively. In Mexico, a decline in distributor and sales leader recruiting resulted from the negative impact of the Value Added Tax, or VAT, that has been levied by the Mexican government on the import and resale of certain nutrition products, which we began collecting from our distributors during the third quarter of 2008. In Venezuela, price increases to address inflation and changes in non-resident distributor compensation to address currency controls imposed by the Venezuelan government also contributed to the decline in net sales and new sales leaders for the period. The increase in net sales in other top markets was mainly due to successful conversions to daily consumption business models and branding activities.

Net income for the three and six months ended June 30, 2009 were $48.3 million, or $0.77 per diluted share, and $89.8 million, or $1.44 per diluted share, respectively. Net income decreased $18.8 million, or 28.1%, and $39.7 million or 30.6%, for the three and six months ended June 30, 2009, respectively, as compared to the same period in 2008. The decrease was primarily driven by revenue declines, higher effective tax rate reflecting changes in country mix and higher depreciation expense, partially offset by lower labor costs resulting from our restructuring initiative, lower professional fees and non-income tax expenses, and lower interest expense.

Net income for the three and six months ended June 30, 2009 included $1.1 million tax expense resulting from an international income tax audit settlement. Net income for the six months ended June 30, 2009 also included a $0.4 million unfavorable after tax impact in connection with our restructuring activities. Net income for the three and six months ended June 30, 2008 included a $0.9 million and a $1.1 million unfavorable after tax impact, respectively, related to our restructuring activities.

Results of Operations

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

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

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Operations:				
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	21.4	20.0	20.6	19.7
Gross profit	78.6	80.0	79.4	80.3
Royalty overrides(1)	32.6	33.7	33.1	34.4
Selling, general and administrative expenses(1)	33.4	31.7	34.0	31.2
Operating income	12.6	14.6	12.3	14.7
Interest expense, net	0.3	0.5	0.3	0.6
Income before income taxes	12.3	14.1	12.0	14.1
Income taxes	3.9	3.6	3.8	3.7
Net income	8.4%	10.5%	8.2%	10.4%

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

Net Sales

The following chart reconciles retail sales to net sales:

Sales by Geographic Region

Three Months Ended June 30,										
2009					2008					
			Handling &					Handling &		Change
Retail	Distributor	Product	Freight	Net	Retail	Distributor	Product	Freight	Net	in

	Sales	Allowance	Sales	Income	Sales	Sales	Allowance	Sales	Income	Sales	Net Sales
	(Dollars in millions)										
North America	$ 220.7	$ (105.3)	$ 115.4	$ 22.9	$ 138.3	$ 213.4	$ (101.9)	$ 111.5	$ 21.7	$ 133.2	3.8%
Mexico	109.3	(53.3)	56.0	10.4	66.4	170.7	(83.3)	87.4	15.3	102.7	(35.3)%
South & Central America	143.1	(69.8)	73.3	12.1	85.4	166.4	(81.2)	85.2	13.5	98.7	(13.5)%
EMEA	204.2	(98.1)	106.1	20.5	126.6	259.5	(125.2)	134.3	25.6	159.9	(20.8)%
Asia Pacific	186.4	(86.9)	99.5	15.0	114.5	175.2	(81.7)	93.5	12.9	106.4	7.6%
China	44.6	(4.0)	40.6		40.6	43.4	(4.6)	38.8		38.8	4.6%
Worldwide	$ 908.3	$ (417.4)	$ 490.9	$ 80.9	$ 571.8	$ 1,028.6	$ (477.9)	$ 550.7	$ 89.0	$ 639.7	(10.6)%

	Six Months Ended June 30,										
	2009					2008					
	Retail Sales	Distributor Allowance	Product Sales	Handling & Freight Income	Net Sales	Retail Sales	Distributor Allowance	Product Sales	Handling & Freight Income	Net Sales	Change in Net Sales
	(Dollars in millions)										
North America	$ 417.3	$ (199.0)	$ 218.3	$ 43.1	$ 261.4	$ 402.9	$ (192.1)	$ 210.8	$ 41.0	$ 251.8	3.8%
Mexico	207.1	(101.0)	106.1	19.5	125.6	327.4	(159.8)	167.6	28.7	196.3	(36.0)%
South & Central America	267.4	(129.7)	137.7	23.0	160.7	358.1	(179.9)	178.2	26.5	204.7	(21.5)%
EMEA	404.1	(194.9)	209.2	40.7	249.9	516.5	(249.4)	267.1	50.8	317.9	(21.4)%
Asia Pacific	375.7	(176.6)	199.1	29.4	228.5	346.9	(162.5)	184.4	25.7	210.1	8.8%
China	73.6	(6.2)	67.4		67.4	70.6	(7.3)	63.3		63.3	6.5%
Worldwide	$ 1,745.2	$ (807.4)	$ 937.8	$ 155.7	$ 1,093.5	$ 2,022.4	$ (951.0)	$ 1,071.4	$ 172.7	$ 1,244.1	(12.1)%

Changes in net sales are directly associated with the recruiting and retention of our distributor force, retailing of our products, the quality and completeness of our product offerings that the distributor force has to sell and the number of countries in which we operate. Management s role, both in-country and at the region and corporate level is to provide distributors with a competitive and broad product line, encourage strong teamwork and leadership among the Chairman s Club and President s Team distributors and offer leading edge business tools to make doing business with Herbalife simple. Management uses the distributor marketing program coupled with educational and motivational tools and promotions to incentivize distributors to increase recruiting, retention and retailing, which in turn affect net sales. Such tools include Company sponsored sales events such as Extravaganzas, Leadership Development Weekends and World Team Schools where large groups of distributors gather, thus allowing them to network with other distributors, learn recruiting, retention and retailing techniques from our leading distributors and become more familiar with how to market and sell our products and business opportunities. Accordingly, management believes that these development and motivation programs increase the productivity of the supervisor network. The expenses for

such programs are included in selling, general and administrative expenses. Sales are driven by several factors, including the number and productivity of distributors and sales leaders who continually build, educate and motivate their respective distribution and sales organizations. We also use event and non-event product promotions to motivate distributors to increase recruiting, retention and retailing activities. These promotions have prizes ranging from qualifying for events to product prizes and vacations. The costs of these promotions are included in selling, general and administrative expenses.

The factors described above have helped distributors increase their business, which in turn helps drive volume points in our business, and thus, net sales. 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 reductions during the three and six months ended June 30, 2009, as well as the unique growth or contraction factors specific to certain geographic regions or major countries. We believe that the correct business foundation, coupled with ongoing training and promotional initiatives, is required to increase recruiting and retention of distributors and retailing of our products. 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.

Our strategy will continue to include creating and maintaining growth within existing markets, while expanding into new markets. In addition, new ideas and Daily Method of Operations, or 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. Examples of DMOs include the Club concept in Mexico, Premium Herbalife Opportunity Meetings in Korea, the Healthy Breakfast concept in Russia, and the Internet/Sampling and Weight Loss Challenge in the U.S. Management s strategy is to review the applicability of expanding successful country initiatives throughout a region, and where appropriate, financially support the globalization of these initiatives.

North America

The North America region reported net sales of $138.3 million and $261.4 million for the three and six months ended June 30, 2009, respectively. Net sales increased $5.1 million, or 3.8%, and $9.6 million, or 3.8%, for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. In local currency, net sales increased 4.3% and 4.4% for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. The overall increase was a result of net sales growth in the U.S. of $6.5 million, or 5.1%, and $11.5 million, or 4.8%, for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008.

The increase in net sales in North America was primarily due to the continued success of our distributors converting their business focus toward a daily consumption business model, especially the Nutrition Club DMO, and its extension into Commercial Clubs and Central Clubs, along with the recent development of the Weight Loss Challenge DMO. We also implemented a 5% price increase in the U.S. in February 2009. In terms of volume, the mix of business in the U.S. was 68% Spanish speaking and 32% non-Spanish speaking for the three months ended June 30, 2009, and 66% and 34%, respectively, for the six months ended June 30, 2009.

In April 2009, the region hosted a series of Leadership Development Weekends, or LDWs which focus on providing detailed training to qualifying supervisors. These LDWs were held in twelve cities in the U.S., three in Canada, and one in Jamaica. In total over 9,500 supervisors attended the LDW events.

In May and June 2009, the U.S. hosted a Nutrition Club tour in nineteen cities . In total, over 12,300 distributors attended the tour.

New supervisors in the region decreased 19.0% and 16.3% for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. Total supervisors in the region decreased 3.8% as of June 30, 2009 compared to prior year. New supervisors in the U.S. decreased 18.8% and 16.3% for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008.

We believe the fiscal year 2009 net sales in North America should increase year over year primarily as a result of the successful transformation of our distributor business focus to a daily consumption model as well as a 5% price increase which was instituted in the U.S. during February 2009.

Mexico

Net sales in Mexico were $66.4 million and $125.6 million for the three and six months ended June 30, 2009, respectively. Net sales for the three and six months ended June 30, 2009, decreased $36.3 million, or 35.3%, and $70.7 million, or 36.0%, respectively, as compared to the same periods in 2008. In local currency, net sales for the three and six months ended June 30, 2009 decreased by 17.5% and 16.8%, respectively, as compared to the same periods in 2008. The fluctuation of foreign currency rates had an unfavorable impact of $18.4 million and $37.8 million on net sales for the three and six months ended June 30, 2009, respectively.

During the third quarter of 2008 we began collecting a VAT from our distributors that has been levied by the Mexican government on the import and resale of certain nutrition products. Distributors previously paid 0% VAT on purchases of most of our nutrition products. For both the three and six months ended June 30, 2009, this VAT increase affected approximately 60% of our sales volume in the region and because Nutrition Clubs are the predominant DMO in Mexico, which are retail price-sensitive, the VAT increase has caused our volumes to decline. We continue to challenge this assessment on several fronts; however in the near-term while the products continue to be subject to VAT, we expect volume growth to be constrained in Mexico. We are also exploring product re-formulations that, if implemented in the second half of 2009, we believe would enable us to sell nutrition products in Mexico which would not be subject to the VAT charge.

New supervisors in Mexico decreased 23.1% and 31.5% for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. Total supervisors in Mexico decreased 18.3% as of June 30, 2009 compared to prior year.

In April 2009, Mexico hosted a motivational Global Expansion Team/Millionaire Team Retreat in Cancun with over 1,100 attendees. In June 2009, Mexico hosted Active Supervisor schools in Puerto Vallarta and San Carlos. These schools are designed to train and motivate supervisors. Total combined attendance was over 3,000 distributors.

We believe the fiscal year 2009 net sales in Mexico should decrease year over year reflecting lower volumes due to the VAT charge coupled with assumed unfavorable currency fluctuations.

South and Central America

The South and Central America region reported net sales of $85.4 million and $160.7 million for the three and six months ended June 30, 2009, respectively. Net sales decreased $13.3 million or 13.5%, and $44.0 million or 21.5%, for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. In local currency, net sales decreased 2.2% and 9.6% for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. The fluctuation of foreign currency rates had an $11.1 million and $24.3 million unfavorable impact on net sales for the three and six months ended June 30, 2009, respectively. The decrease in local currency net sales in the region was attributable to net sales declines in most of the markets in the region partially offset by a sales increase in Brazil as well as sales in Ecuador which was opened in the fourth quarter of 2008.

In Brazil, the region s largest market, net sales decreased $2.1 million, or 5.3%, and decreased $4.8 million, or 6.4%, for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. In local currency, net sales increased 18.6% and 20.7% for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. The increase in local currency net sales was primarily a result of distributors successfully transforming this market into a more balanced mix of recruiting, retailing and retention via the Nutrition Club and daily consumption based DMOs. The fluctuation of foreign currency rates had a $9.2 million and $20.1 million unfavorable impact on net sales for the three and six months ended June 30, 2009, respectively. In April, Brazil hosted an Extravaganza with attendance of over 12,000 distributors.

Venezuela, the region s second largest market, experienced a net sales decline of $3.9 million or 15.6%, and $11.5 million or 23.2%, for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. On a sequential quarter basis, sales in Venezuela have stabilized following a slowdown in volume during the second half of 2008 resulting from price increases of 20% and 25% in January and May 2008, respectively,

coupled with changes in non-resident distributor compensation to address currency controls imposed by the Venezuelan government. In June 2009, a 10% price increase along with further changes in non-resident distributor compensation was instituted in Venezuela to adjust for inflation and currency issues and we are still evaluating the impact of these changes to the business. We expect to make ongoing changes, as necessary, in pricing in Venezuela to mitigate the impact of inflation and currency restrictions.

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New supervisors in the region decreased 38.1% and 38.9% for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. The decrease was driven by several markets including Venezuela which decreased 45.3% and 59.9% for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008; Peru, which decreased 64.6% and 61.2%, for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008; and Bolivia, which decreased 67.9% and 64.0%, for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. Total supervisors in the region decreased 7.3% as of June 30, 2009 compared to prior year. We believe these decreases reflect current economic conditions coupled with the transition, in several markets, to DMOs which focus on daily consumption.

We believe the fiscal year 2009 net sales in South and Central America should show a decline year over year primarily due to challenging volume comparisons in Venezuela, Argentina and Peru and assumed unfavorable currency fluctuations partially offset by the success of daily consumption DMOs, primarily in Brazil, as well as product price increases.

EMEA

The EMEA region reported net sales of $126.6 million and $249.9 million for the three and six months ended June 30, 2009, respectively. Net sales decreased $33.3 million, or 20.8%, and decreased $68.0 million, or 21.4%, for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. In local currency, net sales decreased 6.9% and 6.7% for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. The fluctuation of foreign currency rates had an unfavorable impact on net sales of $22.3 million and $46.6 million, for the three and six months ended June 30, 2009, respectively.

Among the largest markets in the region, Italy, France and Spain, net sales decreased 5.2%, 30.6% and 41.3%, respectively, for the three months ended June 30, 2009, as compared to the same period in 2008. For the six months ended June 30, 2009, Italy, France and Spain net sales decreased 4.6%, 26.8% and 45.0%, respectively. In local currency, Italy reported a net sales increase of 8.6% while France and Spain reported net sales decreases of 20.5% and 32.7%, respectively, for the three months ended June 30, 2009, as compared to the same period in 2008. For the six months ended June 30, 2009, in local currency, Italy reported a net sales increase of 9.5% while France and Spain reported net sales decreases of 15.9% and 37.0%, as compared to the same period in 2008.

The significant decrease in local currency net sales for Spain reflects the ongoing impact of negative media reports in April 2008 relating to the Spanish Ministry of Health alert regarding Herbalife products. This alert was withdrawn in April 2009 requiring no action by the Company. In Russia, net sales decreased by 16.7% and 19.0% for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. In local currency, however, net sales increased by 13.6% and 12.5% for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. The increase in local currency net sales was primarily driven by the adoption of the Office Club concept where all DMOs are carried out from a combined Office and Commercial Nutrition Club location. Another positive catalyst was a new supervisor qualification method being tested in Russia and currently being evaluated for a potential global rollout. Net sales in the Netherlands decreased 16.5% and 14.3% for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. In local currency, however, net sales decreased only 4.5% and 1.8% for the three and six months ended June 30, 2009, respectively, compared to the prior year periods reflecting a re-activated distributor base that is utilizing the Wellness Evaluation and Healthy Breakfast DMOs. Portugal local currency net sales declined 43.3% and 50.9% for the three and six months ended June 30, 2009, respectively, as it continues to transition towards a daily consumption model.

For the three and six months ended June 30, 2009, new supervisors for the region decreased 21.3% and 20.7%, respectively. For the three months ended June 30, 2009, the most significant decreases occurred in Spain, Portugal, France, and the Commonwealth Independent States of Russia, or CIS countries, of 63.1%, 72.1%, 35.7% and 49.5%, respectively. These declines were partially offset by increases in Italy, Czech Republic, and Poland where new supervisors increased 14.3%, 113.3%, and 37.2%, respectively. For the six months ended June 30, 2009, the most significant decreases in new supervisors occurred in Spain, Portugal, and the CIS countries of 62.8%, 75.5% and 43.7%, respectively. These declines were partially offset by increases in Italy, Czech Republic, and Turkey, where new supervisors increased 12.8%, 69.2% and 11.8%, respectively. Total supervisors in the region decreased 11.7% as

of June 30, 2009 compared to prior year.

We believe fiscal year 2009 net sales in EMEA should show a decrease year over year due primarily to assumed unfavorable currency fluctuations and soft volume point trends.

Asia Pacific

The Asia Pacific region, which excludes China, reported net sales of $114.5 million and $228.5 million for the three and six months ended June 30, 2009, respectively. Net sales increased $8.1 million, or 7.6%, and $18.4 million, or 8.8%, for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. In local currency, net sales increased 23.1% and 26.4% for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. The fluctuation of foreign currency rates had an unfavorable impact of $16.5 million and $37.0 million on net sales for the three and six months ended June 30, 2009, respectively. The increase in net sales in Asia Pacific for the three and six months ended June 30, 2009, was primarily attributable to net sales increases in three of our largest markets in the region, Taiwan, South Korea and Malaysia, partially offset by a decrease in Japan.

Net sales in Taiwan, our largest market in the region, increased $3.0 million, or 9.1%, and $15.6 million, or 24.9%, for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. In local currency, net sales increased 18.7% and 35.9% for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. Adoption of the Nutrition Club DMO, in the form of Commercial Clubs, continues to be a positive catalyst for growth in this country. Sales were lower sequentially when compared to the first quarter of 2009 due in part to the impact of a promotion offered in conjunction with a government sponsored Consumption Voucher project. This promotion was in place for both February and March and ended in mid-April. The fluctuation of foreign currency rates had an unfavorable impact on net sales of $3.1 million or 9.6%, and $6.9 million or 11.0% for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008.

Net sales in South Korea, our second largest market in the region, increased $4.6 million, or 22.6%, and $5.4 million, or 14.7%, for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. In local currency, net sales increased 54.6% and 55.2% for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. The increase in local currency net sales for the three and six months ended June 30, 2009 was primarily driven by branding activities and the adoption of the Nutrition Club DMO, in the form of Commercial Clubs along with the Premium Herbalife Opportunity Meeting. The fluctuation of foreign currency rates had an unfavorable impact on net sales of $6.5 million or 32.0%, and $14.8 million or 40.4%, for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008.

Net sales in Malaysia, our third largest market in the region, increased $4.5 million, or 44.2%, and $7.4 million or 39.9%, for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008, reflecting the continued success of the Road Show DMO, which has generated positive distributor momentum and increased recruiting. In local currency, net sales increased 60.7% and 56.5% for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. The fluctuation of foreign currency rates had an unfavorable impact on net sales of $1.7 million or 16.5%, and $3.1 million or 16.7% for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008.

Net sales in Japan, our fourth largest market in the region, decreased $6.3 million, or 36.1%, and $12.3 million, or 31.6%, for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. In local currency, net sales decreased 26.7% and 21.9% for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. The decrease in local currency net sales for the three and six months ended June 30, 2009, was driven by a continuing decline in distributor recruiting. The fluctuation of foreign currency rates had an unfavorable impact on net sales of $1.6 million or 9.4%, and $3.8 million or 9.7%, for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008.

In June, South Korea hosted an Asia-Pacific regional Extravaganza with attendance of approximately 13,800 distributors.

New supervisors in the region increased 16.0% and 18.7% for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. New supervisors for India, Korea and Taiwan increased 131.3%, 44.5% and 8.9%, respectively, for the three months ended June 30, 2009, and increased 106.2%, 49.4% and 17.4%, respectively, for the six months ended June 30, 2009. These increases were offset by declines in Japan and

Australia of 63.6% and 34.5%, respectively, for the three months ended June 30, 2009 and declines in Japan and Australia of 67.9% and 37.1%, respectively, for the six months ended June 30, 2009. Total supervisors in the region increased 8.7% as of June 30, 2009 compared to prior year.

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We believe the fiscal year 2009 net sales in Asia Pacific should increase year over year as projected volume increases, including the anticipated opening of our operations in Vietnam during the fourth quarter of 2009, which will be partially offset by assumed unfavorable foreign currency fluctuations.

China

Net sales in China were $40.6 million and $67.4 million for the three and six months ended June 30, 2009, respectively. Net sales increased $1.8 million, or 4.6%, and $4.1 million, or 6.5%, for the three and six months ended June 30, 2009, respectively, compared to the same periods in 2008. In local currency, net sales increased 2.6% and 3.4% for the three and six months ended June 30, 2009, as compared to the same periods in 2008. The fluctuation of foreign currency rates had a favorable impact of $0.8 million and $1.9 million on net sales for the three and six months ended June 30, 2009, respectively.

The current focus in China is to expand the Nutrition Club DMO to enhance the retail focus and thereby increase the emphasis on daily consumption methods of operation. As experienced in other markets, such as Taiwan, which have gone through a similar transition, China has been experiencing a slow-down in sales growth as distributors begin to build their nutrition club business. We believe that the nutrition club concept is starting to gain traction as witnessed by the growth in clubs in just the first half of this year. As of June 30, 2009, there were over 200 clubs operating within major cities throughout China. This is approximately more than double the number of clubs that were in operation at the end of the first quarter 2009. While we still consider the expansion of this DMO in China as a test, we believe the recent success of the club DMO in Taiwan could be achieved over the next few years throughout China.

In early July 2009, China s Ministry of Commerce granted five additional licenses for us to conduct direct-selling business in the provinces of Fujian, Shan Xi, Sichuan, Hubei, and Shanghai. All licenses are effective immediately, except Shanghai, which will be activated after we open our service outlets. Additionally, our license for Beijing, which was granted in July 2008 with the same exception as noted above for Shanghai, is now active. We received our first direct-selling license in China in March 2007 for the cities of Suzhou and Nanjing in the Jiangsu province. An additional license was granted in July of the same year to conduct business throughout the entire Jiangsu province. In July 2008, we received five additional licenses for the provinces of Beijing, Guangdong, Shandong, Zhejiang and Guizhou. The 11 provinces in which we now have direct-selling licenses represent an addressable population of approximately 599 million. As of June 30, 2009 we are operating 80 retail stores in 30 provinces in China.

New sales employees in China decreased 13.9% and 9.2% for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. Total sales employees in China increased 10.1% as of June 30, 2009 compared to prior year.

We believe the fiscal year 2009 net sales in China should increase slightly year over year, primarily as a result of improved store productivity and continued expansion of nutrition clubs. We also expect to apply for additional direct selling provincial licenses during the second half of 2009.

Sales by Product Category

	Three Months Ended June 30,										
	2009					**2008**					
	Retail Sales	**Distributor Allowance**	**Product Sales**	**Handling & Freight Income**	**Net Sales**	**Retail Sales**	**Distributor Allowance**	**Product Sales**	**Handling & Freight Income**	**Net Sales**	**% Change in Net Sales**
	(In millions)										
Weight Management	$ 592.9	$ (281.9)	$ 311.0	$ 52.8	$ 363.8	$ 671.1	$ (323.9)	$ 347.2	$ 58.0	$ 405.2	(10.2)%
Targeted Nutrition	196.9	(93.6)	103.3	17.6	120.9	216.0	(104.2)	111.8	18.7	130.5	(7.4)%
	39.2	(18.7)	20.5	3.5	24.0	43.9	(21.2)	22.7	3.8	26.5	(9.4)%

Energy, Sports and Fitness											
Outer Nutrition	52.6	(25.0)	27.6	4.7	32.3	64.9	(31.3)	33.6	5.7	39.3	(17.8)%
Literature, Promotional and Other	26.7	1.8	28.5	2.3	30.8	32.7	2.7	35.4	2.8	38.2	(19.4)%
Total	$ 908.3	$ (417.4)	$ 490.9	$ 80.9	$ 571.8	$ 1,028.6	$ (477.9)	$ 550.7	$ 89.0	$ 639.7	(10.6)%

	Six Months Ended June 30,										
	2009					2008					
	Retail Sales	Distributor Allowance	Product Sales	Handling & Freight Income	Net Sales	Retail Sales	Distributor Allowance	Product Sales	Handling & Freight Income	Net Sales	% Change in Net Sales
	(In millions)										
Weight Management	$ 1,135.7	$ (544.0)	$ 591.7	$ 101.3	$ 693.0	$ 1,315.4	$ (641.7)	$ 673.7	$ 112.3	$ 786.0	(11.8)%
Targeted Nutrition	378.3	(181.2)	197.1	33.8	230.9	428.6	(209.1)	219.5	36.6	256.1	(9.8)%
Energy, Sports and Fitness	74.7	(35.8)	38.9	6.7	45.6	84.5	(41.2)	43.3	7.2	50.5	(9.7)%
Outer Nutrition	104.6	(50.1)	54.5	9.3	63.8	133.0	(64.9)	68.1	11.4	79.5	(19.7)%
Literature, Promotional and Other	51.9	3.7	55.6	4.6	60.2	60.9	5.9	66.8	5.2	72.0	(16.4)%
Total	$ 1,745.2	$ (807.4)	$ 937.8	$ 155.7	$ 1,093.5	$ 2,022.4	$ (951.0)	$ 1,071.4	$ 172.7	$ 1,244.1	(12.1)%

Net sales of all product categories decreased for the three and six months ended June 30, 2009 and 2008, respectively, as compared to the same period in 2008, mainly due to the factors described in the discussions of the individual geographic regions above.

Gross Profit

Gross profit was $449.4 million and $868.6 million for the three and six months ended June 30, 2009, respectively, as compared to $511.7 million and $998.4 million for the same periods in 2008. As a percentage of net sales, gross profit for the three and six months ended June 30, 2009 decreased to 78.6% and 79.4%, respectively, as compared to 80.0% and 80.3% for the same periods in 2008. The decrease was primarily due to the unfavorable impact from currency fluctuations and changes in country mix. While we are experiencing a negative effect from currency fluctuations, we believe that we have the ability to mitigate some of this cost pressure through improved optimization of our supply chain coupled with select increases in the retail prices of our products.

Royalty Overrides

Royalty overrides as a percentage of net sales was 32.6% and 33.1% for the three and six months ended June 30, 2009, respectively, as compared to 33.7% and 34.4% for the same periods in 2008. The decrease for the three and six months ended June 30, 2009, was primarily due to changes in country mix and the increase in net sales in China where compensation to our full-time employee sales representatives 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. 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. We anticipate fluctuations in royalty overrides as a percent of net sales reflecting the growth prospect of our China business relative to that of our worldwide business.

Selling, General and Administrative Expenses

Selling, general and administrative expenses as a percentage of net sales was 33.4% and 34.0% for the three and six months ended June 30, 2009, as compared to 31.7% and 31.2% for the same periods in 2008.

For the three and six months ended June 30, 2009, selling, general and administrative expenses decreased $12.3 million and $15.3 million to $190.8 million and $372.3 million, respectively, compared to the same periods in 2008. The decrease for the three months ended June 30, 2009 included $1.3 million in lower salaries and benefits mainly resulting from our restructuring initiatives partially offset by an increase in China sales employee costs; $2.7 million in lower foreign currency exchange losses; $2.3 million in lower professional fees; $1.7 million in lower advertising and promotion costs; $1.4 million in lower travel and entertainment expenses; and $1.2 million in lower distributor sales events costs due to timing and location. These decreases were partially offset by $3.0 million in higher depreciation and amortization expenses, related mostly to the development of our technology infrastructure and the expansion and relocation of certain operations to new facilities. The decrease for the six months ended June 30, 2009 included $3.0 million in lower salaries and benefits mainly resulting from our restructuring initiatives partially offset by an increase in China sales employee costs; $5.6 million in lower distributor sales events costs due to timing and location; $2.5 million in lower travel and entertainment expenses; $2.1 million in lower professional fees; and $3.2 million in lower non-income tax expense. These were partially offset by $7.4 million in higher depreciation and amortization expenses and $1.2 million in higher foreign currency exchange losses.

We expect 2009 selling, general and administrative expenses to increase slightly in absolute dollars over 2008 levels reflecting higher China sales employee costs, increased depreciation, primarily related to our global Oracle implementation, and various sales growth initiatives, including distributor promotions. As a result of these factors, selling, general and administrative expenses as a percentage of net sales is expected to be above 2008 levels. Excluding China sales employee costs, we also expect selling, general and administrative expenses as a percentage of net sales to be higher than 2008 levels.

Net Interest Expense

Net interest expense is as follows:

Net Interest Expense	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(Dollars in millions)			
Interest expense	2.9	4.9	6.2	10.4
Interest income	(1.6)	(1.7)	(3.2)	(3.4)
Net interest expense	$ 1.3	$ 3.2	$ 3.0	$ 7.0

The decrease in interest expense for the three and six months ended June 30, 2009 as compared to the same periods in 2008 was primarily due to lower interest rates in 2009 as compared to 2008. See *Liquidity and Capital Resources* below for further discussion on our senior secured credit facility.

Income Taxes

Income taxes were $22.2 million and $41.3 million for the three and six months ended June 30, 2009, respectively, as compared to $23.0 million and $46.5 million for the same periods in 2008. As a percentage of pre-tax income, the effective income tax rate was 31.5% for both the three and six months ended June 30, 2009, respectively, as compared to 25.5% and 26.4% for the same periods in 2008. The increase in the effective tax rate for the three and six months ended June 30, 2009, as compared to the same periods in 2008, was primarily due to an increase in the operating effective tax rate reflecting changes in the country mix.

Restructuring Costs

As part of our restructuring initiatives, we recorded $0.2 million and $1.4 million of professional fees, severance and related costs for the three months ended June 30, 2009 and 2008, respectively. We recorded $0.8 million and $1.8 million of professional fees, severance and related costs for the six months ended June 30, 2009 and 2008, respectively. All such amounts were included in selling, general and administrative expenses.

Subsequent Event

On August 3, 2009, our board of directors authorized a $0.20 per common share cash dividend for the second quarter of 2009, payable on September 10, 2009 to shareholders of record on August 28, 2009.

Liquidity and Capital Resources

We have historically met our working capital and capital expenditure requirements, including funding for expansion of operations, through net cash flows provided by operating activities. Our principal source of liquidity is our operating cash flows. Variations in sales of our products would directly affect the availability of funds. There are no material restrictions on the ability to transfer and remit funds among our international affiliated companies. We are closely monitoring various aspects of the current worldwide financial crisis and we do not believe that there has been or will be a material impact on our liquidity from this crisis. As noted above, we have historically met our funding needs utilizing cash flow from operating activities and we believe we will have sufficient resources to meet debt service obligations in a timely manner. Our existing debt has effectively resulted from our share repurchase and dividend activities over the recent years, which together, since the inception of the original share repurchase and dividend program that was first initiated during 2007, has exceeded over $600 million and not from the need to fund our normal operations, therefore limiting the impact that the current worldwide credit crisis has on us. While a significant net sales decline could potentially affect the availability of funds, many of our largest expenses are purely variable in nature, which could protect our funding in all but a dramatic net sales downturn. Further we maintain a revolving credit facility which had $98.0 million of undrawn capacity as of June 30, 2009, and is comprised of banks who are continuing to support the facility through the recent worldwide financial crisis.

For the six months ended June 30, 2009, we generated $122.3 million of operating cash flow, as compared to $121.9 million for the same period in 2008. The increase in cash generated from operations was primarily due to the increase in non-cash items included in net income for the six months ended June 30, 2009, as compared to the same period in 2008, and the favorable change in operating assets and liabilities for the six months ended June 30, 2009, compared to the same period in 2008. This was partially offset by lower operating income for the six months ended June 30, 2009, compared to the same period in 2008.

Capital expenditures, including capital leases, for the six months ended June 30, 2009, were $27.1 million as compared to $49.8 million for the same period in 2008. The majority of these expenditures represented investments in management information systems, primarily the global roll-out of Oracle, the development of our distributor internet initiatives, and the expansion of our facilities domestically and internationally. The decrease from 2008 primarily reflects less Oracle spending in 2009 as the roll-out project is expected to culminate in the third quarter of 2009. We expect to incur capital expenditures of approximately $55.0 million to $60.0 million in 2009.

We entered into a $300.0 million senior secured credit facility, comprised of a $200.0 million term loan and a revolving credit facility of $100.0 million, with a syndicate of financial institutions as lenders in July 2006. In September 2007, we amended our senior secured credit facility, increasing the revolving credit facility by $150.0 million to $250.0 million to fund the increase in our share repurchase program discussed below. The term loan matures on July 21, 2013 and the revolving credit facility is available until July 21, 2012. The term loan bears interest at LIBOR plus a margin of 1.5%, or the base rate, which represents the prime rate offered by major U.S. banks, plus a margin of 0.50%. The revolving credit facility bears interest at LIBOR plus a margin of 1.25%, or the base rate, which represents the prime rate offered by major U.S. banks, plus a margin of 0.25%. The senior secured credit facility requires us to comply with a leverage ratio and an interest coverage ratio. In addition, the senior secured 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, merge or consolidate and enter into certain transactions with affiliates. During the first quarter of 2009, we borrowed an additional $19.0 million under the revolving credit facility and paid $14.7 million of the revolving credit facility. During the second quarter of 2009, we borrowed an additional $40.0 million under the revolving credit facility and paid $70.0 million of the revolving credit facility.

The following summarizes our contractual obligations including interest at June 30, 2009, and the effect such obligations are expected to have on our liquidity and cash flows in future periods:

	Payments Due by Period						
	Total	2009	2010	2011	2012	2013	2014 & Thereafter
	(Dollars in millions)						
Borrowings under the senior credit facility	$ 316.3	$ 3.3	$ 6.6	$ 6.6	$ 157.5	$ 142.3	$
Capital leases	6.5	1.5	2.1	1.9	1.0		
Operating leases	136.7	17.7	28.2	20.0	15.1	14.0	41.7
Other	23.5	3.3	14.9	5.3			
Total	$ 483.0	$ 25.8	$ 51.8	$ 33.8	$ 173.6	$ 156.3	$ 41.7

Off Balance Sheet Arrangements

At June 30, 2009 and December 31, 2008, we had no material off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Share Repurchases

On April 17, 2009, our share repurchase program adopted on April 18, 2007 expired pursuant to its terms. On April 30, 2009, our board of directors authorized 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 management. For the three and

six months ended June 30, 2009, we did not repurchase any of our common shares.

Dividends

During the second quarter of 2007, our board of directors adopted a regular quarterly cash dividend program. On February 20, 2009, our board of directors approved a quarterly cash dividend of $0.20 per common share in an aggregate amount of $12.3 million, for the fourth quarter of 2008 that was paid to shareholders on March 17, 2009. On April 30, 2009, our board of directors approved a quarterly cash dividend of $0.20 per common share in an aggregate amount of $12.3 million, for the first quarter of 2009 that was paid to shareholders on June 5, 2009.

Working Capital and Operating Activities

As of June 30, 2009 and December 31, 2008, we had positive working capital of $123.9 million and $82.9 million, respectively. Cash and cash equivalents were $181.4 million at June 30, 2009, compared to $150.8 million at December 31, 2008.

We expect that cash and funds provided from operations and available borrowings under our revolving credit facility will provide sufficient working capital to operate our business, to make expected capital expenditures and to meet foreseeable liquidity requirements, including debt service on our term loan.

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

Currency restrictions enacted by the Venezuelan government in 2003 have become more restrictive and have impacted the ability of our Venezuelan subsidiary, Herbalife Venezuela, to obtain U.S. dollars at the official foreign exchange rate. Unless official foreign exchange is made more readily available, the results of Herbalife Venezuela s operations could be negatively impacted as it may obtain more U.S. dollars from alternative sources where the exchange rate is weaker than the official rate.

At June 30, 2009, Herbalife Venezuela had cash balances of approximately $51.0 million, primarily denominated in bolivars, translated at the official exchange rate. We continue to evaluate the political and economic environment in Venezuela and any potential changes which may affect our operations. We continue to make appropriate applications through the Venezuelan government and its Foreign Exchange Commission, CADIVI, for approval to obtain U.S. dollars at the official exchange rate to pay for imported product and to pay an annual dividend. The approval process has been delayed in recent periods and we have not been given any assurances as to when it will be completed. If the CADIVI does not approve further exchanges at the official exchange rate, Herbalife Venezuela may need to rely on a legal parallel exchange process to repatriate U.S. dollars and we would currently be able to do so at an unfavorable exchange rate which was approximately 68% less favorable than the official exchange rate as of June 30, 2009. This could result in our Company having fewer U.S. dollars than currently reported as cash and cash equivalents and may result in a charge to operating profit. From time to time, we have recognized charges to operating income in connection with the exchange of bolivars to U.S. dollars at rates which were unfavorable to the official exchange rate. Herbalife Venezuela s net sales represented less than 4% of consolidated worldwide net sales for the six months ended June 30, 2009.

Inflation in Venezuela has continued to increase over the past few years and it is possible that Venezuela will be designated as a highly inflationary economy during 2009. Gains and losses resulting from the translation of the financial statements of subsidiaries operating in highly inflationary economies are recorded in earnings. If Venezuela is designated as a highly inflationary economy or there is a devaluation of the official rate, earnings will be negatively impacted.

Contingencies

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

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

Certain of our subsidiaries have been subject to tax audits by governmental authorities in their respective countries. In certain of these tax audits, governmental authorities are proposing that significant amounts of additional taxes and related interest and penalties are due. We and our tax advisors believe that there are substantial defenses to their allegations that additional taxes are owed, and we are vigorously contesting the additional proposed taxes and related

charges.

These matters may take several years to resolve, and we cannot be sure of their ultimate resolution. However, it is the opinion of management that adverse outcomes, if any, will not likely result in a material effect on our financial condition and operating results. This opinion is based on our belief that any losses we suffer would not be material and that we have meritorious defenses. Although we have reserved an amount that we believe represents the likely outcome of the resolution of these disputes, if we are incorrect in our assessment, we may have to record additional expenses.

Critical Accounting Policies

Our Consolidated Financial Statements are prepared in conformity with U.S. GAAP, which require 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. Actual results could differ from those estimates. We consider the following policies to be most critical in understanding the judgments that are involved in preparing the financial statements and the uncertainties that could impact our operating results, financial condition and cash flows.

We are a network marketing company that sells a wide range of weight management products, nutritional supplements, energy, sports & fitness products and personal care products within one industry segment as defined under Statement of Financial Accounting Standards, of SFAS, No. 131, *Disclosures about Segments of an Enterprise and Related Information*. Our products are manufactured by third party providers and then sold to independent distributors who sell Herbalife products to retail consumers or other distributors. We sell products in 70 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 passes to the independent distributor or importer or as products are sold in our retail stores in China. Amounts billed for freight and handling costs are included in net sales. 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 the merchandise is shipped.

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 historic return rates for each country and the relevant return pattern, which reflects anticipated returns to be received over a period of up to 12 months following the original sale. Historically, product returns and buybacks have not been significant. Product returns and buybacks were approximately 0.6% of retail sales for the three and six months ended June 30, 2009, and 0.7% of retail sales for the three and six months ended June 30, 2008.

We record reserves against our inventory to provide for estimated obsolete or unsalable inventory based on assumptions about future demand for our products and market conditions. If future demand and market conditions are less favorable than management s assumptions, additional reserves could be required. Likewise, favorable future demand and market conditions could positively impact future operating results if previously reserved for inventory is sold. We reserved for obsolete and slow moving inventory totaling $10.7 million and $11.6 million as of June 30, 2009 and December 31, 2008, respectively.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in

the appropriate asset and liability sections of the balance sheet.

Goodwill and other intangibles 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. This determination is made at the reporting unit level and consists of two steps. First, we determine the fair value of a reporting unit and compare it to its carrying amount. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit s goodwill and other intangibles over the implied fair value. The implied fair value is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS No. 141R, *Business Combinations*. The residual fair value after this allocation is the implied fair value of the reporting unit s goodwill and other intangibles. As of June 30, 2009 and December 31, 2008, we had goodwill of approximately $110.7 million and marketing franchise of $310.0 million. No marketing related intangibles or goodwill impairment was recorded during the three and six months ended June 30, 2009 and 2008.

Contingencies are accounted for in accordance with SFAS No. 5, *Accounting for Contingencies*, or SFAS 5. SFAS 5 requires that we record an estimated loss from a loss contingency when information available prior to issuance of our financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Accounting for contingencies such as legal and income tax matters requires us to use judgment. 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 carryforwards of certain foreign subsidiaries and have been reduced by a valuation allowance to reflect them at amounts estimated to be ultimately realized. The net operating loss carryforwards expire in varying amounts over a future period of time. Realization of the income tax carryforwards is dependent on generating sufficient taxable income prior to expiration of the carryforwards. Although realization is not assured, we believe it is more likely than not that the net carrying value of the income tax carryforwards will be realized. The amount of the income tax carryforwards that is considered realizable, however, could change if estimates of future taxable income during the carryforward period are adjusted.

We account for stock-based compensation in accordance with SFAS No. 123R, *Share-Based Payment,* or SFAS 123R. Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the value of the award and is recognized as an expense over the vesting period. Determining the fair value of share-based awards at the grant date requires judgment, including estimating our stock price volatility and employee stock award exercise behaviors. Our expected volatility is primarily based upon the historical volatility of our common shares and, due to the limited period of public trading data for our common shares, it is also validated against the volatility of a company peer group. The expected life of awards is based on the simple average of the average vesting period and the life of the award. As stock-based compensation expense recognized in the Statements of Income is based on awards ultimately expected to vest, the amount of expense has been reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience.

We account for uncertain tax positions in accordance with the Financial Accounting Standards Board, or FASB, Interpretation Number 48, *Income Taxes,* or FIN 48. FIN 48 addressed the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, 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 and disclose fair value measurements in accordance with SFAS No. 157, *Fair Value Measurements,* or SFAS 157. SFAS 157 clarifies the definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value, and expands disclosures about fair value measurements. As discussed in Note 13, *Fair Value Measurements,* to the notes to our consolidated financial statements, we properly measure and disclose our assets and liabilities at fair value in accordance with SFAS 157.

New Accounting Pronouncements

In June 2009, the FASB, issued SFAS, No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162*, or SFAS 168. The FASB Accounting Standards Codification, or Codification, will be the single source of authoritative nongovernmental U.S. generally accepted accounting principles. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. SFAS 168 is effective for interim and annual financial periods ending after September 15, 2009. All existing non-SEC accounting standards are superseded as described in SFAS 168. All other non-SEC accounting literature not included in the Codification is non-authoritative. The Codification is not expected to have a significant impact on our consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, or SFAS 165. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 sets forth (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009. The adoption of SFAS 165 did not have a significant impact on our consolidated financial statements.

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

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

We have adopted SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, or SFAS 133. SFAS 133, as amended and interpreted, 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 statement of operations when the hedged item affects earnings. SFAS 133 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 fluctuations associated with foreign exchange rate fluctuations. We enter into foreign exchange derivatives in the ordinary course of business primarily to reduce exposure to currency fluctuations attributable to intercompany transactions, translation of local currency revenue, inventory purchases subject to foreign currency exposure, and to partially mitigate the impact of foreign currency rate fluctuations. Due to the recent significant volatility in the foreign exchange market, our current strategy, in general, is to hedge some of the significant exposures on a short term basis. We will continue to monitor the foreign exchange market and evaluate our hedging strategy accordingly. With the exception of our foreign exchange forward contracts relating to forecasted inventory purchases, all of our foreign exchange contracts are designated as free standing derivatives for which hedge accounting does not apply. The changes in the fair market value of the derivatives not qualifying as cash flow hedges are included in selling, general and administrative expenses in our consolidated statements of income.

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

We also purchase forward contracts in order to hedge forecasted inventory purchases that are designated as cash-flow hedges and are subject to foreign currency exposures. We have elected to apply the hedge accounting rules as required by SFAS 133, for these hedges. These contracts allow us to sell Euros in exchange for U.S. dollars at specified contract rates. As of June 30, 2009, approximately $24 million of these contracts were outstanding and are expected to mature over the next six months. Our derivative financial instruments are recorded on the consolidated balance sheet at fair value based on quoted market rates. These forward contracts are used to hedge forecasted inventory purchases over specific months. Changes in the fair value of forward contracts, excluding forward points, designated as cash-flow hedges are recorded in other comprehensive income (loss), and are recognized in cost of sales in the period which approximates the time the hedged inventory is sold. As of June 30, 2009 we recorded a liability at fair value of $0.3 million.

As of June 30, 2009, all of our foreign exchange forward contracts had a maturity of less than one year, with the majority expiring within 90 days. As of June 30, 2009, there were no outstanding foreign exchange option contracts.

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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 June 30, 2009					
Buy EUR sell MXN	18.69	$	33.8	$	(0.2)
Buy JPN sell USD	95.76	$	8.1	$	
Buy USD sell EUR	1.40	$	69.0	$	(0.2)
Buy USD sell INR	48.45	$	3.1	$	
Buy USD sell KRW	1,285.00	$	2.2	$	
Buy USD sell PHP	48.41	$	2.8	$	
Buy USD sell ZAR	7.88	$	1.4	$	
Buy CLP sell USD	526.40	$	3.4	$	
Buy EUR sell HKD	10.88	$	2.7	$	
Buy EUR sell JPY	134.34	$	1.8	$	
Buy MXN sell USD	13.30	$	2.6	$	
Buy MYR sell EUR	4.97	$	0.7	$	
Buy SEK sell EUR	10.86	$	2.0	$	
Buy USD sell BRL	1.97	$	6.3	$	
Buy GBP sell USD	1.65	$	1.7	$	
Buy HKD sell USD	7.75	$	2.6	$	
Total forward contracts		$	144.2	$	(0.4)

Most of our foreign subsidiaries designate their local currencies as their functional currencies. At June 30, 2009 and December 31, 2008, the total amount of our foreign subsidiary cash was $179.4 million and $142.0 million, respectively, of which $7.7 million and $9.7 million, respectively, was invested in U.S. dollars.

Interest Rate Risk

As of June 30, 2009, the aggregate annual maturities of our senior secured credit facility entered into on July 2006, as amended, were: 2009-$0.7 million; 2010-$1.5 million; 2011-$1.5 million; 2012-$153.5 million and $140.9 million in 2013. The fair value of our senior secured credit facility approximates its carrying value of $298.1 million as of June 30, 2009 and $324.5 million as of December 31, 2008. Our senior secured credit facility bears a variable interest rate, and on June 30, 2009 and December 31, 2008, the weighted average interest rate was 1.70% and 3.04%, respectively.

Under our senior secured credit facility, we are obligated to enter into an interest rate hedge for up to 25% of the aggregate principal amount of the term loan for a minimum of three years. On August 23, 2006, we entered into a new interest rate swap agreement. This agreement provides for us to pay interest for a three-year period at a fixed rate of 5.26% on the initial notional principal amount of $180.0 million while receiving interest for the same period at the LIBOR rate on the same notional principal amount. The notional amount is scheduled to be reduced by $20.0 million in the second, third and fourth quarters of each year commencing January 1, 2007 throughout the term of the swap. The swap has been designated as a cash flow hedge against the variability in LIBOR interest rate on the new term loan at LIBOR plus 1.50%, thereby fixing our effective rate on the notional amounts at 6.76%. As of December 31, 2008, the swap notional amount was $40.0 million. As of June 30, 2009, the swap notional amount was $20.0 million. As of June 30, 2009 and December 31, 2008, we recorded the interest rate swap as a liability at fair value of $0.2 million and $1.0 million, respectively, with the offsetting amounts recorded in other comprehensive income.

On June 26, 2009, we entered into an interest rate swap agreement, which is effective June 30, 2009, and will expire on September 30, 2009. The swap notional amount is $20 million, where we pay three month LIBOR and will receive

one month LIBOR plus 0.185%. As of June 30, 2009, the fair value of the interest rate swap is zero. We have elected not to apply hedge accounting for this interest rate swap.

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 June 30, 2009.

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 second quarter ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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FORWARD LOOKING STATEMENTS

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

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

- our relationship with, and our ability to influence the actions of, our distributors;
- adverse publicity associated with our products or network marketing organization;
- uncertainties relating to interpretation and enforcement of recently enacted legislation in China governing direct selling;
- our inability to obtain the necessary licenses to expand our direct selling business in China;
- adverse changes in the Chinese economy, Chinese legal system or Chinese governmental policies;
- improper action by our employees or international distributors in violation of applicable law;
- changing consumer preferences and demands;
- 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;
- risks associated with operating internationally, including foreign exchange and devaluation risks;
- 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;
- our reliance on our management team;
- uncertainties relating to the application of transfer pricing, duties, value added taxes, and other tax regulations, and changes thereto;
- changes in tax laws, treaties or regulations, or their interpretation;

- taxation relating to our distributors;
- product liability claims;
- any collateral impact resulting from the ongoing worldwide financial crisis, including the availability of liquidity to us, our customers and our suppliers or the willingness of our customers to purchase products in a recessionary economic environment; 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 4, *Contingencies,* to the Notes to the Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

Item 1A. ***Risk Factors***

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

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

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

We distribute our products exclusively through approximately 1.9 million independent distributors, and we depend upon them directly for substantially all of our sales. To increase our revenue, we must increase the number of, or the productivity of, our distributors. Accordingly, our success depends in significant part upon our ability to recruit, retain and motivate a large base of distributors. There is a high rate of turnover among our distributors, which is a characteristic of the network marketing business. 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 supervisors re-qualify annually in order to maintain a more accurate count of their numbers. For the latest twelve month re-qualification period ending January 2009, 40.3% of our supervisors 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. Supervisors 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.

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We estimate that, of our approximately 1.9 million independent distributors, we had approximately 391,000 sales leaders as of June 30, 2009. These sales leaders, together with their downline sales organizations, account for substantially all of our revenues. Our distributors, including our sales leaders, may voluntarily terminate their distributor agreements with us at any time. The loss of a group of leading sales leaders, together with their downline sales organizations, or the loss of a significant number of distributors for any reason, could negatively impact sales of our products, impair our ability to attract new distributors and harm our financial condition and operating results.

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

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

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

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

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

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

Adverse publicity concerning any actual or purported failure of our Company or our independent distributors to comply with applicable laws and regulations regarding product claims and advertising, good manufacturing practices, the regulation of our network marketing program, the licensing of our products for sale in our target markets or other aspects of our business, whether or not resulting in enforcement actions or the imposition of penalties, could have an adverse effect on the goodwill of our Company and could negatively affect our ability to attract, motivate and retain distributors, which would negatively impact our ability to generate revenue. We cannot ensure that all distributors will comply with applicable legal requirements relating to the advertising, labeling, licensing or distribution of our products.

In addition, our distributors and consumers perception of the safety and quality of our products and ingredients as well as similar products and ingredients distributed by other companies can be significantly influenced by media attention, publicized scientific research or findings, widespread product liability claims and other publicity concerning our products or ingredients or similar products and ingredients distributed by other companies. For example, in May 2008 public allegations were made that certain of our products contain excessive amounts of lead thereby triggering disclosure and labeling requirements under California Proposition 65. While we have confidence in our products because they fall within the FDA suggested guidelines for the amount of lead that consumers can safely ingest and do not believe they trigger disclosure or labeling requirements under California Proposition 65, negative publicity such as this can disrupt our business. Adverse publicity, whether or not accurate or resulting from consumers use or misuse of our products, that associates consumption of our products or ingredients or any similar products or ingredients with illness or other adverse effects, questions the benefits of our or similar products or claims that any such products are ineffective, inappropriately labeled or have inaccurate instructions as to their use, could lead to lawsuits or other legal challenges and could negatively impact our reputation, the market demand for our products, or our general business.
From time to time we receive inquiries from government agencies and third parties requesting information concerning our products. We fully cooperate with these inquiries including, when requested, by the submission of detailed technical dossiers addressing product composition, manufacturing, process control, quality assurance, and contaminant testing. We understand that such materials are undergoing review by regulators in certain markets. In the course of one such inquiry the Spanish Ministry of Health elected to issue a press release, or a communicado, to inform the public of their on-going inquiry and dialogue with our Company. Upon completion of its review of Herbalife products distributed in Spain, the Spanish Ministry of Health withdrew its communicado in April 2009. 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.

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

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

We are also subject to significant competition for the recruitment of distributors from other network marketing organizations, including those that market weight management products, dietary and nutritional supplements and personal care products as well as other types of products. We compete for global customers and distributors with regard to weight management, nutritional supplement and personal care products. Our competitors include both direct selling companies such as NuSkin Enterprises, Nature s Sunshine, Alticor/Amway, Melaleuca, Avon Products, Oriflame 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 restraints 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 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 proposed form, could have adversely impacted our U.S. business. On March 18, 2008, the FTC issued a revised proposed rule and, as indicated in the announcement accompanying the proposed rule, the revised proposal does not attempt to cover multilevel marketing companies such as Herbalife. If the revised rule were implemented as it is now proposed, we believe that it would not significantly impact our U.S. business. Based on information currently available, we anticipate that the rule may require a year or more to become final.

The FTC has requested comments on amendments to its Guides Concerning the Use of Endorsements and Testimonials in Advertising, or Guides. 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 proposal, a statement reflecting a consumer endorser s experience concerning a key attribute of the product generally would not be permissible with only a disclaimer of typicality (e.g., Results Not Typical or Individual Results May Vary). Instead, if the advertiser does not have substantiation that the endorser s experience is representative of what other consumers will generally achieve, the advertiser would be required to disclose clearly and conspicuously the generally expected performance of the product or service under the depicted circumstances and have adequate substantiation for that representation. The FTC has requested that comments concerning its proposed rule on product endorsements and testimonials be submitted by interested parties by January 30, 2009. If the Guides are amended and enforced by the FTC as presently proposed, marketing with the use of testimonials regarding consumer products, including but not limited those for market weight-management products, would be significantly impacted and might negatively effect 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. For example, during the third quarter of 1995, we received inquiries from certain governmental agencies within Germany and Portugal regarding our product, *Thermojetics*® Instant Herbal Beverage, relating to the caffeine content of the product and the status of the product as an instant tea, which was disfavored by regulators, versus a beverage. Although we initially suspended the product sale in Germany and Portugal at the request of the regulators, we successfully reintroduced it once regulatory issues were satisfactorily resolved. In another example, during the second quarter of 2008 the Spanish Ministry of Health issued a press release, or a communicado, informing the public of its on-going inquiry into the safety of our Company s products sold in Spain. Upon completion of its review of Herbalife products distributed in Spain, the Spanish Ministry of Health withdrew its communicado. 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.

On June 25, 2007, the FDA published its final rule for cGMPs affecting the manufacture, packing, and holding of dietary supplements. The final rule requires identity testing on all incoming dietary ingredients, but permits the use of certificates of analysis or other documentation to verify the reliability of the ingredient suppliers. On the same date the FDA also published an interim final rule that outlined a petition process for manufacturers to request an exemption to the cGMP requirement for 100 percent identity testing of specific dietary ingredients used in the processing of dietary supplements. Under the interim final rule the manufacturer may be exempted from the dietary ingredient testing requirement if it can provide sufficient documentation that the reduced frequency of testing requested would still ensure the identity of the dietary ingredient. The final rule includes a phased-in effective date based on the size of the manufacturer. The final rule and the interim final rule became effective August 24, 2007. To limit any disruption for dietary supplements produced by small businesses the final rule has a three year phase in for small businesses. Firms that directly employ more than 500 full-time equivalent employees must have achieved compliance with the new cGMPs by June 25, 2008, while firms having between 20-500 full-time equivalent employees must be compliant by 2009 and firms having under 20 full-time equivalent employees must be compliant by 2010. Herbalife initiated enhancements, modifications and improvements to its manufacturing and corporate quality processes and believes we are compliant with the FDA s cGMP final rule with respect to dietary supplements sold by Herbalife in the United States that the Company produces at its Suzhou, China facility and that are produced by contract manufacturers. These rules apply only to manufacturers and holders of finished products and not to ingredient suppliers unless the ingredient supplier is manufacturing a final dietary supplement. The final rule differs from the FDA s 2003 proposed rule as it does not contain language regarding the regulatory status of excipients and other ingredients that are not dietary ingredients. Instead, the final rule relies on a requirement to comply with all other relevant regulations. Further, the

final rule does not call for any specific finished product testing program nor does it require 100% testing of all finished products. Instead the final rule calls for a scientifically valid system for ensuring that finished products meet all specifications. Due to the final cGMP rules, we have experienced increases in some product costs as a result of the necessary increase in testing of raw ingredients and finished products and this may cause us to seek alternate suppliers.

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

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

We are also subject to the risk of private party challenges to the legality of our network marketing program. The multi-level marketing programs of other companies have been successfully challenged in the past and in a current lawsuit, allegations have been made challenging the legality of our network marketing program in Belgium. Test Ankoop-Test Achat, a Belgian consumer protection organization, sued Herbalife International Belgium, S.V., or HIB, on August 26, 2004, alleging that HIB violated Article 84 of the Belgian Fair Trade Practices Act by engaging in pyramid selling, *i.e.*, establishing a network of professional or non-professional sales people who hope to make a profit more through the expansion of that network than through the sale of products to end-consumers. The plaintiff is seeking a payment of 25,000 (equal to approximately $35,000 as of June 30, 2009) per purported violation as well as costs of the trial. For the year ended December 31, 2008, our net sales in Belgium were approximately $16.7 million. Currently, the lawsuit is in the pleading stage. The plaintiffs filed their initial brief on September 27, 2005 and on May 9, 2006 we filed a reply brief. On December 9, 2008 plaintiffs filed a responsive brief and on June 24, 2009 we filed a reply brief. There is no date yet for the oral hearings. An adverse judicial determination with respect to our network marketing program, or in proceedings not involving us directly but which challenge the legality of multi-level marketing systems, in Belgium or in any other market in which we operate, could negatively impact our business. We believe that we have meritorious defenses to the suit.

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 and similar risks associated with foreign operations.

Approximately 80% of our net sales for the year ended December 31, 2008, were generated outside the United States, exposing our business to risks associated with foreign operations. For example, a foreign government may impose trade or foreign exchange restrictions or increased tariffs, which could negatively impact our operations. We are also exposed to risks associated with foreign currency fluctuations. For instance, purchases from suppliers are generally made in U.S. dollars while sales to distributors are generally made in local currencies. Accordingly, strengthening of the U.S. dollar versus a foreign currency could have a negative impact on us. Although we engage in transactions to protect against risks associated with foreign currency fluctuations, we cannot be certain any hedging activity will effectively reduce our exchange rate exposure. 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 at the official foreign exchange rate. We continue to make appropriate applications through the Venezuelan government and its Foreign Exchange Commission, CADIVI, for approval to obtain U.S. dollars at the official exchange rate to pay for imported

product and to pay an annual dividend. The approval process has been delayed in recent periods and we have not been given any assurances as to when it will be completed. Unless our ability to obtain U.S. dollars at the official foreign exchange rate is made more readily available, the results of Herbalife Venezuela s operations will be negatively impacted as it may need to obtain more U.S. dollars from alternative sources where the exchange rate is weaker than the official rate.

Inflation in Venezuela has continued to increase over the past few years and it is possible that Venezuela will be designated as a highly inflationary economy during 2009. Gains and losses resulting from the translation of the financial statements of subsidiaries operating in highly inflationary economies are recorded in earnings. If Venezuela is designated as a highly inflationary economy or there is a devaluation of the official rate, earnings will be negatively impacted.

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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 August 2005, China published regulations governing direct selling (effective December 1, 2005) and prohibiting pyramid promotional schemes (effective November 1, 2005), and a number of administrative methods and proclamations were issued in September 2005 and in September 2006. These regulations require us to use a business model different from that which we offer in other markets. To allow us to operate under these regulations, we have created and introduced a model specifically for China. In China, we have Company-operated retail stores that sell through employed sales management personnel to customers and preferred customers. We provide training and certification procedures for sales personnel in China. We also have non-employee sales representatives who sell through our retail stores or who provide services and operate their own licensed business premises. Our sales representatives are also permitted by the terms of our direct selling licenses to sell away from fixed retail locations in the provinces of Jiangsu, Guangdong, Shandong, Zhejiang (excluding Ningbo), Guizhou and Beijing and effective July 7, 2009, in the additional provinces of Fuijan, Sichuan, Hubei, Shanxi, and Shanghai. Our direct selling license for Shanghai will permit us to sell away from fixed retail locations once our Shanghai outlet is inspected and confirmed by the relevant authority. 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., and 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 an