# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-Q

**(Mark One)**

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

**For the quarterly period ended June 30, 2010**

**OR**

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

**For the transition period from_____to _____.**

**Commission file number: 1-32381**

# HERBALIFE LTD.

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

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

**P.O. Box 309GT**
**Ugland House, South Church Street**
**Grand Cayman, Cayman Islands**
*(Address of principal executive offices) (Zip code)*

**(213) 745-0500**
*(Registrant's telephone number, including area code)*

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

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

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

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

Number of shares of registrant's common shares outstanding as of July 28, 2010 was 59,190,966

**HERBALIFE LTD.**

## PART I. FINANCIAL INFORMATION



## PART II. OTHER INFORMATION

## PART I. FINANCIAL INFORMATION

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

### HERBALIFE LTD.

### CONSOLIDATED BALANCE SHEETS
**(Unaudited)**

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| | (In thousands, except share amounts) | |
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 170,218 | $ 150,801 |
| Receivables, net of allowance for doubtful accounts of $3,568 (2010) and $3,982 (2009) | 85,411 | 76,958 |
| Inventories | 152,035 | 145,962 |
| Prepaid expenses and other current assets | 114,097 | 101,181 |
| Deferred income taxes | 53,546 | 38,600 |
| Total current assets | 575,307 | 513,502 |
| Property, at cost, net of accumulated depreciation and amortization of $175,245 (2010) and $147,392 (2009) | 167,320 | 178,009 |
| Deferred compensation plan assets | 16,724 | 17,410 |
| Deferred financing costs, net of accumulated amortization of $2,026 (2010) and $1,778 (2009) | 1,250 | 1,498 |
| Other assets | 22,587 | 21,306 |
| Marketing related intangibles and other intangible assets, net | 311,091 | 311,782 |
| Goodwill | 102,899 | 102,543 |
| Total assets | $ 1,197,178 | $ 1,146,050 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 48,318 | $ 37,330 |
| Royalty overrides | 141,017 | 144,689 |
| Accrued compensation | 52,100 | 65,043 |
| Accrued expenses | 117,090 | 107,943 |
| Current portion of long-term debt | 3,071 | 12,402 |
| Advance sales deposits | 51,770 | 22,261 |
| Income taxes payable | 29,126 | 40,298 |
| Total current liabilities | 442,492 | 429,966 |
| NON-CURRENT LIABILITIES: | | |
| Long-term debt, net of current portion | 240,280 | 237,931 |
| Deferred compensation plan liability | 17,358 | 16,629 |
| Deferred income taxes | 79,273 | 77,613 |
| Other non-current liabilities | 23,659 | 24,600 |
| Total liabilities | 803,062 | 786,739 |
| CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY: | | |
| Common shares, $0.002 par value, 500.0 million shares authorized, 59.1 million (2010) and 60.2 million (2009) shares outstanding | 118 | 120 |
| Paid-in-capital in excess of par value | 232,735 | 222,882 |
| Accumulated other comprehensive loss | (39,126) | (23,396) |
| Retained earnings | 200,389 | 159,705 |
| Total shareholders' equity | 394,116 | 359,311 |
| Total liabilities and shareholders' equity | $ 1,197,178 | $ 1,146,050 |

See the accompanying notes to unaudited consolidated financial statements.

**HERBALIFE LTD.**

**CONSOLIDATED STATEMENTS OF INCOME**
**(Unaudited)**

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2010 | June 30, 2009 | June 30, 2010 | June 30, 2009 |
| | (Unaudited) | | | |
| | (In thousands, except per share amounts) | | | |
| Product sales | $ 589,373 | $ 490,899 | $ 1,116,595 | $ 937,847 |
| Handling & freight income | 99,433 | 80,906 | 190,844 | 155,641 |
| Net sales | 688,806 | 571,805 | 1,307,439 | 1,093,488 |
| Cost of sales | 136,561 | 122,442 | 277,033 | 224,842 |
| Gross profit | 552,245 | 449,363 | 1,030,406 | 868,646 |
| Royalty overrides | 224,780 | 186,750 | 432,099 | 362,282 |
| Selling, general & administrative expenses | 211,110 | 190,794 | 417,993 | 372,252 |
| Operating income | 116,355 | 71,819 | 180,314 | 134,112 |
| Interest expense, net | 2,146 | 1,338 | 4,099 | 3,050 |
| Income before income taxes | 114,209 | 70,481 | 176,215 | 131,062 |
| Income taxes | 32,276 | 22,228 | 42,411 | 41,267 |
| NET INCOME | $ 81,933 | $ 48,253 | $ 133,804 | $ 89,795 |
| Earnings per share: | | | | |
| Basic | $ 1.38 | $ 0.78 | $ 2.24 | $ 1.46 |
| Diluted | $ 1.32 | $ 0.77 | $ 2.14 | $ 1.44 |
| Weighted average shares outstanding: | | | | |
| Basic | 59,527 | 61,642 | 59,843 | 61,583 |
| Diluted | 62,103 | 62,929 | 62,389 | 62,413 |
| Dividends declared per share | $ 0.20 | $ 0.20 | $ 0.40 | $ 0.40 |

See the accompanying notes to unaudited consolidated financial statements.

**HERBALIFE LTD.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Unaudited)**

| | Six Months Ended | |
|---|---|---|
| | June 30, 2010 | June 30, 2009 |
| | (In thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 133,804 | $ 89,795 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 34,403 | 29,686 |
| (Excess) Deficiency in tax benefits from share-based payment arrangements | (4,705) | 982 |
| Share-based compensation expenses | 10,820 | 10,024 |
| Amortization of discount and deferred financing costs | 248 | 244 |
| Deferred income taxes | (15,053) | (1,657) |
| Unrealized foreign exchange transaction (gain) loss | (12,345) | 2,545 |
| Foreign exchange loss from adoption of highly inflationary accounting in Venezuela | 15,131 | — |
| Other | 1,619 | 154 |
| Changes in operating assets and liabilities: | | |
| Receivables | (11,616) | (4,938) |
| Inventories | (12,172) | 12,022 |
| Prepaid expenses and other current assets | (15,099) | 971 |
| Other assets | (2,229) | (679) |
| Accounts payable | 13,781 | 1,202 |
| Royalty overrides | 1,072 | (3,622) |
| Accrued expenses and accrued compensation | 5,670 | (19,587) |
| Advance sales deposits | 30,937 | 17,164 |
| Income taxes payable | (4,604) | (12,599) |
| Deferred compensation plan liability | 729 | 557 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 170,391 | 122,264 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property | (23,917) | (26,801) |
| Proceeds from sale of property | 6 | 60 |
| Deferred compensation plan assets | 686 | (252) |
| NET CASH USED IN INVESTING ACTIVITIES | (23,225) | (26,993) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Dividends paid | (24,061) | (24,617) |
| Borrowings from long-term debt | 229,000 | 59,000 |
| Principal payments on long-term debt | (235,715) | (97,009) |
| Share repurchases | (79,220) | (972) |
| Excess (Deficiency in) tax benefits from share-based payment arrangements | 4,705 | (982) |
| Proceeds from exercise of stock options and sale of stock under employee stock purchase plan | 4,400 | 791 |
| NET CASH USED IN FINANCING ACTIVITIES | (100,891) | (63,789) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | (26,858) | (893) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 19,417 | 30,589 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 150,801 | 150,847 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 170,218 | $ 181,436 |
| CASH PAID DURING THE PERIOD | | |
| Interest paid | $ 4,988 | $ 6,560 |
| Income taxes paid, net | $ 58,718 | $ 54,473 |
| NON CASH ACTIVITIES | | |
| Assets acquired under capital leases and other long-term debt | $ — | $ 327 |

See the accompanying notes to unaudited consolidated financial statements.

**HERBALIFE LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**

## 1. Organization

Herbalife Ltd., a Cayman Islands exempted limited liability company, or Herbalife, was incorporated on April 4, 2002. Herbalife Ltd. (and together with its subsidiaries, the "Company") is a leading global network marketing company that sells weight management, nutritional supplements, energy, sports & fitness products and personal care products through a network of approximately 2.1 million independent distributors, except in China, where the Company currently sells its products through retail stores, sales representatives, sales employees and licensed business providers. The Company reports revenue in six geographic regions: North America, which consists of the U.S., Canada and Jamaica; Mexico; South and Central America; EMEA, which consists of Europe, the Middle East and Africa; Asia Pacific (excluding China) which consists of Asia, New Zealand and Australia; and China.

## 2. Significant Accounting Policies

### *Basis of Presentation*

The unaudited interim financial information of the Company has been prepared in accordance with Article 10 of the Securities and Exchange Commission's, or the SEC, Regulation S-X. Accordingly, it does not include all of the information required by generally accepted accounting principles in the U.S., or GAAP, for complete financial statements. The Company's unaudited consolidated financial statements as of June 30, 2010, and for the three and six months ended June 30, 2010 and 2009, 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, 2010, and for the three and six months ended June 30, 2010 and 2009. 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, 2009, or the 2009 10-K. Operating results for the three and six months ended June 30, 2010, are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

### *New Accounting Pronouncements*

In May 2010, the Financial Accounting Standards Board, or FASB, issued Final Accounting Standards Update 2010-19, *Foreign Currency Issues: Multiple Foreign Currency Exchange Rates*, or ASU 2010-19, which codifies the SEC staff announcement made at the March 18, 2010, Emerging Issues Task Force meeting. ASU 2010-19 provides the SEC staff's view on certain foreign currency issues relating to investments in Venezuela. ASU 2010-19 became effective on March 18, 2010. The Company has adopted this guidance and the financial statement impact relating to this adoption is discussed further below.

### *Venezuela*

#### *Currency Restrictions*

Currency restrictions enacted by the Venezuelan government in 2003 have become more restrictive and have impacted the ability of the Company's subsidiary in Venezuela, Herbalife Venezuela, to obtain U.S. dollars in exchange for Venezuelan Bolivars, or Bolivars, at the official foreign exchange rates from the Venezuelan government and its foreign exchange commission, CADIVI. The application and approval processes have been intermittently delayed and the timing and ability to obtain U.S. dollars at the official exchange rates remain uncertain. In certain instances, the Company has made appropriate applications through CADIVI for approval to obtain U.S. dollars so that Herbalife Venezuela can pay for imported products and an annual dividend at the official exchange rate. In other instances, the Company used a lawful but less favorable parallel market mechanism for currency exchange. In May 2010, this less favorable parallel market was discontinued.

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

***Highly Inflationary Economy and Accounting***

Venezuela's inflation rate as measured using the blended National Consumer Price Index and Consumer Price Index rate exceeded a three-year cumulative inflation rate of 100% as of December 31, 2009. Accordingly, effective January 1, 2010, Venezuela was considered a highly inflationary economy. Pursuant to the highly inflationary basis of accounting under U.S. GAAP, Herbalife Venezuela changed its functional currency from the Bolivar to the U.S. dollar. Subsequent movements in the Bolivar to U.S. dollar exchange rate will impact the Company's consolidated earnings. Prior to January 1, 2010 when the Bolivar was the functional currency, movements in the Bolivar to U.S. dollar were recorded as a component of equity through other comprehensive income. Pursuant to highly inflationary accounting rules, the Company is no longer required to translate Herbalife Venezuela's financial statements since their functional currency is now the U.S. dollar.

Based on relevant facts and circumstances at the applicable times, the Company used the parallel market exchange rate for remeasurement purposes effective January 1, 2010 until the parallel market was discontinued in May 2010. On January 1, 2010, in connection with the determination that Venezuela was a highly inflationary economy, the Company remeasured Herbalife Venezuela's opening balance sheet's monetary assets and liabilities at the parallel market rate, which resulted in the Company recording a non-tax deductible foreign exchange loss of $15.1 million. This charge included a $9.9 million foreign exchange loss relating to Herbalife Venezuela's U.S. dollar cash and cash equivalents that were remeasured at the parallel market rate and then translated at the official rate at December 31, 2009, as discussed in the Company's 2009 10-K. Also, Herbalife Venezuela's $34.2 million cash and cash equivalents reported in the Company's consolidated balance sheet at December 31, 2009, which included U.S. dollar denominated cash, was reduced to approximately $12.5 million on January 1, 2010. However, nonmonetary assets, such as inventory, reported on the Company's consolidated balance sheet at December 31, 2009, remained at historical cost subsequent to Venezuela becoming a highly inflationary economy. Therefore, the incremental costs related to the Company's 2009 imported products recorded at the parallel market exchange rate negatively impacted the Company's first quarter 2010 consolidated statement of income by approximately $12.7 million as these products were sold during the first quarter of 2010. This amount is non tax deductible. See Note 8, *Income Taxes,* for additional discussion on income tax impact related to Venezuela becoming highly inflationary.

***Official Exchange Rate Devaluation***

In early January 2010, Venezuela announced an official exchange rate devaluation of the Bolivar to an official rate of 4.30 Bolivars per U.S. dollar for non-essential items and 2.60 Bolivars per U.S. dollar for essential items. The Company's imports fall into both classifications. During 2010, because the Company used the parallel market exchange rate for remeasurement purposes until the parallel market was discontinued in May 2010, any U.S. dollars obtained from CADIVI at the official rate had a positive impact to the Company's consolidated net earnings. Specifically, the Company recorded $0.1 million and $3.8 million of foreign exchange gains, in the three and six months ended June 30, 2010, respectively, to selling, general and administrative expenses within the Company's consolidated statements of income as a result of receiving U.S. dollars approved by CADIVI at the official exchange rate, primarily related to products imported in 2009 and early 2010. The majority of Herbalife Venezuela's 2010 importations were not registered with CADIVI so the official exchange rates are not available to pay for these U.S. imports. Herbalife Venezuela also has an outstanding dividend payable to the Company of $4.2 million, which was declared in December 2008 and registered with CADIVI. The request to obtain U.S. dollars at the official rate to settle the outstanding dividend payable is pending CADIVI's approval. Also, Herbalife Venezuela has an outstanding intercompany payable balance of $0.1 million, which was registered with CADIVI in 2009 and is pending CADIVI's approval.

***Remeasurement of Monetary Assets and Liabilities***

During the second quarter of 2010, the Company recorded a $4.0 million pre-tax ($2.6 million post-tax) net foreign exchange gain to selling, general and administrative expenses, within the Company's consolidated statement of income, as a result of remeasuring its Bolivar denominated monetary assets and liabilities as of June 30, 2010 at the SITME rate of 5.3 Bolivars per U.S. dollar as opposed to the last parallel market rate prior to the closure of the parallel market in May 2010 of 8.3 Bolivars per U.S. dollar. Herbalife Venezuela's cash and cash equivalents, primarily denominated in Bolivars, increased by $5.2 million as a result of using the SITME rate as opposed to the last quoted parallel market rate. As of June 30, 2010, Herbalife Venezuela's net monetary Bolivar denominated assets and liabilities approximated $11.1 million U.S. dollars which included Bolivar denominated cash and cash equivalents approximating $14.3 million U.S. dollars, and were all remeasured at the new regulated rate under the SITME. However, the amounts remeasured using the new regulated rate may not represent the true economics because of the restrictions that currently exist in the SITME. While the Company continues to monitor the new exchange mechanism and restrictions under SITME, there is no assurance that the Company will be able to exchange Bolivars into U.S. dollars on a timely basis. Therefore, these remeasured amounts, including cash and cash equivalents, being reported on the Company's consolidated balance sheet using the new regulated rate may not accurately represent the amount of U.S. dollars that the Company could ultimately realize.

***Consolidation of Herbalife Venezuela***

The Company currently plans to continue its operation in Venezuela and to import products into Venezuela. Herbalife Venezuela will continue to apply for legal exchange mechanisms to convert its Bolivars to U.S. dollars. Despite the currency exchange restrictions in Venezuela, the Company continues to control Herbalife Venezuela and its operations. The mere existence of the exchange restrictions discussed above does not in and of itself create a presumption that this lack of exchangeability is other-than-temporary, nor does it create a presumption that an entity should deconsolidate its Venezuelan operations. Therefore, the Company continues to consolidate Herbalife Venezuela in its consolidated financial statements for U.S. GAAP purposes. Herbalife Venezuela's Bolivar denominated assets and liabilities are currently being remeasured at the SITME rate for remeasurement purposes. However, this may not represent the true economics since there are currency volume and exchange restrictions that exist in this market.

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

Although Venezuela is an important market in the Company's South and Central America Region, Herbalife Venezuela's net sales represented less than 2% of the Company's consolidated net sales for the six months ended June 30, 2010, and its total assets represented less than 3% of the Company's consolidated total assets as of June 30, 2010.

**3. Long-Term Debt**

Long-term debt consists of the following:

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| | (In millions) | |
| Borrowings under senior secured credit facility | $ 239.6 | $ 236.4 |
| Capital leases | 3.7 | 4.8 |
| Other debt | 0.1 | 9.1 |
| Total | 243.4 | 250.3 |
| Less: current portion | 3.1 | 12.4 |
| Long-term portion | $ 240.3 | $ 237.9 |

Interest expense was $2.5 million and $2.9 million for the three months ended June 30, 2010 and 2009, respectively, and $5.0 million and $6.2 million for the six months ended June 30, 2010 and 2009, 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. In September 2007, the Company and its lenders amended the credit agreement, increasing the amount of the revolving credit facility by an aggregate principal amount of $150.0 million to $250.0 million primarily to finance the increase in its share repurchase program. See Note 10, *Shareholders' Equity*, for further discussion of the share repurchase program. 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, 2010, and December 31, 2009, the weighted average interest rate for the senior secured credit facility was 1.77% and 1.66%, respectively. The Company incurred approximately $2.3 million of debt issuance costs in connection with entering into the senior secured credit facility in July 2006, which are being amortized over the term of the senior secured credit facility. The fair value of the Company's senior secured credit facility approximates its carrying value.

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, 2010, the Company was compliant with its debt covenants.

As of June 30, 2010, the Company was 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, 2010 and December 31, 2009, the amounts outstanding under the term loan were $144.6 million and $145.4 million, respectively.

During the first quarter of 2010, the Company borrowed an additional $102.0 million under the revolving credit facility and paid $95.0 million of the revolving credit facility. During the second quarter of 2010, the Company borrowed an additional $127.0 million under the revolving credit facility and paid $130.0 million of the revolving credit facility. As of June 30, 2010 and December 31, 2009, the amounts outstanding under the revolving credit facility were $95.0 million and $91.0 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, 2010 and December 31, 2009, the Company had an aggregate of $2.4 million and $2.8 million, respectively, 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.

On April 16, 2007, Herbalife International of America, Inc. filed a Complaint in the United States District Court for the Central District of California against certain former Herbalife distributors who had left the Company to join a competitor. The Complaint alleged breach of contract, misappropriation of trade secrets, intentional interference with prospective economic advantage, intentional interference with contract, unfair competition, constructive trust and fraud and seeks monetary damages, attorney's fees and injunctive relief. (*Herbalife International of America, Inc. v. Robert E. Ford, et al*) The court entered a Preliminary Injunction against the defendants enjoining them from further use and/or misappropriation of the Company's trade secrets on December 11, 2007. Defendants appealed the court's entry of the Preliminary Injunction to the U.S. Court of Appeals for the Ninth Circuit. That court affirmed, in relevant part, the Preliminary Injunction. On December 3, 2007, the defendants filed a counterclaim alleging that the Company had engaged in unfair and deceptive business practices, intentional and negligent interference with prospective economic advantage, false advertising and that the Company was an endless chain scheme in violation of California law and seeking restitution, contract rescission and an injunction. Both sides engaged in discovery and filed cross motions for Summary Judgment. On August 25, 2009, the court granted partial summary judgment for Herbalife on all of defendants' claims except the claim that the Company is an endless chain scheme which under applicable law is a question of fact that can only be determined at trial. The court denied defendants' motion for Summary Judgment on Herbalife's claims for misappropriation of trade secrets and breach of contract. On May 5, 2010, the District Court granted summary judgment for Herbalife on defendants' endless chain-scheme counterclaim. Herbalife voluntarily dismissed its remaining claims, and on May 14, 2010, the District Court issued a final judgment dismissing all of the parties' claims. On June 10, 2010 the defendants appealed from that judgment and on June 21, 2010, Herbalife cross-appealed. The Company believes that there is merit to, and it will prevail upon, its appeal.

Certain of the Company's subsidiaries have been subject to tax audits by governmental authorities in their respective countries. In certain of these tax audits, governmental authorities are proposing that significant amounts of additional taxes and related interest and penalties are due. The Company and its tax advisors believe that there are substantial defenses to their allegations that additional taxes are owed, and the Company is vigorously contesting the additional proposed taxes and related charges. On May 7, 2010, the Company received an administrative assessment from the Mexican Tax Administration Service in an amount equivalent to $89 million, translated at the quarterly period ended spot rate, for various items, the majority of which was Value Added Tax allegedly owed on certain of the Company's products imported into Mexico. On July 8, 2010, the Company initiated a formal administrative appeal process. In accordance with U.S. GAAP, the Company did not record a provision as the Company, based on analysis and guidance from its advisors, does not believe a loss is probable. Further, the Company is currently unable to reasonably estimate a possible loss or range of loss that could result from an unfavorable outcome. The Company believes that it has meritorious defenses and is vigorously pursuing the appeal, but final resolution of this matter could take several years.

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

**5. Comprehensive Income**

Total comprehensive income consisted of the following:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2010 | June 30, 2009 | June 30, 2010 | June 30, 2009 |
| | (In millions) | | | |
| Net income | $ 81.9 | $ 48.3 | $ 133.8 | $ 89.8 |
| Unrealized gain/(loss) on derivative instruments | 2.5 | (1.3) | 4.6 | 0.7 |
| Foreign currency translation adjustment | (15.1) | 10.2 | (20.3) | (0.5) |
| Comprehensive income | $ 69.3 | $ 57.2 | $ 118.1 | $ 90.0 |

**6. Segment Information**

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

The Company sells products in 73 countries throughout the world and is organized and managed by geographic regions. The Company aggregates its operating segments, excluding China, into one reporting segment, or the Primary Reporting Segment, as management believes that the Company's operating segments have similar operating characteristics and similar long term operating performance. In making this determination, management believes that the operating segments are similar in the nature of the products sold, the product acquisition process, the types of customers to whom products are sold, the methods used to distribute the products, and the nature of the regulatory environment. China has been identified as a separate reporting segment as it does not meet the criteria for aggregation. The operating information for the Primary Reporting Segment and China, and sales by product line are as follows:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2010 | June 30, 2009 | June 30, 2010 | June 30, 2009 |
| | (In millions) | | | |
| **Net Sales:** | | | | |
| Primary Reporting Segment | | | | |
| United States | $ 161.7 | $ 134.2 | $ 308.3 | $ 253.2 |
| Mexico | 80.9 | 66.4 | 152.7 | 125.6 |
| Others | 395.0 | 330.6 | 762.8 | 647.3 |
| Total Primary Reporting Segment | 637.6 | 531.2 | 1,223.8 | 1,026.1 |
| China | 51.2 | 40.6 | 83.6 | 67.4 |
| Total Net Sales | $ 688.8 | $ 571.8 | $ 1,307.4 | $ 1,093.5 |
| **Operating Margin(1):** | | | | |
| Primary Reporting Segment | | | | |
| United States | $ 62.9 | $ 57.7 | $ 130.1 | $ 114.6 |
| Mexico | 31.5 | 25.1 | 55.7 | 51.4 |
| Others | 186.4 | 143.8 | 336.6 | 281.8 |
| Total Primary Reporting Segment | 280.8 | 226.6 | 522.4 | 447.8 |
| China (2) | 46.6 | 36.0 | 75.9 | 58.6 |
| Total Operating Margin | $ 327.4 | $ 262.6 | $ 598.3 | $ 506.4 |
| Selling, general and administrative expenses | 211.1 | 190.8 | 418.0 | 372.3 |
| Interest expense, net | 2.1 | 1.3 | 4.1 | 3.0 |
| Income before income taxes | 114.2 | 70.5 | 176.2 | 131.1 |
| Income taxes | 32.3 | 22.2 | 42.4 | 41.3 |
| Net Income | $ 81.9 | $ 48.3 | $ 133.8 | $ 89.8 |

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2010 | June 30, 2009 | June 30, 2010 | June 30, 2009 |
| | (In millions) | | | |
| **Net sales by product line:** | | | | |
| Weight Management | $ 430.5 | $ 363.8 | $ 817.7 | $ 693.0 |
| Targeted Nutrition | 159.8 | 120.9 | 298.4 | 230.9 |
| Energy, Sports and Fitness | 30.1 | 24.0 | 55.9 | 45.6 |
| Outer Nutrition | 31.0 | 32.3 | 62.0 | 63.8 |
| Literature, promotional and other(3) | 37.4 | 30.8 | 73.4 | 60.2 |
| Total Net Sales | $ 688.8 | $ 571.8 | $ 1,307.4 | $ 1,093.5 |
| **Net sales by geographic region:** | | | | |
| North America(4) | $ 166.4 | $ 138.3 | $ 317.7 | $ 261.4 |
| Mexico | 80.9 | 66.4 | 152.7 | 125.6 |
| South and Central America | 82.8 | 85.4 | 174.1 | 160.7 |
| EMEA(5) | 135.6 | 126.6 | 266.4 | 249.9 |
| Asia Pacific(6) | 171.9 | 114.5 | 312.9 | 228.5 |
| China | 51.2 | 40.6 | 83.6 | 67.4 |
| Total Net Sales | $ 688.8 | $ 571.8 | $ 1,307.4 | $ 1,093.5 |

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

(2) Compensation to China sales employees and service fees to China licensed business providers totaling $30.4 million and $20.9 million for the three months ended June 30, 2010 and 2009, respectively, and $40.8 million and $34.9 million for the six months ended June 30, 2010 and 2009, respectively, 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, 2010 and December 31, 2009, total assets for the Company's Primary Reporting Segment were $1,135.4 million and $1,097.1 million, respectively. Total assets for the China segment were $61.8 million and $49.0 million as of June 30, 2010 and December 31, 2009, respectively.

**7. Share-Based Compensation**

The Company has share-based compensation plans, which are more fully described in Note 9 to the Consolidated Financial Statements in the 2009 10-K. During the six months ended June 30, 2010, the Company granted stock awards subject to continued service, consisting of stock units and stock appreciation rights, with vesting terms fully described in the 2009 10-K. Also, during the six months ended June 30, 2010, the Company granted other stock units to certain key employees subject to continued service, one half of which vest on the first anniversary of the date of the grant, and the remaining half of which vest on the second anniversary of the date of the grant.

For the three months ended June 30, 2010 and 2009, share-based compensation expense amounted to $5.5 million and $5.3 million, respectively. For the six months ended June 30, 2010 and 2009, share-based compensation expense amounted to $10.8 million and $10.2 million, respectively. As of June 30, 2010, the total unrecognized compensation cost related to all non-vested stock awards was $39.6 million and the related weighted-average period over which it is expected to be recognized is approximately 3.3 years.

The following tables summarize the activity under all share-based compensation plans for the six months ended June 30, 2010:

| Stock Options & Stock Appreciation Rights | Awards (In thousands) | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value (In millions) |
|---|---|---|---|---|
| Outstanding at December 31, 2009 | 7,372 | $ 24.84 | 5.9 years | $ 123.6 |
| Granted | 872 | $ 44.94 | | |
| Exercised | (480) | $ 16.52 | | |
| Forfeited | (44) | $ 31.52 | | |
| Outstanding at June 30, 2010 | 7,720 | $ 25.56 | 5.8 years | $ 152.5 |
| Exercisable at June 30, 2010 | 4,477 | $ 20.85 | 4.7 years | $ 111.2 |

| Incentive Plan and Independent Directors Stock Units | Shares (In thousands) | Weighted Average Grant Date Fair Value | Aggregate Fair Value (In millions) |
|---|---|---|---|
| Outstanding and nonvested at December 31, 2009 | 689.5 | $ 26.35 | $ 18.2 |
| Granted | 96.8 | $ 44.91 | 4.3 |
| Vested | (203.2) | $ 33.74 | (6.8) |
| Forfeited | (7.0) | $ 22.53 | (0.2) |
| Outstanding and nonvested at June 30, 2010 | 576.1 | $ 26.91 | $ 15.5 |

The weighted-average grant date fair value of stock awards granted during the three months ended June 30, 2010 and 2009 was $21.43 and $10.76, respectively. The weighted-average grant date fair value of stock awards granted during the six months ended June 30, 2010 and 2009 was $21.19 and $5.95, respectively. The total intrinsic value of stock awards exercised during the three months ended June 30, 2010 and 2009, was $7.5 million and $0.6 million, respectively, and during the six months ended June 30, 2010 and 2009, it was $13.4 million and $1.8 million, respectively.

**8. Income Taxes**

As of June 30, 2010, the total amount of unrecognized tax benefits, related interest, and penalties was $39.6 million, $7.7 million and $2.4 million, respectively. During the six months ended June 30, 2010, the Company recorded tax, interest, and penalties related to uncertain tax positions of $0.3 million, $0.3 million and $0.1 million, respectively. The unrecognized tax benefits relate primarily to uncertainties from international transfer pricing issues and the deductibility of certain operating expenses in various jurisdictions. If the total amount of unrecognized tax benefits were recognized, $39.6 million of unrecognized tax benefits, $7.7 million of interest and $2.4 million of penalties, would impact the effective tax rate.

During the six months ended June 30, 2010, the Company benefited from the terms of a tax holiday in the People's Republic of China. The tax holiday commenced on January 1, 2008 and will conclude on December 31, 2012. Under the terms of the holiday, the Company was subject to a zero tax rate in China during 2008 and 2009 and is subject to a graduated rate of 11% in 2010. The tax rate will gradually increase during the years 2010-2012 to a maximum of 25%.

Venezuela's cumulative inflation rate exceeded 100% during the three-year period ended December 31, 2009. Therefore, beginning January 1, 2010, Venezuela was considered a highly inflationary economy for U.S. federal income tax purposes. As a result, for U.S. federal income tax purposes, Herbalife Venezuela is required to account for its operations using the Dollar Approximate Separate Transactions Method of accounting, or DASTM, and use the U.S. dollar as its functional currency. The transitional impact of DASTM resulted in a one-time deferred income tax benefit of approximately $14.5 million. This benefit was recorded in the three months ended March 31, 2010.

**9. Derivative Instruments and Hedging Activities**

***Interest Rate Risk Management***

The Company engages in an interest rate hedging strategy for which the hedged transactions are forecasted interest payments on the Company's variable rate 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, 2010, the maximum length of time over which the Company is hedging certain of these exposures is less than four years.

During August 2009, the Company entered into four interest rate swap agreements with an effective date of December 31, 2009. The agreements collectively provide for the Company to pay interest for less than a four-year period at a weighted average fixed rate of 2.78% on notional amounts aggregating to $140.0 million while receiving interest for the same period at the one month LIBOR rate on the same notional amounts. These agreements will expire in July 2013. These swaps have been designated as cash flow hedges against the variability in the LIBOR interest rate on the term loan at LIBOR plus 1.50%, thereby fixing the Company's weighted average effective rate on the notional amounts at 4.28%. 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, 2010, the hedge relationships qualified as effective hedges under FASB ASC Topic 815, *Derivatives and Hedging*, or ASC 815. Consequently, all changes in the fair value of the derivatives are deferred and recorded in other comprehensive income (loss) until the related forecasted transactions are recognized in the consolidated statements of income. The fair value of the interest rate swap agreements are based on third-party bank quotes. As of June 30, 2010 and December 31, 2009, the Company recorded the interest rate swaps as liabilities at their fair value of $6.7 million and $2.6 million, respectively.

***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.

The Company also purchases foreign currency forward contracts in order to hedge forecasted inventory purchases and intercompany management fees that are designated as cash-flow hedges and are subject to foreign currency exposures. The Company applied the hedge accounting rules as required by ASC 815 for these hedges. These contracts allow the Company to sell Euros in exchange for U.S. dollars at specified contract rates. As of June 30, 2010, the aggregate notional amounts of these contracts outstanding were approximately $80.5 million and were expected to mature over the next fifteen months. The Company's derivative financial instruments are recorded on the consolidated balance sheet at fair value based on quoted market rates. Forward contracts are used to hedge forecasted inventory purchases over specific months. Changes in the fair value of these forward contracts, excluding forward points, designated as cash-flow hedges are recorded as a component of accumulated other comprehensive income (loss) within shareholders' equity, and are recognized in cost of sales in the consolidated statement of income during the period which approximates the time the hedged inventory is sold. The Company also hedges forecasted intercompany management fees over specific months. Changes in the fair value of these forward contracts designated as cash flow hedges are recorded as a component of accumulated other comprehensive income (loss) within shareholders' equity, and are recognized in selling, general and administrative expenses in the consolidated statement of income during the period when the hedged item and underlying transaction affect earnings. As of June 30, 2010, and December 31, 2009, the Company recorded assets at fair values of $9.3 million and $2.3 million, respectively, relating to all outstanding foreign currency contracts designated as cash-flow hedges. The Company assesses hedge effectiveness and measures hedge ineffectiveness at least quarterly. During the quarter ended June 30, 2010, the ineffective portion relating to these hedges was immaterial and the hedges remained effective as of June 30, 2010.

As of June 30, 2010, substantially all of the Company's outstanding foreign currency forward contracts have maturity dates of less than fifteen months with the majority of derivatives expiring within one year. There were no foreign currency option contracts outstanding as of June 30, 2010. See Part I, Item 3 — *Quantitative and Qualitative Disclosures About Market Risk* in this Quarterly Report on Form 10-Q for foreign currency instruments outstanding as of June 30, 2010.

***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, 2010 and 2009:

| | Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss) | | | |
|---|---|---|---|---|
| | For the Three Months Ended | | For the Six Months Ended | |
| | June 30, 2010 | June 30, 2009 | June 30, 2010 | June 30, 2009 |
| | (In millions) | | | |
| **Derivatives designated as hedging instruments:** | | | | |
| Foreign exchange currency contracts relating to inventory and intercompany management fee hedges | $ 8.3 | $ (1.8) | $ 13.3 | $ 0.6 |
| Interest rate swaps | $ (3.3) | $ — | $ (5.9) | $ — |

The following table summarizes gains (losses) relating to derivative instruments recorded to income during the three and six months ended June 30, 2010 and 2009:

| | Amount of Gain (Loss) Recognized in Income | | | | |
|---|---|---|---|---|---|
| | For the Three Months Ended | | For the Six Months Ended | | Location of Gain (Loss) Recognized in Income |
| | June 30, 2010 | June 30, 2009 | June 30, 2010 | June 30, 2009 | |
| | (In millions) | | | | |
| **Derivatives designated as hedging instruments:** | | | | | |
| Foreign exchange currency contracts relating to inventory hedges and intercompany management fee hedges (1) | $ — | $ (0.2) | $ (0.1) | $ — | Selling, general and administrative expenses |
| **Derivatives not designated as hedging instruments:** | | | | | |
| Foreign exchange currency contracts | $ (1.7) | $ (9.5) | $ (9.2) | $ (9.8) | Selling, general and administrative expenses |

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

The following table summarizes gains (losses) relating to derivative instruments reclassified from accumulated other comprehensive loss into income during the three and six months ended June 30, 2010 and 2009:

| | Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income | | | | Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion) |
|---|---|---|---|---|---|
| | For the Three Months Ended | | For the Six Months Ended | | |
| | June 30, 2010 | June 30, 2009 | June 30, 2010 | June 30, 2009 | |
| | (In millions) | | | | |
| **Derivatives designated as hedging instruments:** | | | | | |
| Foreign exchange currency contracts relating to inventory hedges | $ (0.1) | $ 0.4 | $ (0.7) | $ 0.4 | Cost of sales |
| Foreign exchange currency contracts relating to intercompany management fee hedges | $ 2.9 | $ — | $ 4.6 | $ — | Selling, general and administrative expenses |
| Interest rate contracts | $ (0.9) | $ (0.4) | $ (1.8) | $ (0.8) | Interest expense, net |

The Company reports its derivatives at fair value as either assets or liabilities within its consolidated balance sheet. See Note 12, *Fair Value Measurements*, for information on derivative fair values and their consolidated balance sheet location as of June 30, 2010, and December 31, 2009.

**10. Shareholders' Equity**

***Dividends***

On February 19, 2010, the Company's board of directors approved a quarterly cash dividend of $0.20 per common share in an aggregate amount of $12.1 million that was paid to shareholders on March 16, 2010. On April 29, 2010, the Company's board of directors approved a quarterly cash dividend of $0.20 per common share in an aggregate amount of $12.0 million that was paid to shareholders on May 24, 2010.

The aggregate amount of dividends declared and paid during the three months ended June 30, 2010 and 2009 were $12.0 million and $12.3 million, respectively. The aggregate amount of dividends declared and paid during the six months ended June 30, 2010 and 2009 were $24.1 million and $24.6 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. On May 3, 2010, the Company's board of directors approved an increase to the share repurchase authorization from $300 million to $1 billion. In addition, the Company's board of directors approved the extension of the expiration date of the share repurchase program from April 2011 to December 2014. During the three months ended March 31, 2010, the Company repurchased approximately 0.6 million of its common shares through open market purchases at an aggregate cost of approximately $25.0 million or an average cost of $41.42 per share. During the three months ended June 30, 2010, the Company repurchased approximately 1.1 million of its common shares through open market purchases at an aggregate cost of approximately $50.2 million or an average cost of $46.21 per share. As of June 30, 2010, the remaining authorized capacity under the Company's share repurchase program was approximately $851.6 million.

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

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

**11. Earnings Per Share**

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

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

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (in thousands) | | | |
| Weighted average shares used in basic computations | 59,527 | 61,642 | 59,843 | 61,583 |
| Dilutive effect of exercise of equity grants outstanding | 2,371 | 1,175 | 2,347 | 748 |
| Dilutive effect of warrants | 205 | 112 | 199 | 82 |
| Weighted average shares used in diluted computations | 62,103 | 62,929 | 62,389 | 62,413 |

There were an aggregate of 2.0 million and 2.9 million of equity grants, consisting of stock options, stock appreciation rights, and stock units, that were outstanding during the three months ended June 30, 2010 and 2009, respectively, but were not included in the computation of diluted earnings per share because their effect would be anti-dilutive. There were an aggregate of 2.2 million and 3.5 million of equity grants, consisting of stock options, stock appreciation rights, and stock units, that were outstanding during the six months ended June 30, 2010 and 2009, respectively, but were not included in the computation of diluted earnings per share because their effect would be anti-dilutive.

**12. Fair Value Measurements**

The Company applies the provisions of FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, or ASC 820, for its financial and non-financial assets and liabilities. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a fair value hierarchy, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 inputs are unobservable inputs for the asset or liability.

The Company measures certain assets and liabilities at fair value as discussed throughout the notes to its consolidated financial statements. Foreign exchange currency contracts are based on observable forward and spot rates. Interest rate swaps are estimated based on LIBOR and swap yield curves at the reporting date. Assets or liabilities that have recurring measurements and are measured at fair value consisted of Level 2 derivatives and are shown below at their gross values at June 30, 2010, and December 31, 2009:

**Fair Value Measurements at Reporting Date Using**

| | Derivative Balance Sheet Location | Significant Other Observable Inputs (Level 2) Fair Value at June 30, 2010 | Significant Other Observable Inputs (Level 2) Fair Value at December 31, 2009 |
|---|---|---|---|
| | | (in millions) | |
| **ASSETS:** | | | |
| **Derivatives designated as cash flow hedging instruments:** | | | |
| Foreign exchange currency contracts relating to inventory and intercompany management fee hedges | Prepaid expenses and other current assets | $ 9.3 | $ 2.3 |
| **Derivatives not designated as cash flow hedging instruments:** | | | |
| Foreign exchange currency contracts | Prepaid expenses and other current assets | $ 0.9 | $ 0.9 |
| | | $ 10.2 | $ 3.2 |
| **LIABILITIES:** | | | |
| **Derivatives designated as cash flow hedging instruments:** | | | |
| Interest rate swaps | Accrued expenses | $ 6.7 | $ 2.6 |
| **Derivatives not designated as hedging instruments:** | | | |
| Foreign exchange currency contracts | Accrued expenses | $ 1.6 | $ 2.6 |
| | | $ 8.3 | $ 5.2 |

**13. Subsequent Event**

In connection with the appeal of the assessment from the Mexican Tax Administration Service discussed in Note 4, *Contingencies*, the Company may be required to post bonds for some or all of the assessed amount. Accordingly, in July 2010, the Company entered into agreements with certain insurance companies to allow for the potential issuance of surety bonds in support of its appeal of the assessment. Such surety bonds, if issued, would not affect the availability of the Company's existing credit facility.

On August 2, 2010, the Company announced that its board of directors has authorized an increase in the quarterly cash dividend from $0.20 to $0.25 per common share, payable on August 26, 2010 to shareholders of record as of August 12, 2010.

**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 $2.3 billion for the year ended December 31, 2009. As of June 30, 2010, we sold our products in 73 countries through a network of approximately 2.1 million independent distributors. In China, we sell our products through retail stores, sales representatives, sales employees and licensed business providers. We believe the quality of our products and the effectiveness of our distribution network, coupled with geographic expansion, have been the primary reasons for our success throughout our 30-year operating history.

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

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

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.

We report revenue from our six regions:

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

**Volume Points by Geographic Region**

A key non-financial measure we focus on is Volume Points on a Royalty Basis, or Volume Points, which is essentially our weighted unit measure of product sales volume. It is a useful measure that we rely on as it excludes the impact of foreign currency fluctuations, changes in retail pricing, 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, | | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | % Change | 2010 | 2009 | % Change |
| | (Volume points in millions) | | | | | |
| North America | 242.8 | 200.5 | 21.1% | 463.0 | 387.0 | 19.6% |
| Mexico | 137.8 | 124.3 | 10.9% | 262.0 | 244.7 | 7.1% |
| South & Central America | 96.2 | 98.0 | (1.8)% | 197.2 | 200.5 | (1.6)% |
| EMEA | 127.5 | 117.3 | 8.7% | 247.0 | 241.4 | 2.3% |
| Asia Pacific (excluding China) | 191.6 | 125.4 | 52.8% | 343.8 | 270.4 | 27.1% |
| China | 41.2 | 32.8 | 25.6% | 66.8 | 53.6 | 24.6% |
| Worldwide | 837.1 | 698.3 | 19.9% | 1,579.8 | 1,397.6 | 13.0% |

**Average Active Sales Leaders by Geographic Region**

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

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | % Change | 2010 | 2009 | % Change |
| North America | 49,120 | 42,710 | 15.0% | 47,475 | 41,498 | 14.4% |
| Mexico | 36,848 | 33,655 | 9.5% | 35,664 | 33,414 | 6.7% |
| South & Central America | 27,173 | 26,981 | 0.7% | 27,195 | 26,833 | 1.3% |
| EMEA | 32,904 | 31,862 | 3.3% | 32,474 | 31,990 | 1.5% |
| Asia Pacific (excluding China) | 34,871 | 25,631 | 36.1% | 33,387 | 26,232 | 27.3% |
| China | 6,676 | 6,363 | 4.9% | 5,997 | 5,697 | 5.3% |
| Worldwide(1) | 180,132 | 160,912 | 11.9% | 174,923 | 159,456 | 9.7% |

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

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

We also focus on the number of distributors qualified as new sales leaders under our compensation system. Excluding China, distributors qualify for sales leader 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 has historically been a general indicator of the level of distributor recruitment. Given our ongoing transition to daily consumption DMOs coupled with the recent changes in our marketing plan, we are evaluating the usefulness of this measure to our ongoing business.

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | % Change | 2010 | 2009 | % Change |
| North America | 12,558 | 10,633 | 18.1% | 20,685 | 18,526 | 11.7% |
| Mexico | 6,806 | 6,316 | 7.8% | 10,946 | 10,667 | 2.6% |
| South & Central America | 5,639 | 8,121 | (30.6)% | 11,466 | 15,836 | (27.6)% |
| EMEA | 5,637 | 6,704 | (15.9)% | 9,514 | 11,940 | (20.3)% |
| Asia Pacific (excluding China) | 15,240 | 13,183 | 15.6% | 26,802 | 23,920 | 12.0% |
| Total New Sales Leaders | 45,880 | 44,957 | 2.1% | 79,413 | 80,889 | (1.8)% |
| New China Sales Employees and Licensed Business Providers | 7,288 | 6,771 | 7.6% | 11,533 | 11,098 | 3.9% |
| Worldwide Total New Sales Leaders | 53,168 | 51,728 | 2.8% | 90,946 | 91,987 | (1.1)% |

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

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

| Sales Leaders Statistics (Excluding China) | 2010 | 2009 |
|---|---|---|
| | (In thousands) | |
| January 1 total sales leaders | 431.3 | 456.9 |
| January & February new sales leaders | 21.2 | 20.6 |
| Demoted sales leaders (did not re-qualify) | (165.9) | (181.4) |
| Other sales leaders (resigned, etc) | (1.1) | (1.4) |
| End of February total sales leaders | 285.5 | 294.7 |

The distributor statistics below further highlight the calculation for retention.

| Sales Leaders Retention (Excluding China) | 2010 | 2009 |
|---|---|---|
| | (In thousands) | |
| Sales leaders needing to re-qualify | 290.9 | 304.0 |
| Demoted sales leaders (did not re-qualify) | (165.9) | (181.4) |
| Total re-qualified | 125.0 | 122.6 |
| Retention rate | 43.0% | 40.3% |

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

| | Number of Sales Leaders | | Sales leaders Retention Rate | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| North America | 64,668 | 63,726 | 43.3% | 42.2% |
| Mexico | 47,068 | 50,099 | 50.4% | 45.2% |
| South and Central America | 51,060 | 67,876 | 34.1% | 32.2% |
| EMEA | 47,080 | 53,371 | 51.9% | 48.7% |
| Asia Pacific (excluding China) | 75,635 | 59,631 | 38.6% | 35.1% |
| Total Sales leaders | 285,511 | 294,703 | 43.0% | 40.3% |
| China Sales Employees and Licensed Business Providers | 27,415 | 29,684 | | |
| Worldwide Total Sales Leaders | 312,926 | 324,387 | | |

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

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

We provide distributors with products, support materials, training, special events and a competitive compensation program. If a distributor wants to pursue the Herbalife business opportunity, the distributor is responsible for growing his or her business and personally pays for the sales activities related to attracting new customers and recruiting distributors by hosting events such as Herbalife Opportunity Meetings or Success Training Seminars; by advertising Herbalife's products; by purchasing and using promotional materials such as t-shirts, buttons and caps; by utilizing and paying for direct mail and print material such as brochures, flyers, catalogs, business cards, posters and banners and telephone book listings; by purchasing inventory for sale or use as samples; and by training, mentoring and following up (in person or via the phone or internet) with customers and recruits on how to use Herbalife products and/or pursue the Herbalife business opportunity.

**Presentation**

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

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

Our *"gross profit"* consists of net sales less *"cost of sales,"* which represents 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, Outer Nutrition products and promotional products; and
- other discretionary incentive cash bonuses to qualifying distributors.

Royalty overrides are generally earned based on retail sales and provide potential earnings to distributors of up to 23% of retail sales or approximately 33% of our net sales. Royalty overrides together with distributor allowances of up to 50% represent the potential earnings to distributors of up to approximately 73% of retail sales. The compensation to distributors is generally for the development, retention and improved productivity of their distributor sales organizations and is paid to several levels of distributors on each sale. Due to restrictions on direct selling in China, our full-time employed sales representatives in China are compensated with wages, bonuses and benefits and our licensed business providers in China are compensated with service fees instead of the distributor allowances and royalty overrides utilized in our traditional marketing program 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 partially 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, 2010 were $688.8 million and $1,307.4 million, respectively. Net sales increased $117.0 million, or 20.5%, and $214.0 million, or 19.6%, for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. In local currency, net sales for the three and six months ended June 30, 2010 increased 20.0% and 16.8%, respectively, as compared to the same periods in 2009. The increase in net sales was primarily due to the continued successful adoption and operation of daily consumption business models, an increase in average active sales leaders, branding activities and increased distributor recruiting.

Net income for the three and six months ended June 30, 2010 was $81.9 million, or $1.32 per diluted share, and $133.8 million, or $2.14 per diluted share, respectively. Net income increased $33.7 million, or 69.8%, and $44.0 million, or 49.0%, for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. The increase was primarily driven by higher net sales, lower effective tax rate, lower professional fees and lower foreign exchange losses, and was partially offset by higher cost of goods sold including the Venezuela related charges, higher royalties, higher salaries and benefits, higher China sales employee and licensed business provider costs, higher distributor promotion and event costs and higher depreciation expense.

Net income for the three months ended June 30, 2010 included a $4.0 million pre-tax ($2.6 million post-tax) foreign exchange gain in Herbalife Venezuela as a result of remeasuring its Bolivar denominated monetary assets and liabilities as of June 30, 2010 at the SITME rate of 5.3 Bolivars per U.S. dollar as opposed to the last parallel market rate of 8.3 Bolivars per U.S. dollar. Net income for the six months ended June 30, 2010 also included a $15.1 million unfavorable impact related to remeasurement of monetary assets and liabilities resulting from Venezuela being designated as a highly inflationary economy beginning January 1, 2010; a $12.7 million unfavorable impact related to incremental U.S. dollar costs of 2009 imports into Venezuela which were recorded at the unfavorable parallel market exchange rate and were not devalued based on 2010 exchange rates but rather recorded to cost of sales at their historical dollar costs as products were sold in the first quarter of 2010; a $3.7 million favorable impact resulting from receipt of U.S. dollars approved by the Venezuelan government's Foreign Exchange Commission, or CADIVI, at the official exchange rate relating to 2009 product importations which were previously registered with CADIVI and a $14.5 million one-time favorable impact to income taxes related to Venezuela becoming a highly inflationary economy.

Net income for the three 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.

**Results of Operations**

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

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2010 | June 30, 2009 | June 30, 2010 | June 30, 2009 |
| **Operations:** | | | | |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | 19.8 | 21.4 | 21.2 | 20.6 |
| Gross profit | 80.2 | 78.6 | 78.8 | 79.4 |
| Royalty overrides(1) | 32.7 | 32.6 | 33.0 | 33.1 |
| Selling, general and administrative expenses(1) | 30.6 | 33.4 | 32.0 | 34.0 |
| Operating income | 16.9 | 12.6 | 13.8 | 12.3 |
| Interest expense, net | 0.3 | 0.3 | 0.3 | 0.3 |
| Income before income taxes | 16.6 | 12.3 | 13.5 | 12.0 |
| Income taxes | 4.7 | 3.9 | 3.3 | 3.8 |
| Net income | 11.9% | 8.4% | 10.2% | 8.2% |

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

**Net Sales**

The following chart reconciles retail sales to net sales:

**Sales by Geographic Region**

| | Three Months Ended June 30, | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | | | | | 2009 | | | | | |
| | 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 | $ 265.0 | $ (126.2) | $ 138.8 | $ 27.6 | $ 166.4 | $ 220.7 | $ (105.3) | $ 115.4 | $ 22.9 | $ 138.3 | 20.3% |
| Mexico | 130.7 | (63.8) | 66.9 | 14.0 | 80.9 | 109.3 | (53.3) | 56.0 | 10.4 | 66.4 | 21.8% |
| South & Central America | 136.4 | (65.9) | 70.5 | 12.3 | 82.8 | 143.1 | (69.8) | 73.3 | 12.1 | 85.4 | (3.0)% |
| EMEA | 218.7 | (105.4) | 113.3 | 22.3 | 135.6 | 204.2 | (98.1) | 106.1 | 20.5 | 126.6 | 7.1% |
| Asia Pacific | 274.6 | (125.9) | 148.7 | 23.2 | 171.9 | 186.4 | (86.9) | 99.5 | 15.0 | 114.5 | 50.1% |
| China | 58.1 | (6.9) | 51.2 | — | 51.2 | 44.6 | (4.0) | 40.6 | — | 40.6 | 26.1% |
| Worldwide | $1,083.5 | $ (494.1) | $ 589.4 | $ 99.4 | $ 688.8 | $ 908.3 | $ (417.4) | $ 490.9 | $ 80.9 | $ 571.8 | 20.5% |

| | Six Months Ended June 30, | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | | | | | 2009 | | | | | |
| | 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 | $ 505.6 | $ (240.9) | $ 264.7 | $ 53.0 | $ 317.7 | $ 417.3 | $ (199.0) | $ 218.3 | $ 43.1 | $ 261.4 | 21.5% |
| Mexico | 246.8 | (120.5) | 126.3 | 26.4 | 152.7 | 207.1 | (101.0) | 106.1 | 19.5 | 125.6 | 21.6% |
| South & Central America | 288.3 | (138.9) | 149.4 | 24.7 | 174.1 | 267.4 | (129.7) | 137.7 | 23.0 | 160.7 | 8.3% |
| EMEA | 428.0 | (205.8) | 222.2 | 44.2 | 266.4 | 404.1 | (194.9) | 209.2 | 40.7 | 249.9 | 6.6% |
| Asia Pacific | 501.7 | (231.3) | 270.4 | 42.5 | 312.9 | 375.7 | (176.6) | 199.1 | 29.4 | 228.5 | 36.9% |
| China | 93.6 | (10.0) | 83.6 | — | 83.6 | 73.6 | (6.2) | 67.4 | — | 67.4 | 24.0% |
| Worldwide | $2,064.0 | $ (947.4) | $1,116.6 | $ 190.8 | $1,307.4 | $1,745.2 | $ (807.4) | $ 937.8 | $ 155.7 | $1,093.5 | 19.6% |

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

The factors described above have helped distributors increase their business, which in turn helps drive volume point growth in our business, and thus, net sales growth. The discussion below of net sales by geographic region further details some of the specific drivers of growth of our business and causes of sales increases during the three and six months ended June 30, 2010, as well as the unique growth or contraction factors specific to certain geographic regions or major countries. We believe that the correct business foundation, coupled with ongoing training and promotional initiatives, is required to increase recruiting and retention of distributors and retailing of our products. This correct business foundation includes strong country management that works closely with the distributor leadership, actively engaged and unified distributor leadership, a broad product line that appeals to local consumer needs, a favorable regulatory environment, a scalable and stable technology platform and an attractive distributor marketing plan. Initiatives, such as Success Training Seminars, Leadership Development Weekends, Promotional Events and regional Extravaganzas are integral components of developing a highly motivated and educated distributor sales organization that will work toward increasing the recruitment and retention of distributors.

We anticipate that our strategy will continue to include creating and maintaining growth within existing markets, while expanding into new markets. In addition, new ideas and DMOs, are being generated in many of our regional markets and are globalized where applicable, through the combined efforts of distributors, country management or regional and corporate management. 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 $166.4 million and $317.7 million for the three and six months ended June 30, 2010, respectively. Net sales increased $28.1 million, or 20.3%, and $56.3 million, or 21.5%, for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. In local currency, net sales increased 19.9% and 21.1% for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. The overall increase in the region was a result of net sales growth in the U.S. of $27.5 million, or 20.5%, and $55.1 million, or 21.8%, for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009.

In the U.S. we continue to see the 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 continued development of the Weight Loss Challenge DMO. In terms of volume, the mix of business in the U.S. was 65.4% in the U.S. Latin market and 34.6% in the General market for the three months ended June 30, 2010 and 65.0% in the U.S. Latin market and 35.0% in the General market for the six months ended June 30, 2010. Sales growth in the U.S. Latin market was 16.4% and 18.7% for the three and six months ended June 30, 2010, respectively. Sales growth in the General market was 33.2% and 23.4% for the three and six months ended June 30, 2010, respectively.

The region hosted April Leadership Development Weekends in 15 cities with approximately 12,000 attendees. In May and June 2010, the region also hosted a U.S. Latin market Nutrition Club Tour in 30 cities with almost 14,000 attendees.

Average active sales leaders in the region increased 15.0% and 14.4% for the three and six months ended June 30, 2010, respectively as compared to the same periods in 2009. Average active sales leaders in the U.S. increased 15.8% and 15.2% for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. Total sales leaders in the region increased 4.7% as of June 30, 2010 compared to June 30, 2009.

We believe the fiscal year 2010 net sales in North America should increase year over year primarily as a result of the continuing growth of the U.S. Latin market and the rejuvenated General market.

***Mexico***

The Mexico region reported net sales of $80.9 million and $152.7 million for the three and six months ended June 30, 2010, respectively. Net sales for the three and six months ended June 30, 2010, increased $14.5 million, or 21.8%, and $27.1 million, or 21.6%, respectively, as compared to the same periods in 2009. In local currency, net sales for the three and six months ended June 30, 2010 increased 15.0% and 11.6%, respectively, as compared to the same periods in 2009. The fluctuation of foreign currency rates had a favorable impact of $4.6 million and $12.6 million on net sales for the three and six months ended June 30, 2010, respectively.

We believe that local currency sales in the second quarter benefited from our distribution agreement with a large Mexico retailer. This agreement allows distributors to pick up their product orders at the service counters of 302 locations in 26 Mexican states. We believe that by leveraging their distribution system, we are providing distributors with significantly better product access.

Average active sales leaders in Mexico increased 9.5% and 6.7% for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. Total sales leaders in Mexico decreased 5.0% as of June 30, 2010, compared to June 30, 2009.

In April 2010, Mexico hosted a Nutrition Club Tour in 33 cities with total attendance of 28,000.

We believe the fiscal year 2010 net sales in Mexico should increase year over year due to increases in volume as well as the assumption of a slightly favorable currency exchange rate.

***South and Central America***

The South and Central America region reported net sales of $82.8 million and $174.1 million for the three and six months ended June 30, 2010, respectively. Net sales decreased $2.6 million, or 3.0%, and increased $13.4 million, or 8.3%, for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. In local currency, net sales increased 6.4% and 17.3% for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. The fluctuation of foreign currency rates had an $8.1 million and $14.3 million unfavorable impact on net sales for the three and six months ended June 30, 2010, respectively. The decrease in net sales for the three months ended June 30, 2010 was driven by lower sales in Venezuela under highly inflationary accounting rules, partially offset by higher sales in Brazil. The increase in net sales for the six months ended June 30, 2010 was driven by increases in Brazil and Ecuador, partially offset by the decline in Venezuela.

In Brazil, the region's largest market, net sales increased $11.0 million, or 30.2%, and $24.9 million, or 35.9%, for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. In local currency, net sales increased 12.8% and 11.9% for the three and six months ended June 30, 2010, respectively, as compared to the same period in 2009. The increase in local currency net sales was primarily the result of distributors successfully transforming this market into a more balanced mix of recruiting, retailing and retention via the Nutrition Club and other daily consumption based DMOs. The fluctuation of foreign currency rates had a $6.3 million and $16.6 million favorable impact on net sales in Brazil for the three and six months ended June 30, 2010, respectively.

Venezuela, the region's second largest market, experienced a net sales decrease of $13.2 million, or 62.8%, and $21.9 million, or 57.2%, for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. The decrease in net sales reflects the impact of re-measuring Venezuela's local sales at the parallel market exchange rate and the new regulated market rate during fiscal year 2010, under highly inflationary accounting rules. During the three and six months ended June 30, 2010 the average applicable exchange rate was 66% and 67% less favorable, respectively, compared to the official exchange rate that was used to translate Venezuela's local sales during the same periods in 2009. In local currency, net sales increased 8.5% and 27.7%, for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. The sales growth in local currency was partially driven by price increases of 10%, 9%, and 12% in June 2009, October 2009, and March 2010, respectively. See *Liquidity and Capital Resources — Working Capital and Operating Activities* in this section for further discussion on currency exchange rate issues in Venezuela.

Average active sales leaders in the region increased 0.7% and 1.3% for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. Total sales leaders in the region decreased 25.7% as of June 30, 2010 compared to June 30, 2009.

In April 2010, the region hosted an Extravaganza in Rio de Janiero, Brazil with over 13,000 attendees.

We believe the fiscal year 2010 net sales in South and Central America will show a decrease year over year. This assumes the negative impact of re-measuring Venezuela's local sales under highly inflationary accounting rules at the parallel market exchange rate and the new regulated market rate during fiscal year 2010 compared to the official exchange rate that was used to translate Venezuela's local sales in 2009. In addition, we expect a slight decrease in volume for the region partially offset by price increases in select markets.

***EMEA***

The EMEA region reported net sales of $135.6 million and $266.4 million for the three and six months ended June 30, 2010, respectively. Net sales increased $9.0 million, or 7.1%, and $16.5 million, or 6.6%, for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. In local currency, net sales increased 11.4% and 4.8% for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. The fluctuation of foreign currency rates had an unfavorable impact on net sales of $5.5 million and a favorable impact of $4.5 million for the three and six months ended June 30, 2010, respectively. The increase in net sales for the three and six months ended June 30, 2010 was driven by increases in Russia, Commonwealth of Independent States, or CIS countries, Norway and Spain, partially offset by a decrease in France.

In Italy, the region's largest market, net sales decreased $0.9 million, or 2.8%, for the three months ended June 30, 2010 and increased $0.5 million, or 0.9%, for the six months ended June 30, 2010, as compared to the same periods in 2009. In local currency, net sales increased 4.6% and 2.0% for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009.

In Spain and Russia, the next largest markets in the region, net sales increased $1.7 million, or 19.1%, and $3.2 million, or 45.0%, respectively, for the three months ended June 30, 2010, as compared to the same period in 2009. For the six months ended June 30, 2010, Spain and Russia net sales increased $2.8 million, or 15.8%, and $4.9 million, or 32.6%, respectively, as compared to the same period in 2009. In local currency, net sales for Spain and Russia increased 28.2% and 36.1%, respectively, for the three months ended June 30, 2010, as compared to the same period in 2009 and 17.2% and 20.5%, respectively, for the six months ended June 30, 2010, as compared to the same period in 2009. The increase in Spain was mainly due to the positive effect of increased distributor engagement. The increase in Russia was driven by the ongoing adoption of the Commercial Nutrition Club.

In other markets in the region, net sales in France decreased $2.5 million, or 22.5% and $4.3 million, or 19.5%, and net sales in the Netherlands increased $0.6 million, or 7.7% and $0.6 million, or 4.3%, for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. In local currency, net sales in France decreased 16.7% and 18.9%, and net sales in the Netherlands increased 15.8% and 5.4%, for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. The decrease in net sales in France was mainly due to lower recruiting. The increase in net sales in the Netherlands was driven by the adoption of Nutrition Clubs.

Average active sales leaders in the region increased 3.3% and 1.5% for the three and six months ended June 30, 2010, as compared to the same periods in 2009. Total sales leaders in the region decreased 11.5% as of June 30, 2010 compared to June 30, 2009.

There were no major distributor or other marketing events for the region in the second quarter.

We believe fiscal year 2010 net sales in EMEA will show a slight increase year over year due primarily to higher volume.

***Asia Pacific***

The Asia Pacific region, which excludes China, reported net sales of $171.9 million and $312.9 million for the three and six months ended June 30, 2010, respectively. Net sales increased $57.4 million, or 50.1%, and $84.4 million, or 36.9%, for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. In local currency, net sales increased 40.4% and 25.5% for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. The fluctuation of foreign currency rates had a favorable impact of $11.0 million and $26.0 million on net sales for the three and six months ended June 30 2010, respectively. The increase in net sales for the three and six months ended June 30, 2010 was primarily driven by an increase in South Korea.

Net sales in South Korea, our largest market in the region, increased $31.6 million, or 127.3%, and $50.3 million, or 120.1%, for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. In local currency, net sales increased 105.3% and 90.6% for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. The increase in net sales was primarily driven by the successful adoption and operation of the Nutrition Club DMO, in the form of Commercial Clubs along with the Premium Herbalife Opportunity Meeting. The fluctuation of foreign currency rates had a favorable impact on net sales of $5.5 million and $12.4 million for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009.

Net sales in Taiwan, our second largest market in the region, increased $5.6 million, or 15.7%, and $0.4 million, or 0.5%, for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. In local currency, net sales increased 11.4% and decreased 4.3% for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. The increase in sales for the three and six months ended June 30, 2010 as compared to the prior year reflects the impact of a government coupon promotion run in February and March of 2009 which increased net sales in those months and caused lower sales in the following months. The promotion was not repeated this year. The fluctuation of foreign currency rates had a favorable impact on net sales of $1.5 million and $3.8 million for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009.

Net sales in Malaysia, our third largest market in the region, increased $3.8 million, or 25.9%, and $5.7 million, or 21.9%, for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009, reflecting the continued success of the Road Show DMO, which has generated positive distributor momentum and increased recruiting. In local currency, net sales increased 14.8% and 12.1% for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. The fluctuation of foreign currency rates had a favorable impact on net sales of $1.6 million and $2.5 million for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009.

Net sales in Japan, our fourth largest market in the region, increased $0.4 million, or 3.2%, and decreased $0.7 million, or 2.5%, for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. In local currency, net sales increased 9.6% and decreased 2.9% for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. Despite the increase in local currency sales for the three months ended June 30, 2010, the market continues to be unfavorably impacted by a decline in distributor recruiting. The fluctuation of foreign currency rates had an unfavorable impact on net sales of $0.7 million and a favorable impact of $0.1 million for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009.

Net sales in India, our fifth largest market in the region, increased $6.2 million, or 112.5%, and $11.3 million, or 107.5%, for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. In local currency, net sales increased 98.7% and 92.6% for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. The increase in net sales for the three and six months ended June 30, 2010, respectively, was driven primarily by the adoption of the Nutrition Club DMO. The fluctuation of foreign currency rates had a favorable impact on net sales of $0.8 million and $ 1.6 million for the three and six months ended June 30, 2010, as compared to the same periods in 2009.

In May, the region hosted an Extravaganza in Singapore with almost 18,000 attendees.

Average active sales leaders in the region increased 36.1% and 27.3% for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. Total sales leaders in the region increased 21.6% as of June 30, 2010 compared to June 30, 2009.

We believe the fiscal year 2010 net sales in Asia Pacific should increase year over year due primarily to higher volume in existing markets as well as the full year impact of Vietnam which was opened during the fourth quarter of 2009.

***China***

Net sales in China were $51.2 million and $83.6 million for the three and six months ended June 30, 2010, respectively. Net sales increased $10.6 million, or 26.1%, and $16.2 million, or 24.0%, for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. In local currency, net sales increased 26.3% and 23.9% for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. The fluctuation of foreign currency rates did not have a material impact on net sales for the three and six months ended June 30 2010.

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 Brazil, which have gone through a similar transition, China has experienced a slow-down in sales growth as the licensed business providers begin to build their nutrition club business. We believe that the nutrition club concept is slowly starting to gain traction as witnessed by the growth in clubs over the past year. While we believe the nutrition club DMO has tremendous potential to expand throughout China and achieve success similar to Taiwan and South Korea, we also realize that the process is still in its early development stage and will most likely build gradually over the next few years.

As of June 30, 2010, we had direct-selling licenses in 11 provinces and we were operating 75 retail stores in 30 provinces in China. In late July, China's Ministry of Commerce granted the company five additional licenses to conduct direct-selling business in the provinces of Jiangxi, Liaoning, Henan, Jilin, Chongqing. Additionally, our license for Shanghai, which was granted in July 2009, is now active. The 16 provinces in which we now have direct-selling licenses represent an addressable population of approximately 844 million.

Average active sales leaders in China increased 4.9% and 5.3% for the three and six months ended June 30, 2010, as compared to the same periods in 2009. Total sales leaders in China decreased 5.3% as of June 30, 2010 compared to June 30, 2009.

We believe the fiscal year 2010 net sales in China should increase year over year, primarily as a result of higher volume due to continued adoption and expansion of nutrition clubs.

**Sales by Product Category**

| | Three Months Ended June 30, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | | | | | 2009 | | | | |
| | 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 | $ 694.9 | $ (328.1) | $ 366.8 | $ 63.7 | $ 430.5 | $ 592.9 | $ (281.9) | $ 311.0 | $ 52.8 | $ 363.8 | 18.3% |
| Targeted Nutrition | 258.0 | (121.8) | 136.2 | 23.6 | 159.8 | 196.9 | (93.6) | 103.3 | 17.6 | 120.9 | 32.2% |
| Energy, Sports and Fitness | 48.4 | (22.8) | 25.6 | 4.5 | 30.1 | 39.2 | (18.7) | 20.5 | 3.5 | 24.0 | 25.4% |
| Outer Nutrition | 49.9 | (23.5) | 26.4 | 4.6 | 31.0 | 52.6 | (25.0) | 27.6 | 4.7 | 32.3 | (4.0)% |
| Literature, Promotional and Other | 32.3 | 2.1 | 34.4 | 3.0 | 37.4 | 26.7 | 1.8 | 28.5 | 2.3 | 30.8 | 21.4% |
| Total | $1,083.5 | $ (494.1) | $ 589.4 | $ 99.4 | $ 688.8 | $ 908.3 | $ (417.4) | $ 490.9 | $ 80.9 | $ 571.8 | 20.5% |

| | Six Months Ended June 30, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | | | | | 2009 | | | | |
| | 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 | $1,325.5 | $ (630.3) | $ 695.2 | $ 122.5 | $ 817.7 | $1,135.7 | $ (544.0) | $ 591.7 | $ 101.3 | $ 693.0 | 18.0% |
| Targeted Nutrition | 483.7 | (230.0) | 253.7 | 44.7 | 298.4 | 378.3 | (181.2) | 197.1 | 33.8 | 230.9 | 29.2% |
| Energy, Sports and Fitness | 90.5 | (43.0) | 47.5 | 8.4 | 55.9 | 74.7 | (35.8) | 38.9 | 6.7 | 45.6 | 22.6% |
| Outer Nutrition | 100.5 | (47.8) | 52.7 | 9.3 | 62.0 | 104.6 | (50.1) | 54.5 | 9.3 | 63.8 | (2.8)% |
| Literature, Promotional and Other | 63.8 | 3.7 | 67.5 | 5.9 | 73.4 | 51.9 | 3.7 | 55.6 | 4.6 | 60.2 | 21.9% |
| Total | $2,064.0 | $ (947.4) | $1,116.6 | $ 190.8 | $1,307.4 | $1,745.2 | $ (807.4) | $ 937.8 | $ 155.7 | $1,093.5 | 19.6% |

Net sales for Weight Management, Targeted Nutrition, Energy, Sports and Fitness and Literature, Promotional and Other product categories increased for the three and six months ended June 30, 2010, as compared to the same periods in 2009, partially offset by a slight decrease in Outer Nutrition product category for the three and six months ended June 30, 2010, as compared to the same period in 2009, mainly due to the factors described in the above discussions of the individual geographic regions. In addition, net sales for Outer Nutrition decreased in part due to the distributor focus on DMOs that are centered towards Weight Management products.

**Gross Profit**

Gross profit was $552.2 million and $1,030.4 million for the three and six months ended June 30, 2010, respectively, as compared to $449.4 million and $868.6 million for the same periods in 2009. As a percentage of net sales, gross profit for the three and six months ended June 30, 2010 increased to 80.2% and decreased to 78.8%, respectively, as compared to 78.6% and 79.4% for the same periods in 2009. The increase for the three months ended June 30, 2010, as compared to the same period in 2009, was primarily due to favorable impact from currency fluctuations and cost savings on inventory purchases offset by the unfavorable impact of remeasuring Herbalife Venezuela's Bolivar net sales at the less favorable parallel market rate and the new regulated exchange rate during 2010, as opposed to the official rate during 2009. The decrease for the six months ended June 30, 2010, as compared to the same period in 2009, was primarily due to $12.7 million of incremental costs related to imports during 2009 into Venezuela at the unfavorable parallel market exchange rate, which were recognized in cost of sales during the first quarter of 2010 as these products were sold and the unfavorable impact of remeasuring Herbalife Venezuela's Bolivar net sales at the less favorable old parallel market rate and the new regulated exchange rate during 2010, as opposed to being translated at the official rate during 2009, partially offset by the favorable impact from currency fluctuations and cost savings on inventory purchases relating to our global operations. See *Liquidity and Capital Resources — Working Capital and Operating Activities* in this section for further discussion on currency exchange rate issues in Venezuela. We believe that we have the ability to partially mitigate certain cost pressures through improved optimization of our supply chain coupled with select increases in the retail prices of our products.

**Royalty Overrides**

Royalty overrides as a percentage of net sales was 32.7% and 33.0% for the three and six months ended June 30, 2010, respectively, as compared to 32.6% and 33.1% for the same periods in 2009. Generally, this ratio varies slightly from period to period due to changes in the mix of products and countries because full royalty overrides are not paid on certain products and in certain countries. Compensation to our full-time sales employees and licensed business providers in China is included in selling, general and administrative expenses as opposed to royalty overrides where it is included for all other distributors under our worldwide marketing plan. We anticipate fluctuations in royalty overrides as a percentage of net sales reflecting the growth prospect of our China business relative to that of our worldwide business.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses as a percentage of net sales was 30.6% and 32.0% for the three and six months ended June 30, 2010, respectively, as compared to 33.4% and 34.0% for the same periods in 2009.

For the three and six months ended June 30, 2010, selling, general and administrative expenses increased $20.3 million and $45.7 million to $211.1 million and $418.0 million, respectively, compared to the same periods in 2009. The increase for the three months ended June 30, 2010, included $11.8 million in higher salaries and benefits, excluding China sales employees; $2.5 million in higher depreciation expense; and higher variable expenses including $9.5 million in higher expenses related to China sales employees and licensed business providers, $7.6 million in higher distributor promotion and event costs and $2.7 million in higher credit card fees. These increases were partially offset by a decrease of $7.4 million in professional fees and $15.4 million in lower foreign exchange losses which included the effect of the $4.0 million pre-tax net foreign exchange gain in Herbalife Venezuela as a result of remeasuring its Bolivar denominated monetary assets and liabilities as of June 30, 2010 at the SITME rate of 5.3 Bolivars per U.S. dollar as opposed to the last parallel market rate of 8.3 Bolivars per U.S. dollar. The increase for the six months ended June 30, 2010 included $17.9 million in higher salaries and benefits, excluding China sales employees; $5.0 million in higher depreciation expense; and higher variable expenses including $10.0 million in higher distributor promotion and event costs, $5.9 million in higher expenses related to China sales employees and licensed business providers and $4.9 million in higher credit card fees. These increases were partially offset by $3.4 million in lower professional fees and $10.4 million in lower foreign exchange loss which included the effect of Herbalife Venezuela's $4.0 million foreign exchange gain in the second quarter of 2010 and $11.4 million foreign exchange loss in the first quarter of 2010.

We expect 2010 selling, general and administrative expenses to increase in absolute dollars over 2009 levels reflecting higher salaries and benefits excluding China sales employees, China sales employee costs, and China licensed business provider service fees, increased depreciation, primarily related to our global Oracle implementation, and various sales growth initiatives, including distributor promotions.

**Net Interest Expense**

Net interest expense is as follows:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| Net Interest Expense | June 30, 2010 | June 30, 2009 | June 30, 2010 | June 30, 2009 |
| | (Dollars in millions) | | | |
| Interest expense | 2.5 | 2.9 | 5.0 | 6.2 |
| Interest income | (0.4) | (1.6) | (0.9) | (3.2) |
| Net interest expense | $ 2.1 | $ 1.3 | $ 4.1 | $ 3.0 |

The increase in net interest expense for the three and six months ended June 30, 2010 as compared to the same periods in 2009, was primarily due to the decrease in interest income generated from Herbalife Venezuela's cash and cash equivalents, which was partially offset by a decrease in interest expense. The decrease in interest expense was primarily due to lower interest rates related to our senior secured credit facility during 2010 as compared to 2009, which was partially offset by an increase in interest expense relating to our interest rate swap agreements.

**Income Taxes**

Income taxes were $32.3 million and $42.4 million for the three and six months ended June 30, 2010, respectively, as compared to $22.2 million and $41.3 million for the same periods in 2009. As a percentage of pre-tax income, the effective income tax rate was 28.3% and 24.1% for the three and six months ended June 30, 2010, as compared to 31.5% for both of the same periods in 2009. The decrease in the effective tax rate for the three and six months ended June 30, 2010, as compared to the same periods in 2009, was primarily due to the conversion of Venezuela to a highly inflationary economy, as well as the change in the operating effective rate reflecting changes in the country mix and a non-cash benefit of $2.4 million due to the expiration of certain statute of limitations.

Venezuela's cumulative inflation rate exceeded 100% during the three-year period ended December 31, 2009. Therefore, beginning January 1, 2010, Venezuela is considered a highly inflationary economy for U.S. federal income tax purposes. As a result, for U.S. federal income tax purposes, Herbalife Venezuela is required to account for its operations using the Dollar Approximate Separate Transactions Method of accounting, or DASTM, and use the U.S. dollar as its functional currency. The transitional impact of DASTM resulted in a one-time deferred income tax benefit of approximately $14.5 million. This benefit was reflected in the first quarter of 2010.

**Subsequent Event**

In connection with the appeal of the administrative assessment from the Mexican Tax Administration Service discussed in Note 4, *Contingencies*, in the notes to consolidated financial statements, we may be required to post bonds for some or all of the assessed amount. Accordingly, in July 2010, we entered into agreements with certain insurance companies to allow for the potential issuance of surety bonds in support of our appeal of the assessment. Such surety bonds, if issued, would not affect the availability of our existing credit facility.

On August 2, 2010, the Company announced that its board of directors has authorized an increase in the quarterly cash dividend from $0.20 to $0.25 per common share, payable on August 26, 2010 to shareholders of record as of August 12, 2010.

**Liquidity and Capital Resources**

We have historically met our working capital and capital expenditure requirements, including funding for expansion of operations, through net cash flows provided by operating activities. Our principal source of liquidity is our operating cash flows. Variations in sales of our products would directly affect the availability of funds. There are no material contractual restrictions on the ability to transfer and remit funds among our international affiliated companies. However, as discussed below there are foreign currency restrictions in Venezuela. 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 not resulted from the need to fund our normal operations, but instead has effectively resulted from our share repurchase and dividend activities over the recent years, which together, since the inception of these programs in 2007, amounted to approximately $816.1 million. Our use of the credit facility for these purposes and not for general working capital and capital expenditure needs has limited 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 $155.0 million of undrawn capacity as of June 30, 2010, 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, 2010, we generated $170.4 million of operating cash flow, as compared to $122.3 million for the same period in 2009. The increase in cash generated from operations was primarily due to an increase in operating income of $46.2 million driven by a 19.6% growth in net sales for the six months ended June 30, 2010 as compared to the same period in 2009.

Capital expenditures, including capital leases, for the six months ended June 30, 2010, were $23.9 million as compared to $27.1 million for the same period in 2009. The majority of these expenditures represented investments in management information systems, the development of our distributor internet initiatives, and the expansion of our domestic and international facilities. We expect to incur total capital expenditures of approximately $80.0 million for the full year of 2010.

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 2009, we borrowed an aggregate amount of $212.0 million under the revolving credit facility and paid $298.7 million of the revolving credit facility. During the first quarter of 2010 we borrowed an aggregate amount of $102.0 million and paid $95.0 million of the revolving credit facility. During the second quarter of 2010, we borrowed an additional $127.0 million under the revolving credit facility and paid $130.0 million of the revolving credit facility. These borrowings were primarily related to our share repurchases and dividends program as discussed further below.

The following summarizes our contractual obligations including interest at June 30, 2010, and the effect such obligations are expected to have on our liquidity and cash flows in future periods:

| | Payments Due by Period | | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 & Thereafter |
| | (Dollars in millions) | | | | | | |
| Borrowings under the senior credit facility | $ 251.4 | $ 3.3 | $ 5.8 | $ 100.0 | $ 142.3 | $ — | $ — |
| Capital leases | 3.9 | 0.7 | 1.7 | 1.5 | — | — | — |
| Operating leases | 148.7 | 19.0 | 30.6 | 25.2 | 20.6 | 18.7 | 34.6 |
| Other | 15.5 | 4.2 | 7.7 | 2.4 | 1.2 | — | — |
| Total | $ 419.5 | $ 27.2 | $ 45.8 | $ 129.1 | $ 164.1 | $ 18.7 | $ 34.6 |

***Off Balance Sheet Arrangements***

At June 30, 2010 and December 31, 2009, we had no material off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

***Share Repurchases***

On April 30, 2009, we announced that our board of directors authorized a new program for us to repurchase up to $300 million of Herbalife common shares during the next two years, at such times and prices as determined by management. On May 3, 2010, our board of directors approved an increase to the share repurchase authorization from $300 million to $1 billion. In addition, our board of directors approved the extension of the expiration date of the share repurchase program from April 2011 to December 2014.

During the three months ended March 31, 2010, the Company repurchased approximately 0.6 million of its common shares through open market purchases at an aggregate cost of approximately $25.0 million or an average cost of $41.42 per share. During the three months ended June 30, 2010, we repurchased 1.1 million of our common shares through open market purchases at an aggregate cost of approximately $50.2 million or an average cost of $46.21 per share. As of June 30, 2010, the remaining authorized capacity under the share repurchase program was $851.6 million.

***Dividends***

On February 19, 2010, our board of directors approved a quarterly cash dividend of $0.20 per common share in an aggregate amount of $12.1 million that was paid to shareholders on March 16, 2010. On April 29, 2010, our board of directors approved a quarterly cash dividend of $0.20 per common share in an aggregate amount of $12.0 million that was paid to shareholders on May 24, 2010.

The aggregate amount of dividends declared and paid during the three months ended June 30, 2010 and 2009 were $12.0 million and $12.3 million, respectively. The aggregate amount of dividends declared and paid during the six months ended June 30, 2010 and 2009 were $24.1 million and $24.6 million, respectively.

***Working Capital and Operating Activities***

As of June 30, 2010 and December 31, 2009, we had positive working capital of $132.8 million and $83.5 million, respectively. Cash and cash equivalents were $170.2 million and $150.8 million at June 30, 2010, and December 31, 2009, respectively.

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 and amounts outstanding under our revolving credit facility, for the next twelve months.

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

***Venezuela***

***Currency Restrictions***

Currency restrictions enacted by the Venezuelan government in 2003 have become more restrictive and have impacted the ability of our subsidiary in Venezuela, Herbalife Venezuela, to obtain U.S. dollars in exchange for Venezuelan Bolivars, or Bolivars, at the official foreign exchange rates from the Venezuelan government and its foreign exchange commission, CADIVI. The application and approval processes have been intermittently delayed and the timing and ability to obtain U.S. dollars at the official exchange rates remain uncertain. In certain instances, we have made appropriate applications through CADIVI for approval to obtain U.S. dollars so that Herbalife Venezuela can pay for imported products and an annual dividend at the official exchange rate. In other instances, we used a lawful but less favorable parallel market mechanism for currency exchange. In May 2010, this less favorable parallel market was discontinued.

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

***Highly Inflationary Economy and Accounting***

Venezuela's inflation rate as measured using the blended National Consumer Price Index and Consumer Price Index rate exceeded a three-year cumulative inflation rate of 100% as of December 31, 2009. Accordingly, effective January 1, 2010, Venezuela was considered a highly inflationary economy. Pursuant to the highly inflationary basis of accounting under U.S. GAAP, Herbalife Venezuela changed its functional currency from the Bolivar to the U.S. dollar. Subsequent movements in the Bolivar to U.S. dollar exchange rate will impact our consolidated earnings. Prior to January 1, 2010 when the Bolivar was the functional currency, movements in the Bolivar to U.S. dollar were recorded as a component of equity through other comprehensive income. Pursuant to highly inflationary accounting rules, we are no longer required to translate Herbalife Venezuela's financial statements since their functional currency is now the U.S. dollar.

Based on relevant facts and circumstances at the applicable times, we used the parallel market exchange rate for remeasurement purposes effective January 1, 2010 until the parallel market was discontinued in May 2010. On January 1, 2010, in connection with the determination that Venezuela was a highly inflationary economy, we remeasured Herbalife Venezuela's opening balance sheet's monetary assets and liabilities at the parallel market rate, which resulted in us recording a non-tax deductible foreign exchange loss of $15.1 million. This charge included a $9.9 million foreign exchange loss relating to Herbalife Venezuela's U.S. dollar cash and cash equivalents that were remeasured at the parallel market rate and then translated at the official rate at December 31, 2009, as discussed in our 2009 10-K. Also, Herbalife Venezuela's $34.2 million cash and cash equivalents reported on our consolidated balance sheet at December 31, 2009, which included U.S. dollar denominated cash, was reduced to approximately $12.5 million on January 1, 2010. However, nonmonetary assets, such as inventory, reported on our consolidated balance sheet at December 31, 2009, remained at historical cost subsequent to Venezuela becoming a highly inflationary economy. Therefore, the incremental costs related to our 2009 imported products recorded at the parallel market exchange rate negatively impacted our first quarter 2010 consolidated statement of income by approximately $12.7 million as these products were sold during the first quarter of 2010. This amount is non tax deductible. *See Note 8, Income Taxes*, in the notes to consolidated financial statements for additional discussion on income tax impact related to Venezuela becoming highly inflationary.

***Official Exchange Rate Devaluation***

In early January 2010, Venezuela announced an official exchange rate devaluation of the Bolivar to an official rate of 4.30 Bolivars per U.S. dollar for non-essential items and 2.60 Bolivars per U.S. dollar for essential items. Our imports fall into both classifications. During 2010, because we used the parallel market exchange rate for remeasurement purposes until the parallel market was discontinued in May 2010, any U.S. dollars obtained from CADIVI at the official rate had a positive impact to our consolidated net earnings. Specifically, we recorded $0.1 million and $3.8 million of foreign exchange gains, in the three and six months ended June 30, 2010, respectively, to selling, general and administrative expenses within our consolidated statements of income as a result of receiving U.S. dollars approved by CADIVI at the official exchange rate, primarily related to products imported in 2009 and early 2010. The majority of Herbalife Venezuela's 2010 importations were not registered with CADIVI so the official exchange rates are not available to pay for these U.S. imports. Herbalife Venezuela also has an outstanding dividend payable to us of $4.2 million, which was declared in December 2008 and registered with CADIVI. The request to obtain U.S. dollars at the official rate to settle the outstanding dividend payable is pending CADIVI's approval. Also, Herbalife Venezuela has an outstanding intercompany payable balance of $0.1 million, which was registered with CADIVI in 2009 and is pending CADIVI's approval.

***Remeasurement of Monetary Assets and Liabilities***

During the second quarter of 2010, we recorded a $4.0 million pre-tax ($2.6 million post-tax) net foreign exchange gain to selling, general and administrative expenses, within our consolidated statement of income, as a result of remeasuring its Bolivar denominated monetary assets and liabilities as of June 30, 2010 at the SITME rate of 5.3 Bolivars per U.S. dollar as opposed to the last parallel market rate prior to the closure of the parallel market in May 2010 of 8.3 Bolivars per U.S. dollar. Herbalife Venezuela's cash and cash equivalents, primarily denominated in Bolivars, increased by $5.2 million as a result of using the SITME rate as opposed to the last quoted parallel market rate. As of June 30, 2010, Herbalife Venezuela's net monetary Bolivar denominated assets and liabilities approximated $11.1 million U.S. dollars which included Bolivar denominated cash and cash equivalents approximating $14.3 million U.S. dollars, and were all remeasured at the new regulated rate under the SITME. However, the amounts remeasured using the new regulated rate may not represent the true economics because of the restrictions that currently exist in the SITME. While we continue to monitor the new exchange mechanism and restrictions under SITME, there is no assurance that we will be able to exchange Bolivars into U.S. dollars on a timely basis. Therefore, these remeasured amounts, including cash and cash equivalents, being reported on our consolidated balance sheet using the new regulated rate may not accurately represent the amount of U.S. dollars that we could ultimately realize.

***Consolidation of Herbalife Venezuela***

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

Although there are delays in the CADIVI approval process, when applicable, we plan to continue applying to CADIVI to obtain the official rate relating to the importation of our products. In addition, we plan to utilize the SITME market to the extent allowable under current restrictions in order to exchange Bolivars to U.S. dollars. Our ability to access the official exchange rate and the SITME rate could impact what exchange rates will be used for remeasurement purposes in future periods. We continue to assess and monitor the current economic and political environment in Venezuela. If the foreign currency restrictions in Venezuela intensify or do not improve, we may be required to deconsolidate Herbalife Venezuela for U.S. GAAP purposes and would be subject to the risk of impairment. If any of these events were to occur it could result in a negative impact to our consolidated earnings.

Although Venezuela is an important market in our South and Central America Region, Herbalife Venezuela's net sales represented less than 2% of our consolidated net sales for the six months ended June 30, 2010, and its total assets represented less than 3% of our consolidated total assets as of June 30, 2010.

**Contingencies**

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

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

On April 16, 2007, Herbalife International of America, Inc. filed a Complaint in the United States District Court for the Central District of California against certain former Herbalife distributors who had left the Company to join a competitor. The Complaint alleged breach of contract, misappropriation of trade secrets, intentional interference with prospective economic advantage, intentional interference with contract, unfair competition, constructive trust and fraud and seeks monetary damages, attorney's fees and injunctive relief (*Herbalife International of America, Inc. v. Robert E. Ford, et al*). The court entered a Preliminary Injunction against the defendants enjoining them from further use and/or misappropriation of the Company's trade secrets on December 11, 2007. Defendants appealed the court's entry of the Preliminary Injunction to the U.S. Court of Appeals for the Ninth Circuit. That court affirmed, in relevant part, the Preliminary Injunction. On December 3, 2007, the defendants filed a counterclaim alleging that the Company had engaged in unfair and deceptive business practices, intentional and negligent interference with prospective economic advantage, false advertising and that the Company was an endless chain scheme in violation of California law and seeking restitution, contract rescission and an injunction. Both sides engaged in discovery and filed cross motions for Summary Judgment. On August 25, 2009, the court granted partial summary judgment for Herbalife on all of defendants' claims except the claim that the Company is an endless chain scheme which under applicable law is a question of fact that can only be determined at trial. The court denied defendants' motion for Summary Judgment on Herbalife's claims for misappropriation of trade secrets and breach of contract. On May 5, 2010, the District Court granted summary judgment for Herbalife on defendants' endless chain-scheme counterclaim. Herbalife voluntarily dismissed its remaining claims, and on May 14, 2010, the District Court issued a final judgment dismissing all of the parties' claims. On June 10, 2010 the defendants appealed from that judgment and on June 21, 2010, Herbalife cross-appealed. The Company believes that there is merit to, and will prevail upon, its appeal.

Certain of the Company's subsidiaries have been subject to tax audits by governmental authorities in their respective countries. In certain of these tax audits, governmental authorities are proposing that significant amounts of additional taxes and related interest and penalties are due. The Company and its tax advisors believe that there are substantial defenses to their allegations that additional taxes are owed, and the Company is vigorously contesting the additional proposed taxes and related charges. On May 7, 2010, the Company received an administrative assessment from the Mexican Tax Administration Service in an amount equivalent to $89 million, translated at the quarterly period ended spot rate, for various items, the majority of which was Value Added Tax allegedly owed on certain of the Company's products imported into Mexico. On July 8, 2010, the Company initiated a formal administrative appeal process. In accordance with U.S. GAAP, the Company did not record a provision as the Company, based on analysis and guidance from its advisors, does not believe a loss is probable. Further, the Company is currently unable to reasonably estimate a possible loss or range of loss that could result from an unfavorable outcome. The Company believes that it has meritorious defenses and is vigorously pursuing the appeal, but final resolution of this matter could take several years.

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

**Critical Accounting Policies**

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

We are a network marketing company that sells a wide range of weight management products, nutritional supplements, energy, sports & fitness products and personal care products within one industry segment as defined under Financial Accounting Standard Board, or FASB, Accounting Standards Codification, or ASC, Topic 280, *Segment Reporting*. Our products are manufactured by third party providers and manufactured in our Suzhou, China facility, and in our recently acquired manufacturing facility located in Lake Forest, California, and then are sold to independent distributors who sell Herbalife products to retail consumers or other distributors. We sell products in 73 countries throughout the world and we are organized and managed by geographic region. We have elected to aggregate our operating segments into one reporting segment, except China, as management believes that our operating segments have similar operating characteristics and similar long term operating performance. In making this determination, management believes that the operating segments are similar in the nature of the products sold, the product acquisition process, the types of customers to whom products are sold, the methods used to distribute the products, and the nature of the regulatory environment.

Revenue is recognized when products are shipped and title and risk of loss passes to the independent distributor or importer or as products are sold in our retail stores in China. Sales are recognized on a net sales basis, which reflects product returns, net of discounts referred to as "distributor allowances", and amounts billed for freight and handling costs. We generally receive the net sales price in cash or through credit card payments at the point of sale. Related royalty overrides and allowances for product returns are recorded when 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 0.4% of retail sales for the three and six months ended June 30, 2010, and 0.6% of retail sales for the three and six months ended June 30, 2009.

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 $9.8 million and $9.3 million as of June 30, 2010, and December 31, 2009, respectively.

In accordance with the FASB ASC Topic 360, *Property, Plant and Equipment*, property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Goodwill and marketing related intangible assets not subject to amortization are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. In order to estimate the fair value of goodwill, we primarily use the discounted cash flow model, known as the income approach. The determination of impairment is made at the reporting unit level and consists of two steps. First, we determine the fair value of a reporting unit and compare it to its carrying amount. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill and other intangibles over the implied fair value. The implied fair value of goodwill is determined in a similar manner as how the amount of goodwill recognized in a business combination is determined, in accordance with FASB ASC Topic 805, *Business Combinations*, or ASC 805. We would assign the fair value of a reporting unit to all of the assets and liabilities of that reporting unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. As of June 30, 2010 and December 31, 2009, we had goodwill of approximately $102.9 million and $102.5 million, respectively, and marketing franchise of approximately $310.0 million for both periods. No marketing related intangibles or goodwill impairment was recorded during the three and six months ended June 30, 2010 and 2009.

Contingencies are accounted for in accordance with the FASB ASC Topic 450, *Contingencies,* or ASC 450. ASC 450 requires that we record an estimated loss from a loss contingency when information available prior to issuance of our financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Accounting for contingencies such as legal and income tax matters requires us to use judgment related to both the likelihood of a loss and the estimate of the amount or range of loss. Many of these legal and tax contingencies can take years to be resolved. Generally, as the time period increases over which the uncertainties are resolved, the likelihood of changes to the estimate of the ultimate outcome increases.

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

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

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

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

***New Accounting Pronouncements***

In May 2010, the Financial Accounting Standards Board, or FASB, issued Final Accounting Standards Update 2010-19, *Foreign Currency Issues: Multiple Foreign Currency Exchange Rates*, or ASU 2010-19, which codifies the SEC staff announcement made at the March 18, 2010, Emerging Issues Task Force meeting. ASU 2010-19 provides the SEC staff's view on certain foreign currency issues relating to investments in Venezuela. ASU 2010-19 became effective on March 18, 2010. We have adopted this guidance and the financial statement impact relating to this adoption is discussed further in Note 2, *Significant Accounting Policies,* in the notes to consolidated financial statements.

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

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

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

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

**Foreign Exchange Risk**

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

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

We also purchase foreign currency forward contracts in order to hedge forecasted inventory purchases and intercompany management fees that are designated as cash-flow hedges and are subject to foreign currency exposures. We applied the hedge accounting rules as required by ASC Topic 815 for these hedges. These contracts allow us to sell Euros in exchange for U.S. dollars at specified contract rates. As of June 30, 2010, the aggregate notional amounts of these contracts outstanding were approximately $80.5 million and were expected to mature over the next fifteen months. Our derivative financial instruments are recorded on the consolidated balance sheet at fair value based on quoted market rates. For the forecasted inventory purchases, the forward contracts are used to hedge forecasted inventory purchases over specific months. Changes in the fair value of these forward contracts, excluding forward points, designated as cash-flow hedges are recorded as a component of accumulated other comprehensive income (loss) within shareholders' equity, and are recognized in cost of sales in the consolidated statement of income during the period which approximates the time the hedged inventory is sold. We also hedge forecasted intercompany management fees over specific months. Changes in the fair value of these forward contracts designated as cash flow hedges are recorded as a component of accumulated other comprehensive loss within shareholders' equity, and are recognized in selling, general and administrative expenses in the consolidated statement of income in the period when the hedged item and underlying transaction affects earnings. As of June 30, 2010 and December 31, 2009, we recorded assets at fair value of $9.3 million and $2.3 million, respectively, relating to all outstanding foreign currency contracts designated as cash-flow hedges. We assess hedge effectiveness and measure hedge ineffectiveness at least quarterly. During the three and six months ended June 30, 2010, the ineffective portion relating to these hedges was immaterial and the hedges remained effective as of June 30, 2010.

As of June 30, 2010, all of our foreign exchange forward contracts had a maturity of less than fifteen months, with the majority expiring within one year. As of June 30, 2010, there were no outstanding foreign exchange option contracts.

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, 2010** | | | |
| Buy EUR sell GBP | 0.86 | $ 3.7 | $ (0.2) |
| Buy EUR sell JPY | 113.44 | $ 3.6 | $ (0.2) |
| Buy EUR sell MXN | 16.16 | $ 45.2 | $ (0.9) |
| Buy EUR sell USD | 1.25 | $ 12.3 | $ (0.2) |
| Buy GBP sell EUR | 0.84 | $ 2.9 | $ 0.1 |
| Buy JPY sell USD | 90.53 | $ 15.4 | $ 0.4 |
| Buy KRW sell USD | 1,186.09 | $ 7.1 | $ (0.2) |
| Buy MXN sell USD | 12.63 | $ 1.9 | $ — |
| Buy MYR sell USD | 3.27 | $ 25.0 | $ 0.2 |
| Buy PEN sell USD | 2.83 | $ 8.8 | $ — |
| Buy TWD sell USD | 32.05 | $ 2.7 | $ — |
| Buy USD sell COP | 1,971.96 | $ 6.1 | $ (0.2) |
| Buy USD sell EUR | 1.39 | $ 81.7 | $ 9.4 |
| Buy USD sell MXN | 12.42 | $ 2.7 | $ 0.1 |
| Buy USD sell MYR | 3.26 | $ 9.0 | $ (0.1) |
| Buy USD sell PHP | 46.31 | $ 5.0 | $ — |
| Buy USD sell RUB | 30.83 | $ 1.3 | $ — |
| Buy EUR sell HKD | 10.28 | $ 0.6 | $ — |
| Buy JPN sell EUR | 109.87 | $ 0.4 | $ — |
| Buy MXN sell EUR | 15.75 | $ 3.9 | $ — |
| Buy PHP sell USD | 46.41 | $ 2.6 | $ — |
| Buy RUB sell USD | 31.35 | $ 0.3 | $ — |
| Buy USD sell BRL | 1.77 | $ 7.4 | $ 0.2 |
| Buy USD sell INR | 47.23 | $ 3.8 | $ — |
| Buy USD sell JPY | 88.54 | $ 7.1 | $ — |
| Buy USD sell KRW | 1,136.15 | $ 2.5 | $ 0.2 |
| Buy USD sell PEN | 2.82 | $ 4.4 | $ — |
| Buy USD sell TWD | 31.06 | $ 1.8 | $ — |
| Total forward contracts | | $ 269.2 | $ 8.6 |

Most of our foreign subsidiaries designate their local currencies as their functional currencies. At June 30, 2010 and December 31, 2009, the total amount of our foreign subsidiary cash was $168.3 million and $149.6 million, respectively, of which $6.7 million and $11.9 million, respectively, was invested in U.S. dollars.

Currency restrictions enacted by the Venezuelan government in 2003 have become more restrictive and have impacted the ability of our subsidiary in Venezuela, or Herbalife Venezuela, to obtain U.S. dollars in exchange for Venezuelan Bolivars, or Bolivars, at the official foreign exchange rates from the Venezuelan government and its foreign exchange commission, CADIVI. The application and approval processes have been intermittently delayed and the timing and ability to obtain U.S. dollars at the official exchange rates remains uncertain. In certain instances, we have made appropriate applications through CADIVI for approval to obtain U.S. dollars so that Herbalife Venezuela can pay for imported products and an annual dividend, at the official exchange rate. In other instances, we used a lawful but less favorable parallel market mechanism for currency exchange. In May 2010, this less favorable parallel market was discontinued.

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

Venezuela's inflation rate as measured using the blended National Consumer Price Index and Consumer Price Index rate exceeded a three-year cumulative inflation rate of 100% as of December 31, 2009. In early January 2010, Venezuela announced an official exchange rate devaluation of the Bolivar to an official rate of 4.30 Bolivars per U.S. dollar for non-essential items and 2.60 Bolivars per U.S. dollar for essential items. Our imports fall into both classifications. See Part I, Item 2 — *Management's Discussion and Analysis of Financial Condition and Results of Operations,* for a further discussion on how the currency restrictions in Venezuela have impacted Herbalife Venezuela's operations.

**Interest Rate Risk**

As of June 30, 2010, the aggregate annual maturities of our senior secured credit facility were expected to be: 2010-$0.7 million; 2011-$1.5 million; 2012-$96.5 million and 2013-$140.9 million. The fair value of our senior secured credit facility approximates its carrying value of $239.6 million as of June 30, 2010 and $236.4 million as of December 31, 2009. Our senior secured credit facility bears a variable interest rate, and on June 30, 2010, and December 31, 2009, the weighted average interest rate was 1.77% and 1.66%, respectively.

During August 2009, we entered into four interest rate swap agreements with an effective date of December 31, 2009. The agreements, collectively, provide for us to pay interest for less than a four-year period at a weighted average fixed rate of 2.78% on notional amounts aggregating to $140 million while receiving interest for the same period at the one month LIBOR rate on the same notional amounts. These agreements will expire in July 2013. The swaps have been designated as cash flow hedges against the variability in the LIBOR interest rate on the term loan at LIBOR plus 1.50%, thereby fixing our weighted average effective rate on the notional amounts at 4.28%. We formally assess, 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, 2010 the hedge relationships qualified as effective hedges under the ASC 815. Consequently, all changes in the fair value of the derivatives are deferred and recorded in other comprehensive income (loss) until the related forecasted transactions are recognized in the consolidated statements of income. As of June 30, 2010, and December 31, 2009, the fair value of the interest rate swap agreements are based on third-party bank quotes and we recorded the interest rate swaps as a liability at fair value of $6.7 million and $2.6 million, respectively.

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

*Evaluation of Disclosure Controls and Procedures.* Our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of June 30, 2010.

*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, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## FORWARD-LOOKING STATEMENTS

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

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

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

- the sufficiency of trademarks and other intellectual property rights;
- product concentration;
- changes in tax laws, treaties or regulations, or their interpretation;
- taxation relating to our distributors;
- product liability claims; and
- whether we will purchase any of our shares in the open markets or otherwise.

*Additional factors that could cause actual results to differ materially from our forward-looking statements are set forth in this Quarterly Report on Form 10-Q, including under the heading "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in our 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 2.1 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 sales leaders re-qualify annually in order to maintain a more accurate count of their numbers. For the latest twelve month re-qualification period ending January 2010, 43% of our sales leaders re-qualified. Distributors who purchase our product for personal consumption or for short-term income goals may stay with us for several months to one year. Sales leaders who have committed time and effort to build a sales organization will generally stay for longer periods. Distributors have highly variable levels of training, skills and capabilities. The turnover rate of our distributors, and our operating results, can be adversely impacted if we, and our senior distributor leadership, do not provide the necessary mentoring, training and business support tools for new distributors to become successful sales people in a short period of time.

We estimate that, of our approximately 2.1 million independent distributors, we had approximately 379,000 sales leaders as of June 30, 2010. 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 communicado, to inform the public of a then 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.

***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 constraints could lead to the imposition of significant penalties or claims, which could harm our financial condition and operating results.***

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

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

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

Governmental regulations in countries where we plan to commence or expand operations may prevent or delay entry into those markets. In addition, our ability to sustain satisfactory levels of sales in our markets is dependent in significant part on our ability to introduce additional products into such markets. However, governmental regulations in our markets, both domestic and international, can delay or prevent the introduction, or require the reformulation or withdrawal, of certain of our products. 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 communicado, informing the public of a then 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, labeling and holding of dietary supplements distributed in the United States. Herbalife was subject to the cGMPs as of June 25, 2008. The dietary supplement cGMPs apply only to manufacturers, packagers, labelers, or holders of finished dietary supplements and not to ingredient suppliers, unless the ingredient supplier also manufactures, holds, labels, or packages a dietary supplement. However, under dietary supplement cGMPs, manufacturers must qualify ingredient suppliers in order to use their products in dietary supplements. One of the many requirements of the cGMP final rule is that the manufacturer conduct 100 percent identity testing on all dietary ingredients used in the manufacture of dietary supplements or petition the FDA for an exemption from this requirement. We are unaware of any company having submitted such a petition. Herbalife has implemented a comprehensive quality assurance program that is designed to ensure compliance with the cGMPs for dietary supplements manufactured by or on behalf of Herbalife for distribution in the United States. However, if contract manufacturers whose products bear Herbalife labels fail to comply with the cGMPs, this could negatively impact Herbalife's reputation and ability to sell its products even though Herbalife is not directly liable under the cGMPs for such compliance. Further, in complying with the dietary supplement cGMPs. we have experienced increases in some product costs as a result of the necessary increase in testing of raw ingredients and finished products and this may cause us to seek alternate suppliers.

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

Our network marketing program is subject to a number of federal and state regulations administered by the FTC and various state agencies in the United States as well as regulations on direct selling in foreign markets administered by foreign agencies. We are subject to the risk that, in one or more markets, our network marketing program could be found not to be in compliance with applicable law or regulations. Regulations applicable to network marketing organizations generally are directed at preventing fraudulent or deceptive schemes, often referred to as "pyramid" or "chain sales" schemes, by ensuring that product sales ultimately are made to consumers and that advancement within an organization is based on sales of the organization's products rather than investments in the organization or other non-retail sales-related criteria. The regulatory requirements concerning network marketing programs do not include "bright line" rules and are inherently fact-based, and thus, 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 rather than through the sale of products to end-consumers.

The plaintiff is seeking a payment of €25,000 (equal to approximately $30,000 as of June 30, 2010) per purported violation as well as costs of the trial. For the year ended December 31, 2009, our net sales in Belgium were approximately $16.0 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.

On April 16, 2007 Herbalife International of America, Inc. filed a Complaint in the United States District Court for the Central District of California against certain former Herbalife distributors who had left the Company to join a competitor. The Complaint alleged breach of contract, misappropriation of trade secrets, intentional interference with prospective economic advantage, intentional interference with contract, unfair competition, constructive trust and fraud and seeks monetary damages, attorney's fees and injunctive relief (*Herbalife International of America, Inc. v. Robert E. Ford, et al*). The court entered a Preliminary Injunction against the defendants enjoining them from further use and/or misappropriation of the Company's trade secrets on December 11, 2007. Defendants appealed the court's entry of the Preliminary Injunction to the U.S. Court of Appeals for the Ninth Circuit. That court affirmed, in relevant part, the Preliminary Injunction. On December 3, 2007 the defendants filed a counterclaim alleging that the Company had engaged in unfair and deceptive business practices, intentional and negligent interference with prospective economic advantage, false advertising and that the Company was an endless chain scheme in violation of California law and seeking restitution, contract rescission and an injunction. Both sides engaged in discovery and filed cross motions for Summary Judgment. On August 25, 2009 the court granted partial summary judgment for Herbalife on all of defendants' claims except the claim that the Company is an endless chain scheme which under applicable law is a question of fact that can only be determined at trial. The court denied defendants' motion for Summary Judgment on Herbalife's claims for misappropriation of trade secrets and breach of contract. On May 5, 2010, the District Court granted summary judgment for Herbalife on defendants' endless chain-scheme counterclaim. Herbalife voluntarily dismissed its remaining claims, and on May 14, 2010 the District Court issued a final judgment dismissing all of the parties' claims. On June 10, 2010 the defendants appealed from that judgment and on June 21, 2010 Herbalife cross-appealed. The Company believes that there is merit to, and it will prevail upon, its appeal.

***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, 2009, 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 in exchange for Venezuelan Bolivars, or Bolivars, at the official foreign exchange rates from the Venezuelan government and its foreign exchange commission, CADIVI. The application and approval processes have been intermittently delayed and the timing and ability to obtain U.S. dollars at the official exchange rates remains uncertain. In certain instances, we have made appropriate applications through CADIVI for approval to obtain U.S. dollars so that Herbalife Venezuela can pay for imported products and an annual dividend, at the official exchange rate. In other instances, we used a lawful but less favorable parallel market mechanism for currency exchange. In May 2010, this less favorable parallel market was discontinued.

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

If the foreign currency restrictions in Venezuela intensify or do not improve, we may be required to deconsolidate Herbalife Venezuela for U.S. GAAP purposes and would be subject to the risk of impairment. If any of these events were to occur it could result in a negative impact to our consolidated earnings.

***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 personnel to customers and preferred customers. We provide training and certification procedures for sales personnel in China. We have non-employee sales representatives who sell through our retail stores. 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, Beijing, 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. We have also engaged independent service providers that meet both the requirements to operate their own business under Chinese law as well as the conditions set forth by Herbalife to sell products and provide services to Herbalife customers. These features are not common to the business model we employ elsewhere in the world, and based on the direct selling licenses we have received and the terms of those which we hope to receive in the future to conduct a direct selling enterprise in China, our business model in China will continue in some part to incorporate such features. The direct selling regulations require us to apply for various approvals to conduct a direct selling enterprise in China. The process for obtaining the necessary licenses to conduct a direct selling business is protracted and cumbersome and involves multiple layers of Chinese governmental authorities and numerous governmental employees at each layer. While direct selling licenses are centrally issued, such licenses are generally valid only in the jurisdictions within which related approvals have been obtained. Such approvals are generally awarded on local and provincial bases, and the approval process requires involvement with multiple ministries at each level. Our participation and conduct during the approval process is guided not only by distinct Chinese practices and customs, but is also subject to applicable laws of China and the other jurisdictions in which we operate our business, including the U.S., 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 any such failure to comply with applicable requirements could prevent us from obtaining the direct selling licenses or related local or provincial approvals. Furthermore, we rely on certain key personnel in China to assist us during the approval process, and the loss of any such key personnel could delay or hinder our ability to obtain licenses or related approvals. For all of the above reasons, there can be no assurance that we will obtain additional direct-selling licenses, or obtain related approvals to expand into any or all of the localities or provinces in China that are important to our business. Our inability to obtain, retain, or renew any or all of the licenses or related approvals that are required for us to operate in China would negatively impact our business.

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

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

China enacted a labor contract law which took effect January 1, 2008 and on September 18, 2008 an implementing regulation took effect. We have reviewed our employment contracts and contractual relations with employees in China, which include certain of our sales persons, and have made such changes as we believed to be necessary or appropriate to bring these contracts and contractual relations into compliance with this new law and its implementing regulation. In addition, we continue to monitor the situation to determine how this new law and regulation will be implemented in practice. There is no guarantee that the new law will not adversely impact us, force us to change our treatment of our distributor employees, or cause us to change our operating plan for China.

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

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

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

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

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

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

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

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

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

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

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

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

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

The majority of our products are manufactured at third party contract manufacturers, with the exception of our products sold in China, which are manufactured in our Suzhou China facility, and a small portion of our top selling products which are manufactured in a recently acquired manufacturing facility located in Lake Forest, California. It is the Company's intention to expand the capacity of this recently acquired manufacturing facility to produce additional products for our North America and international markets. We cannot assure you that our outside manufacturers will continue to reliably supply products to us at the levels of quality, or the quantities, we require, and in compliance with applicable laws, including under the FDA's cGMP regulations. While we are not presently aware of any current liquidity issues with our suppliers, we cannot assure you that they will not experience financial hardship as a result of the current global financial crisis.

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

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

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

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

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

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

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

Our products are sold principally as foods, dietary supplements and cosmetics and are subject to rigorous FDA and related legal regimens limiting the types of therapeutic claims that can be made for our products. The treatment or cure of disease, for example, is not a permitted claim for these products. While we train our distributors and attempt to monitor our distributors' marketing materials, we cannot ensure that all such materials comply with applicable regulations, including bans on therapeutic claims. If our distributors fail to comply with these restrictions, then we and our distributors could be subjected to claims, financial penalties, mandatory product recalls or relabeling requirements, which could harm our financial condition and operating results. Although we expect that our responsibility for the actions of our independent distributors in such an instance would be dependent on a determination that we either controlled or condoned a noncompliant advertising practice, there can be no assurance that we could not be held vicariously liable for the actions of our independent distributors.

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

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

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

Additionally, third parties may claim that products we have independently developed infringe upon their intellectual property rights. For example, in a pending action in the U.S. federal courts, the Adidas companies have alleged that certain uses of Herbalife's Tri-Leaf device mark upon sports apparel items infringe upon their own leaf mark associated with such goods. We are contesting these claims and do not believe that we are infringing on any third party intellectual property rights. However, there can be no assurance that one or more of our products will not be found to infringe upon other third party intellectual property rights in the future.

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

Our Formula 1 meal replacement product constitutes a significant portion of our sales, accounting for approximately 32% of retail sales for the fiscal years ended December 31, 2009 and 2008, and approximately 30% for fiscal year ended December 31, 2007. If consumer demand for this product decreases significantly or we cease offering this product without a suitable replacement, then our financial condition and operating results would be harmed.

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

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

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

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

- pay dividends, redeem share capital or capital stock and make other restricted payments and investments;
- incur additional debt or issue preferred shares;

- impose dividend or other distribution restrictions on our subsidiaries;
- create liens on our and our subsidiaries' assets;
- engage in transactions with affiliates;
- guarantee other indebtedness; and
- merge, consolidate or sell all or substantially all of our assets and the assets of our subsidiaries.

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

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

As a multinational corporation, in many countries including the United States we are subject to transfer pricing and other tax regulations designed to ensure that our intercompany transactions are consummated at prices that have not been manipulated to produce a desired tax result, that appropriate levels of income are reported as earned by our United States or local entities, and that we are taxed appropriately on such transactions. In addition, our operations are subject to regulations designed to ensure that appropriate levels of customs duties are assessed on the importation of our products. We are currently subject to pending or proposed audits that are at various levels of review, assessment or appeal in a number of jurisdictions involving transfer pricing issues, income taxes, customs duties, value added taxes, withholding taxes, sales and use and other taxes and related interest and penalties in material amounts. For example, we are currently appealing tax assessments in Spain and Brazil. On May 7, 2010, we received an administrative assessment from the Mexican Tax Administration Service in an amount equivalent to $89 million, translated at the quarterly period ended spot rate, for various items, the majority of which was VAT allegedly owed on certain of our products imported into Mexico. On July 8, 2010, we initiated a formal administrative appeal process. In accordance with U.S. GAAP, the Company did not record a provision as the Company, based on analysis and guidance from its advisors, does not believe a loss is probable. Further, we are currently unable to reasonably estimate a possible loss or range of loss that could result from an unfavorable outcome. We believe that we have meritorious defenses and are vigorously pursuing the appeal, but final resolution of this matter could take several years. In some circumstances, additional taxes, interest and penalties have been assessed and we will be required to pay the assessments or post surety, in order to challenge the assessments. The imposition of new taxes, even pass-through taxes such as VAT, could have an impact on our perceived product pricing and therefore a potential negative impact on our business. We have reserved in the consolidated financial statements an amount that we believe represents the most likely outcome of the resolution of these disputes, but if we are incorrect in our assessment we may have to pay the full amount asserted which could potentially be material. Ultimate resolution of these matters may take several years, and the outcome is uncertain. If the United States Internal Revenue Service or the taxing authorities of any other jurisdiction were to successfully challenge our transfer pricing practices or our positions regarding the payment of income taxes, customs duties, value added taxes, withholding taxes, sales and use, and other taxes, we could become subject to higher taxes and our earnings would be adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Cayman Islands have provisions under the Companies Law (2010 Revision) to facilitate mergers and consolidations between Cayman Islands companies and non-Cayman Islands companies. These provisions, contained within Part XVA of the Companies Law (2010 Revision), are broadly similar to the merger provisions as provided for under Delaware Law.

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

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

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

The merger provisions contained within Part XVA of the Companies Law (2010 Revision) do contain shareholder appraisal rights similar to those provided for under Delaware law. Such rights are limited to a merger under Part XVA and do apply to schemes of arrangement as discussed below.

The Companies Law (2009 Revision) also contains separate statutory provisions that provide for the merger, reconstruction and amalgamation of companies. Those are commonly referred to in the Cayman Islands as "schemes of arrangement."

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

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

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

In addition, if an offer by a third party to purchase shares in us has been approved by the holders of at least 90% of our outstanding shares (not including such a third party) pursuant to an offer within a four-month period of making such an offer, the purchaser may, during the two months following expiration of the four-month period, require the holders of the remaining shares to transfer their shares on the same terms on which the purchaser acquired the first 90% of our outstanding shares. An objection can be made to the Grand Court of the Cayman Islands, but this is unlikely to succeed unless there is evidence of fraud, bad faith, collusion or inequitable treatment of the shareholders.

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

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

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

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

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

(a) None.

(b) None.

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

The following is a summary of our repurchases of common shares during the three months ended June 30, 2010:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| **April 1 — April 30** | 11,911 | $ 43.96 | 11,911 | $ 201,265,869 |
| **May 1 — May 31** | 897,876 | 45.94 | 897,876 | $ 860,020,755 |
| **June 1 — June 30** | 175,594 | 47.75 | 175,594 | $ 851,636,241 |
| | 1,085,381 | $ 46.21 | 1,085,381 | $ 851,636,241 |

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

None.

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

None.

**Item 5.** ***Other Information***

(a) None.

(b) None.

**Item 6.** ***Exhibits***

(a) Exhibit Index:

**EXHIBIT INDEX**

| Exhibit Number | Description | Reference |
|---|---|---|
| 3.1 | Form of Amended and Restated Memorandum and Articles of Association of Herbalife Ltd. | (d) |
| 4.1 | Form of Share Certificate | (d) |
| 10.1 | Form of Indemnity Agreement between Herbalife International Inc. and certain officers and directors of Herbalife International Inc. | (a) |
| 10.2# | Herbalife International of America, Inc.'s Senior Executive Deferred Compensation Plan, effective January 1, 1996, as amended | (a) |
| 10.3# | Herbalife International of America, Inc.'s Management Deferred Compensation Plan, effective January 1, 1996, as amended | (a) |
| 10.4 | Master Trust Agreement between Herbalife International of America, Inc. and Imperial Trust Company, Inc., effective January 1, 1996 | (a) |
| 10.5# | Herbalife International Inc. 401K Profit Sharing Plan and Trust, as amended | (a) |
| 10.6 | Trust Agreement for Herbalife 2001 Executive Retention Plan, effective March 15, 2001 | (a) |
| 10.7# | Herbalife 2001 Executive Retention Plan, effective March 15, 2001 | (a) |
| 10.8 | Notice to Distributors regarding Amendment to Agreements of Distributorship, dated as of July 18, 2002 between Herbalife International, Inc. and each Herbalife Distributor | (a) |
| 10.9 | Indemnity agreement dated as of July 31, 2002, by and among WH Holdings (Cayman Islands) Ltd., WH Acquisition Corp., Whitney & Co., LLC, Whitney V, L.P., Whitney Strategic Partners V, L.P., GGC Administration, L.L.C., Golden Gate Private Equity, Inc., CCG Investments (BVI), L.P., CCG Associates-AI, LLC, CCG Investment Fund-AI, LP, CCG AV, LLC-Series C, CCG AV, LLC-Series C, CCG AV, LLC-Series E, CCG Associates-QP, LLC and WH Investments Ltd. | (a) |
| 10.10# | Independent Director's Stock Option Plan of WH Holdings (Cayman Islands) Ltd. | (a) |
| 10.11# | WH Holdings (Cayman Islands) Ltd. Stock Incentive Plan, as restated, dated as of November 5, 2003 | (a) |
| 10.12# | Non-Statutory Stock Option Agreement, dated as of April 3, 2003 between WH Holdings (Cayman Islands) Ltd. and Michael O. Johnson | (a) |
| 10.13# | Side Letter Agreement dated as of April 3, 2003 by and among WH Holdings (Cayman Islands) Ltd., Michael O. Johnson and the Shareholders listed therein | (a) |
| 10.14# | Form of Non-Statutory Stock Option Agreement (Non-Executive Agreement) | (a) |
| 10.15# | Form of Non-Statutory Stock Option Agreement (Executive Agreement) | (a) |
| 10.16 | Indemnity Agreement, dated as of February 9, 2004, among WH Capital Corporation and Gregory Probert | (a) |
| 10.17 | Indemnity Agreement, dated as of February 9, 2004, among WH Capital Corporation and Brett R. Chapman | (a) |
| 10.18 | First Amendment to Amended and Restated WH Holdings (Cayman Islands) Ltd. Stock Incentive Plan, dated November 5, 2003 | (a) |
| 10.19 | Registration Rights Agreement, dated as of July 31, 2002, by and among WH Holdings (Cayman Islands) Ltd., Whitney V, L.P., Whitney Strategic Partners V, L.P., WH Investments Ltd., CCG Investments (BVI), L.P., CCG Associates-QP, LLC, CCG Associates-AI, LLC, CCG Investment Fund-AI, L.P., CCG AV, LLC-Series C and CCG AV, LLC-Series E. | (b) |

| Exhibit Number | Description | Reference |
|---|---|---|
| 10.20 | Share Purchase Agreement, dated as of July 31, 2002, by and among WH Holdings (Cayman Islands) Ltd., Whitney Strategic Partners V, L.P., WH Investments Ltd., Whitney V, L.P., CCG Investments (BVI), L.P., CCG Associates-QP, LLC, CCG Associates-AI, LLC, CCG Investment Fund-AI, LP, CCG AV, LLC-Series C and CCG AV, LLC-Series E. | (b) |
| 10.21 | Form of Indemnification Agreement between Herbalife Ltd. and the directors and certain officers of Herbalife Ltd. | (c) |
| 10.22# | Herbalife Ltd. 2004 Stock Incentive Plan, effective December 1, 2004 | (c) |
| 10.23 | Indemnification Agreement, dated as of December 13, 2004, by and among Herbalife Ltd., Herbalife International, Inc., Whitney V, L.P., Whitney Strategic Partners V, L.P., CCG Investments (BVI), L.P., CCG Associates-QP, LLC, CCG Associates-AI, LLC, CCG Investment Fund-AI, LP, CCG AV, LLC-Series C, CCG AV, LLC-Series E, CCG CI, LLC and GGC Administration, LLC. | (d) |
| 10.24# | Amendment No. 1 to Herbalife Ltd. 2004 Stock Incentive Plan | (e) |
| 10.25# | Form of Stock Bonus Award Agreement | (e) |
| 10.26# | Form of 2004 Herbalife Ltd. 2004 Stock Incentive Plan Stock Option Agreement | * |
| 10.27# | Form of 2004 Herbalife Ltd. 2004 Stock Incentive Plan Non-Employee Director Stock Option Agreement | * |
| 10.28# | Independent Directors Stock Unit Award Agreement | (f) |
| 10.29# | Amended and Restated Herbalife Ltd. 2005 Stock Incentive Plan | (g) |
| 10.30# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement | (h) |
| 10.31# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement | (h) |
| 10.32# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Mr. Michael O. Johnson | (i) |
| 10.33# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Mr. Michael O. Johnson | (i) |
| 10.34# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Messrs. Brett R. Chapman and Richard Goudis | (j) |
| 10.35# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Messrs. Brett R. Chapman and Richard Goudis | (j) |
| 10.36 | Form of Credit Agreement, dated as of July 21, 2006, by and among Herbalife International Inc., Herbalife Ltd., WH Intermediate Holdings Ltd., HBL Ltd., WH Luxembourg Holdings S.á.R.L., Herbalife International Luxembourg S.á.R.L., HLF Luxembourg Holdings, S.á.R.L., WH Capital Corporation, WH Luxembourg Intermediate Holdings S.á.R.L., HV Holdings Ltd., Herbalife Distribution Ltd., Herbalife Luxembourg Distribution S.á.R.L., and the Subsidiary Guarantors party thereto in favor of Merrill Lynch Capital Corporation, as Collateral Agent | (k) |
| 10.37 | Form of Security Agreement, dated as of July 21, 2006, by and among Herbalife International, Inc., Herbalife Ltd., WH Intermediate Holdings Ltd., HBL Ltd., WH Luxembourg Holdings S.á.R.L., Herbalife International Luxembourg S.á.R.L., HLF Luxembourg Holdings, S.á.R.L., WH Capital Corporation, WH Luxembourg Intermediate Holdings S.á.R.L., HV Holdings Ltd., Herbalife Distribution Ltd., Herbalife Luxembourg Distribution S.á.R.L., and the Subsidiary Guarantors party thereto in favor of Merrill Lynch Capital Corporation, as Collateral Agent | (k) |
| 10.38# | Employment Agreement by and between Herbalife Ltd. and Brett R. Chapman dated October 10, 2006 | (l) |
| 10.39# | Stock Unit Agreement by and between Herbalife Ltd. and Brett R. Chapman dated October 10, 2006 | (l) |
| 10.40# | Amendment dated October 10, 2006, to Stock Option Agreement by and between Herbalife Ltd. and Brett R. Chapman dated September 1, 2004 | (l) |

| Exhibit Number | Description | Reference |
|---|---|---|
| 10.41# | Amendment dated October 10, 2006, to Stock Option Agreement by and between Herbalife Ltd. and Brett R. Chapman dated December 1, 2004 | (l) |
| 10.42# | Amendment dated October 10, 2006, to Stock Option Agreement by and between Herbalife Ltd. and Brett R. Chapman dated April 27, 2005 | (l) |
| 10.43# | Stock Unit Agreement by and between Herbalife Ltd. and Richard P. Goudis dated October 24, 2006 | (m) |
| 10.44# | Amendment dated October 24, 2006, to Stock Option Agreement by and between Herbalife Ltd. and Richard P. Goudis dated June 14, 2004 | (m) |
| 10.45# | Amendment dated October 24, 2006, to Stock Option Agreement by and between Herbalife Ltd. and Richard P. Goudis dated September 1, 2004 | (m) |
| 10.46# | Amendment dated October 24, 2006, to Stock Option Agreement by and between Herbalife Ltd. and Richard P. Goudis dated December 1, 2004 | (m) |
| 10.47# | Amendment dated October 24, 2006, to Stock Option Agreement by and between Herbalife Ltd. and Richard P. Goudis dated April 27, 2005 | (m) |
| 10.48# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Michael O Johnson | (n) |
| 10.49# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Michael O. Johnson | (n) |
| 10.50# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Messrs. Richard P. Goudis and Brett R. Chapman | (n) |
| 10.51# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Messrs. Richard P. Goudis and Brett R. Chapman | (n) |
| 10.52# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement | (n) |
| 10.53# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement | (n) |
| 10.54 | First Amendment dated June 21, 2007, to Form of Credit Agreement, dated as of July 21, 2006, by and among Herbalife International Inc., Herbalife Ltd., WH Intermediate Holdings Ltd., HBL Ltd., WH Luxembourg Holdings S.á.R.L., Herbalife International Luxembourg S.á.R.L., HLF Luxembourg Holdings, S.á.R.L., WH Capital Corporation, WH Luxembourg Intermediate Holdings S.á.R.L., HV Holdings Ltd., Herbalife Distribution Ltd., Herbalife Luxembourg Distribution S.á.R.L., and the Subsidiary Guarantors party thereto in favor of Merrill Lynch Capital Corporation, as Collateral Agent | (o) |
| 10.55 | Second Amendment dated September 17, 2007, to Form of Credit Agreement, dated as of July 21, 2006, by and among Herbalife International Inc., Herbalife Ltd., WH Intermediate Holdings Ltd., HBL Ltd., WH Luxembourg Holdings S.á.R.L., Herbalife International Luxembourg S.á.R.L., HLF Luxembourg Holdings, S.á.R.L., WH Capital Corporation, WH Luxembourg Intermediate Holdings S.á.R.L., HV Holdings Ltd., Herbalife Distribution Ltd., Herbalife Luxembourg Distribution S.á.R.L., and the Subsidiary Guarantors party thereto in favor of Merrill Lynch Capital Corporation, as Collateral Agent | (o) |
| 10.56 | Third Amendment dated November 30, 2007, to Form of Credit Agreement, dated as of July 21, 2006, by and among Herbalife International Inc., Herbalife Ltd., WH Intermediate Holdings Ltd., HBL Ltd., WH Luxembourg Holdings S.á.R.L., Herbalife International Luxembourg S.á.R.L., HLF Luxembourg Holdings, S.á.R.L., WH Capital Corporation, WH Luxembourg Intermediate Holdings S.á.R.L., HV Holdings Ltd., Herbalife Distribution Ltd., Herbalife Luxembourg Distribution S.á.R.L., and the Subsidiary Guarantors party thereto in favor of Merrill Lynch Capital Corporation, as Collateral Agent | (p) |
| 10.57# | Herbalife Ltd. Employee Stock Purchase Plan | (p) |

| Exhibit Number | Description | Reference |
|---|---|---|
| 10.58 | Fourth Amendment dated February 21, 2008, to Form of Credit Agreement, dated as of July 21, 2006, by and among Herbalife International Inc., Herbalife Ltd., WH Intermediate Holdings Ltd., HBL Ltd., WH Luxembourg Holdings S.á.R.L., Herbalife International Luxembourg S.á.R.L., HLF Luxembourg Holdings, S.á.R.L., WH Capital Corporation, WH Luxembourg Intermediate Holdings S.á.R.L., HV Holdings Ltd., Herbalife Distribution Ltd., Herbalife Luxembourg Distribution S.á.R.L., and the Subsidiary Guarantors party thereto in favor of Merrill Lynch Capital Corporation, as Collateral Agent | (p) |
| 10.59# | Employment Agreement dated as of March 27, 2008 between Michael O. Johnson and Herbalife International of America, Inc. | (q) |
| 10.60# | Stock Unit Award Agreement by and between Herbalife Ltd. and Michael O. Johnson, dated March 27, 2008. | (q) |
| 10.61# | Stock Appreciation Right Award Agreement by and between Herbalife Ltd. and Michael O. Johnson, dated March 27, 2008. | (q) |
| 10.62# | Stock Appreciation Right Award Agreement by and between Herbalife Ltd. and Michael O. Johnson, dated March 27, 2008. | (q) |
| 10.63# | Amendment No. 1 to Employment Agreement dated as of April 4, 2008 between Gregory L. Probert and Herbalife International of America, Inc. | (r) |
| 10.64 | Fifth Amendment dated September 25, 2008, to Form of Credit Agreement, dated as of July 21, 2006, by and among Herbalife International Inc., Herbalife Ltd., WH Intermediate Holdings Ltd., HBL Ltd., WH Luxembourg Holdings S.á.R.L., Herbalife International Luxembourg S.á.R.L., HLF Luxembourg Holdings, S.á.R.L., WH Capital Corporation, WH Luxembourg Intermediate Holdings S.á.R.L., HV Holdings Ltd., Herbalife Distribution Ltd., Herbalife Luxembourg Distribution S.á.R.L., and the Subsidiary Guarantors party thereto in favor of Merrill Lynch Capital Corporation, as Collateral Agent | (s) |
| 10.65# | Amendment to Herbalife International Inc. 401K Profit Sharing Plan and Trust | (t) |
| 10.66# | Form of Independent Directors Stock Appreciation Right Award Agreement | (t) |
| 10.67# | Amended and Restated Directors Compensation Plan | * |
| 10.68# | Amendment to Form of Independent Directors Stock Appreciation Right Award Agreement | * |
| 10.69# | Amended and Restated Employment Agreement by and between Richard P. Goudis and Herbalife International of America, Inc. | u |
| 10.70# | Severance Agreement by and between Desmond Walsh and Herbalife International of America, Inc. | (u) |
| 10.71# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement | * |
| 31.1 | Rule 13a-14(a) Certification of Chief Executive Officer | * |
| 31.2 | Rule 13a-14(a) Certification of Chief Financial Officer | * |
| 32.1 | Section 1350 Certification of Chief Executive Officer and Chief Financial Officer | * |

* Filed herewith.

\# Management contract or compensatory plan or arrangement.

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

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

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

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

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

(f) Previously filed on February 28, 2006 as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2005 and is incorporated herein by reference.

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

(h) Previously filed on March 29, 2006 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.

(i) Previously filed on March 29, 2006 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.

(j) Previously filed on March 31, 2006 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.

(k) Previously filed on November 13, 2006 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 and is incorporated by reference.

(l) Previously filed on October 12, 2006 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.

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

(n) Previously filed on May 29, 2007 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.

(o) Previously filed on November 6, 2007 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 and is incorporated by reference.

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

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

(r) Previously filed on April 9, 2008 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.

(s) Previously filed on November 3, 2008 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 and is incorporated by reference.

(t) Previously filed on May 4, 2009 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 and is incorporated by reference.

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

**SIGNATURES**

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

**HERBALIFE LTD.**

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

Dated: August 2, 2010

**Exhibit 10.26**

**HERBALIFE LTD.**
**2004 STOCK INCENTIVE PLAN**

**STOCK OPTION AGREEMENT**

STOCK OPTION AGREEMENT (this "Agreement") dated as of _____, 2005 (the "Grant Date") between HERBALIFE LTD. (the "Company"), and [OPTIONEE] (the "Optionee").

WHEREAS, pursuant to the Herbalife Ltd. 2004 Stock Incentive Plan (the 'Plan"), the Committee designated under the Plan (or an officer of the Company to who the authority to grant Awards has been delegated), desires to grant to the Optionee an option to acquire Common Shares, par value $0.002 per share, of the Company; and

WHEREAS, the Optionee desires to accept such option subject to the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements contained herein, the Company and the Optionee, intending to be legally bound, hereby agree as follows:

1. Grant.

(a) The Company hereby grants to the Optionee an option (the 'Option") to purchase, subject to the terms and conditions set forth herein and in the Plan, all or any part of Common Shares, par value $.002 per share, of the Company (subject to adjustment as set forth in Section 10 of the Plan) at a price of $_____ per share (subject to adjustment as set forth in Section 10 of the Plan).

(b) The Option [is] [is not] intended to qualify as an "incentive stock option" under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

(c) Except as otherwise defined herein, capitalized terms used herein shall have the meanings set forth in the Plan.

2. Time for Exercise.

(a) The Option will become vested and exercisable in quarterly 5% increments beginning on the last day of the calendar quarter during which the Grant Date occurs and on the last day of each subsequent calendar quarter until the Option becomes fully exercisable on the last day of the calendar quarter immediately preceding the fifth anniversary of the Grant Date.

(b) In the event of a Change in Control, the Committee as constituted immediately before such Change in Control may, in its sole discretion, accelerate the vesting and exercisability of this Option upon such Change in Control or take such other actions as provided in Section 11 of the Plan.

3. Expiration. The Option shall expire on the tenth (10th) anniversary of the date hereof; provided, however, that the Option may earlier terminate as provided in this Paragraph 3 and/or in Section 11 of the Plan.

(a) Upon termination of the Optionee's employment with the Company, that portion of the Option that is not vested and exercisable will terminate on the date of such termination of employment.

(b) Upon termination of the Optionee's employment with the Company, that portion of the Option that is vested and exercisable will terminate in accordance with the following:

(i) if the Optionee's employment with the Company is terminated for Cause (as defined below), the vested and exercisable portion of the Option will terminate on the date of such termination;

(ii) if the Optionee's employment with the Company is terminated by reason of the Optionee's death or disability (as such term is defined in Section 22(e) of the Code), the vested and exercisable portion of the Option will terminate on the date that is ninety (90) days immediately following the date of such termination;

(iii) if the Optionee's employment with the Company is terminated for any reason other than death, disability or Cause, the vested and exercisable portion of the Option will terminate on the date that is thirty (30) days immediately following the date of such termination.

(c) For purposes of this Agreement, the term "Cause" shall have the meaning ascribed to such term in any written employment agreement between the Optionee and the Company or one or more of its Subsidiaries, as the same may be amended or modified from time to time, or if the Optionee is not party to any such written employment agreement, then the term "Cause" shall mean the occurrence of any of the following acts or circumstances: (i) commission of a felony, a crime of moral turpitude, dishonesty, breach of trust or unethical business conduct, or any crime involving the Company or any of its Subsidiaries; (ii) willful misconduct, willful or gross neglect, fraud, misappropriation or embezzlement; (iii) performance of the Optionee's duties in a manner that is detrimental to the Company or any of its Subsidiaries, including, but not limited to that which results in, the severe deterioration of the financial performance of the Company or any of its Subsidiaries; (iv) failure to adhere to the directions of the Chief Executive Officer of the Company or the Board, to adhere to the Company's or any Subsidiary's policies or practices or to devote substantially all of the Optionee's business time and efforts to the business of the Company and its Subsidiaries; (v) breach of any provision of any agreement, including an employment agreement, between the Optionee and the Company or any of its Subsidiaries, which covers confidentiality or proprietary information or contains nonsolicitation or non-competition provisions; or (vi) breach in any material respect of the terms and provisions of the Optionee's employment agreement, if any, or any agreement between the Optionee and the Company or any of its Subsidiaries.

4. Method of Exercise. The Option may be exercised by delivery to the Company (attention: Secretary) of a written notice of exercise specifying the number of shares being purchased, accompanied by payment therefor as follows:

(a) in cash or by check, bank draft or money order payable to the order of the Company;

(b) through the delivery (either actually or by attestation) of unencumbered Common Shares of the Company held by the Optionee for at least six months having a total Fair Market Value on the date of delivery equal to the purchase price,

(c) through a combination of cash and shares as provided in clauses (a) and (b) of this Paragraph 4; or

(d) on such other terms and conditions as may be acceptable to the Committee in its sole discretion.

5. Fractional Shares. No fractional shares may be purchased upon any exercise.

6. Compliance With Legal Requirements.

(a) The Option shall not be exercisable and no Common Shares shall be issued or transferred pursuant to this Agreement or the Plan unless and until all tax withholding, if any, and legal requirements applicable to such issuance or transfer have, in the opinion of counsel to the Company, been satisfied. Such legal requirements may include, but are not limited to, (i) registering or qualifying such Common Shares under any state or federal law or under the rules of any stock exchange or trading system, (ii) satisfying any applicable law or rule relating to the transfer of unregistered securities or demonstrating the availability of an exemption from applicable laws, (iii) placing a restricted legend on the Common Shares issued pursuant to the exercise of the Option, or (iv) obtaining the consent or approval of any governmental regulatory body.

(b) The Optionee understands that the Company is under no obligation to register for resale the Common Shares issued upon exercise of the Option. The Company may impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any exercise of the Option and/or any resales by the Optionee or other subsequent transfers by the Optionee of any Common Shares issued as a result of the exercise of the Option, including without limitation (i) restrictions under an insider trading policy, (ii) restrictions that may be necessary in the absence of an effective registration statement under the Securities Act of 1933, as amended, covering the Option and/or the Common Shares underlying the Option and (iii) restrictions as to the use of a specified brokerage firm or other agent for exercising the Option and/or for such resales or other transfers. The sale of the shares underlying the Option must also comply with other applicable laws and regulations governing the sale of such shares.

7. Shareholder Rights. The Optionee shall not be deemed a shareholder of the Company with respect to any of the Common Shares subject to the Option, except to the extent that such shares shall have been purchased and transferred to the Optionee.

8. Assignment or Transfer Prohibited. The Option may not be assigned or transferred otherwise than by will or by the laws of descent and distribution, and may be exercised during the life of the Optionee only by the Optionee or the Optionee's guardian or legal representative. Neither the Option nor any right hereunder shall be subject to attachment, execution or other similar process. In the event of any attempt by the Optionee to alienate, assign, pledge, hypothecate or otherwise dispose of the Option or any right hereunder, except as provided for herein, or in the event of the levy or any attachment, execution or similar process upon the rights or interests hereby conferred, the Company may terminate the Option by notice to the Optionee, and the Option shall thereupon become null and void.

9. Committee Authority. Any question concerning the interpretation of this Agreement or the Plan, any adjustments required to be made under this Agreement or the Plan, and any controversy that may arise under this Agreement or the Plan shall be determined by the Committee in its sole and absolute discretion. All decisions by the Committee shall be final and binding.

10. Application of the Plan. The terms of this Agreement are governed by the terms of the Plan, as it exists on the date of hereof and as the Plan is amended from time to time. In the event of any conflict between the provisions of this Agreement and the provisions of the Plan, the terms of the Plan shall control, except as expressly stated otherwise herein. As used herein, the term "Section" generally refers to provisions within the Plan, and the term "Paragraph" refers to provisions of this Agreement.

11. No Right to Continued Employment. Nothing in the Plan, in this Agreement or any other instrument executed pursuant thereto or hereto shall confer upon the Optionee any right to continued employment with the Company or any of its subsidiaries or affiliates.

12. Further Assurances. Each party hereto shall cooperate with each other party, shall do and perform or cause to be done and performed all further acts and things, and shall execute and deliver all other agreements, certificates, instruments, and documents as any other party hereto reasonably may request in order to carry out the intent and accomplish the purposes of this Agreement and the Plan.

13. Entire Agreement. This Agreement and the Plan together set forth the entire agreement and understanding between the parties as to the subject matter hereof and supersede all prior oral and written and all contemporaneous or subsequent oral discussions, agreements and understandings of any kind or nature.

14. Successors and Assigns. The provisions of this Agreement will inure to the benefit of, and be binding on, the Company and its successors and assigns and the Optionee and Optionee's legal representatives, heirs, legatees, distributees, assigns and transferees by operation of law, whether or not any such person will have become a party to this Agreement and agreed in writing to join herein and be bound by the terms and conditions hereof.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

HERBALIFE LTD.

By: _____

Name:
Title:

_____
[OPTIONEE]

**Exhibit 10.27**

**HERBALIFE LTD.**
**2004 STOCK INCENTIVE PLAN**

**NON-EMPLOYEE DIRECTOR**
**STOCK OPTION AGREEMENT**

STOCK OPTION AGREEMENT (this "Agreement") dated as of _____ (the "Grant Date") between HERBALIFE LTD. (formerly known as WH Holdings (Cayman Islands) Ltd.) (the "Company"), and _____ (the "Optionee").

WHEREAS, pursuant to the Herbalife Ltd. 2004 Stock Incentive Plan (the "Plan"), the Committee designated under the Plan desires to grant to the Optionee an option to acquire Common Shares, par value $0.002 per share, of the Company; and

WHEREAS, the Optionee desires to accept such option subject to the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements contained herein, the Company and the Optionee, intending to be legally bound, hereby agree as follows:

1. Grant.

(a) The Company hereby grants to the Optionee an option (the "Option") to purchase, subject to the terms and conditions set forth herein and in the Plan, all or any part of _____ Common Shares, par value $.002 per share, of the Company (subject to adjustment as set forth in Section 10 of the Plan) at a price of $_____ per share (subject to adjustment as set forth in Section 10 of the Plan).

(b) The Option is not intended to qualify as an "incentive stock option" under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

(c) Except as otherwise defined herein, capitalized terms used herein shall have the meanings set forth in the Plan.

2. Time for Exercise.

(a) Subject to the provisions of this Agreement and the Plan, the Option shall vest and become exercisable (i) with respect to one-twelfth (1/12) of the aggregate number of Common Shares set forth in Paragraph 1 hereof on the last day of the first calendar quarter beginning on or after the Grant Date, and (ii) with respect to an additional one-twelfth (1/12) of the aggregate number of Common Shares set forth in Paragraph 1 hereof on the last day of each calendar quarter thereafter until the Option becomes fully vested and exercisable on the last day of the first calendar quarter beginning on or after the third anniversary of the Grant Date.

(b) In the event of a Change in Control, the Committee as constituted immediately before such Change in Control may, in its sole discretion, accelerate the vesting and exercisability of this Option upon such Change in Control or take such other actions as provided in Section 11 of the Plan.

3. Expiration. The Option shall expire on the tenth (10th) anniversary of the date hereof; provided, however, that under certain circumstances, the Option may earlier terminate in connection with a Change in Control, as provided in Section 11 of the Plan.

4. Method of Exercise. The Option may be exercised by delivery to the Company (attention: Secretary) of a written notice of exercise specifying the number of shares being purchased, accompanied by payment therefor as follows:

(a) in cash or by check, bank draft or money order payable to the order of the Company;

(b) through the delivery (either actually or by attestation) of unencumbered Common Shares of the Company held by the Optionee for at least six months having a total Fair Market Value on the date of delivery equal to the purchase price,

(c) through a combination of cash and shares as provided in clauses (a) and (b) of this Paragraph 4; or

(d) on such other terms and conditions as may be acceptable to the Committee in its sole discretion.

5. Fractional Shares. No fractional shares may be purchased upon any exercise.

6. Compliance With Legal Requirements.

(a) The Option shall not be exercisable and no Common Shares shall be issued or transferred pursuant to this Agreement or the Plan unless and until all tax withholding, if any, and legal requirements applicable to such issuance or transfer have, in the opinion of counsel to the Company, been satisfied. Such legal requirements may include, but are not limited to, (i) registering or qualifying such Common Shares under any state or federal law or under the rules of any stock exchange or trading system, (ii) satisfying any applicable law or rule relating to the transfer of unregistered securities or demonstrating the availability of an exemption from applicable laws, (iii) placing a restricted legend on the Common Shares issued pursuant to the exercise of the Option, or (iv) obtaining the consent or approval of any governmental regulatory body.

(b) The Optionee understands that the Company is under no obligation to register for resale the Common Shares issued upon exercise of the Option. The Company may impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any exercise of the Option and/or any resales by the Optionee or other subsequent transfers by the Optionee of any Common Shares issued as a result of the exercise of the Option, including without limitation (i) restrictions under an insider trading policy, (ii) restrictions that may be necessary in the absence of an effective registration statement under the Securities Act of 1933, as amended, covering the Option and/or the Common Shares underlying the Option and (iii) restrictions as to the use of a specified brokerage firm or other agent for exercising the Option and/or for such resales or other transfers. The sale of the shares underlying the Option must also comply with other applicable laws and regulations governing the sale of such shares.

7. Shareholder Rights. The Optionee shall not be deemed a shareholder of the Company with respect to any of the Common Shares subject to the Option, except to the extent that such shares shall have been purchased and transferred to the Optionee.

8. Assignment or Transfer Prohibited. The Option may not be assigned or transferred otherwise than by will or by the laws of descent and distribution, and may be exercised during the life of the Optionee only by the Optionee or the Optionee's guardian or legal representative. Neither the Option nor any right hereunder shall be subject to attachment, execution or other similar process. In the event of any attempt by the Optionee to alienate, assign, pledge, hypothecate or otherwise dispose of the Option or any right hereunder, except as provided for herein, or in the event of the levy or any attachment, execution or similar process upon the rights or interests hereby conferred, the Company may terminate the Option by notice to the Optionee, and the Option shall thereupon become null and void.

9. Committee Authority. Any question concerning the interpretation of this Agreement or the Plan, any adjustments required to be made under this Agreement or the Plan, and any controversy that may arise under this Agreement or the Plan shall be determined by the Committee in its sole and absolute discretion. All decisions by the Committee shall be final and binding.

10. Application of the Plan. The terms of this Agreement are governed by the terms of the Plan, as it exists on the date of hereof and as the Plan is amended from time to time. In the event of any conflict between the provisions of this Agreement and the provisions of the Plan, the terms of the Plan shall control, except as expressly stated otherwise herein. As used herein, the term "Section" generally refers to provisions within the Plan, and the term "Paragraph" refers to provisions of this Agreement.

11. No Right to Continued Board Service. Nothing in the Plan, in this Agreement or any other instrument executed pursuant thereto or hereto shall confer upon the Optionee any right to continue to serve as a director of the Company.

12. Further Assurances. Each party hereto shall cooperate with each other party, shall do and perform or cause to be done and performed all further acts and things, and shall execute and deliver all other agreements, certificates, instruments, and documents as any other party hereto reasonably may request in order to carry out the intent and accomplish the purposes of this Agreement and the Plan.

13. Entire Agreement. This Agreement and the Plan together set forth the entire agreement and understanding between the parties as to the subject matter hereof and supersede all prior oral and written and all contemporaneous or subsequent oral discussions, agreements and understandings of any kind or nature.

14. Successors and Assigns. The provisions of this Agreement will inure to the benefit of, and be binding on, the Company and its successors and assigns and the Optionee and Optionee's legal representatives, heirs, legatees, distributees, assigns and transferees by operation of law, whether or not any such person will have become a party to this Agreement and agreed in writing to join herein and be bound by the terms and conditions hereof.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

HERBALIFE LTD.

By: _____

Optionee

Name:
Title:

**Exhibit 10.67**

**HERBALIFE LTD.**
**AMENDED AND RESTATED**
**NON-MANAGEMENT DIRECTORS COMPENSATION PLAN**

**1. Establishment of Plan; Purpose**

The Herbalife Ltd. (the "Company") Non-Management Directors Compensation Plan (the "Directors Plan") was initially adopted on January 15, 2006. The Directors Plan is hereby amended and restated in its entirety effective as of May 6, 2010 (the "Restatement Effective Date"). Prior to January 1, 2009, the Directors Plan provided for the award of Stock Units under Section 9 of the Herbalife Ltd. 2005 Stock Incentive Plan (the "Plan"). From January 1, 2009 until May 6, 2010, the Directors Plan provides for the award of Stock Appreciation Rights under Section 8 of the Plan. From and after May 6, 2010, the Directors Plan provides for the award of either Stock Units under Section 9 of the Plan or Stock Appreciation Rights under Section 8 of the Plan, in the sole discretion of the Committee. The Directors Plan is intended to be a part of the Plan and the terms of the Plan are incorporated herein by reference.

The purpose of the Plan is to facilitate equity ownership in the Company by its Nonemployee Directors through the award of equity-based compensation awards under the Plan.

**2. Definitions**

Unless otherwise specifically provided for herein, all capitalized terms used herein shall have the same meanings as the meanings ascribed to such terms in the Plan. In addition, the following words have the following meanings unless a different meaning plainly is required by the context:

(a) "Deferral Account" means the accounting entry made with respect to each Participant for the purpose of maintaining a record of each Participant's benefit under the Directors Plan.

(b) "Effective Date" means January 15, 2006.

(c) "Grant Date" means a date on which Stock Units or Stock Appreciation Rights are granted pursuant this Directors Plan.

(d) "Independent Director" means a member of the Board who, at all relevant times, has been determined by the Board to be independent.

(e) "Nonemployee Director" means a member of the Board who, at all relevant times, is not an employee and/or officer of the Company or any of its subsidiaries.

(f) "Participant" means a Nonemployee Director who has received an award hereunder.

(g) "Plan Year" means January 15 of each calendar year to January 14 of the next following calendar year. The first Plan Year shall commence on the Effective Date and end on January 14, 2007.

**3. Administration.**

The Directors Plan shall be administered the Committee. Consistent with Section 18 of the Plan, any question concerning the interpretation of the Directors Plan, any adjustments required to be made under the Directors Plan, and any controversy that may arise under the Directors Plan or any award agreement issued hereunder shall be determined by the Committee in its sole and absolute discretion. All such decisions by the Committee shall be final and binding.

**4. Eligibility and Participation.**

Prior to the Restatement Effective Date, participation in the Directors Plan was limited to Independent Directors. From and after the Restatement Effective Date, all Nonemployee Directors shall be eligible to participate in this Directors Plan and receive awards hereunder from time to time.

**5. Stock Unit Awards.**

(a) **First Plan Year Grant**. On the Effective Date of the Directors Plan, the Committee shall grant to each Independent Director, pursuant to Section 9 of the Plan, a number of Stock Units equal to the quotient of One Hundred Thousand Dollars ($100,000) divided by the Fair Market Value of one Common Share on such date, rounded to the nearest whole number.

(b) **Grants Upon Initial Election to Board.** Unless otherwise determined by the Committee, with respect to each Independent Director who commences service on the Board after the Effective Date, upon such Independent Director's commencement of service as a member of the Board the Committee shall grant to such Independent Director, pursuant to Section 9 of the Plan, a number of Stock Units equal to (i) the quotient of One Hundred Thousand Dollars ($100,000) divided by the Fair Market Value of one Common Share on such date, rounded to the nearest whole number, multiplied by (ii) a fraction, the numerator of which equals (A) 365 minus (B) the number of days during the Plan Year that have elapsed prior to the date on which the Independent Director commenced service as a member of the Board and the denominator of which equals 365.

(c) **Annual Grants**. Unless otherwise determined by the Committee, on January 15 of each Plan Year beginning after Effective Date of the Directors Plan, the Committee shall grant, pursuant to Section 9 of the Plan, to each Independent Director who is serving as a member of the Board as of the Grant Date, a number of Stock Units equal to the quotient of One Hundred Thousand Dollars ($100,000) divided by the Fair Market Value of one Common Share on such date, rounded to the nearest whole number.

(d) **Award Agreement**. Each award of Stock Units shall be evidenced by an award agreement entered into between the Company and the applicable Participant and shall be subject to all of the terms and conditions set forth herein and in the Plan.

(e) **Terms and Conditions of Stock Units**. Stock Unit awards made pursuant to this Section 5 shall be subject to the following terms and conditions:

(i) Unless otherwise determined by the Committee at the time of grant the value of each Stock Unit shall be equal to one Common Share (as adjusted pursuant to Section 12 of the Plan).

(ii) Subject to the provisions of this Directors Plan, neither Stock Units awarded pursuant to this Directors Plan nor the Common Shares subject thereto may be sold, assigned, transferred, pledged, or otherwise encumbered prior to the date on which such Common Shares are delivered to the Participant or the Participant's beneficiary designated pursuant to Section 6(c)(iii) of this Directors Plan.

(iii) Unless otherwise provided in an award agreement, the recipient of an award under this Section 5 shall not be entitled to receive dividends or dividend equivalents with respect to the number of Common Shares represented by the Stock Unit award until such time as the Common Shares subject to the award have been issued pursuant to the terms of this Directors Plan.

(iv) Unless determined otherwise by the Committee at the time of grant and set forth in an award agreement, subject to the applicable Participant's continuous service as a member of the Board, awards of Stock Units pursuant to Section 5(a) or Section 5(c) shall become vested with respect to twenty-five percent (25%) of the number of Stock Units subject to the award on each of April 15, July 15 and October 15 of the calendar year in which the award is granted and January 15 of the calendar year following the year in which the award is granted (each such date is referred to herein as a "Vesting Date").

(v) Unless determined otherwise by the Committee at the time of grant and set forth in an award agreement, subject to the applicable Participant's continuous service as a member of the Board, awards of Stock Units pursuant to Section 5(b) shall become vested in equal installments on each of the Vesting Dates that occur after the Grant Date and on or prior to the next following January 15th.1

(vi) In the event that a Participant ceases to serve as a member of the Board for any reason, all Stock Units held by such Participant at the time of such cessation that have not yet become vested shall be immediately forfeited; provided, however, that in the event of the Participant's disability (as such term if defined in Section 22(e) of the Code) or death, the Committee may, in its sole discretion, accelerate the vesting of any unvested Stock Units then held by such Participant.

(vii) Notwithstanding anything herein to the contrary, in the event of a Change of Control all unvested Stock Units shall be deemed fully vested immediately prior to the consummation of the Change of Control.

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1 For example: with respect to an award of Stock Units pursuant to Section 5(b) on April 22, 2006, the award would become vested with respect to 33 1/3% of the Stock Units subject thereto on each of July 15, 2006, October 15, 2006 and January 15, 2007.

(f) **Payment/Deferral of Stock Unit Awards**.

(i) On each Grant Date the Stock Units awarded to a Participant pursuant to this Section 5 shall be credited to the Participant's Deferral Account.

(ii) Subject to the applicable Participant's continuous service as a member of the Board, on the second anniversary of the final Vesting Date of an award of Stock Units pursuant to this Section 5, there shall be credited to Participant's Deferral Account one Common Share in exchange for each such Stock Unit then held in Participant's Deferral Account.

(iii) In the event that a Participant ceases to serve as a member of the Board for any reason prior to the second anniversary of the final Vesting Date of an award of Stock Units pursuant to this Section 5, the Company shall, within thirty (30) days following such cessation, subject to Section 16 of the Plan, issue to the Participant a number of Common Shares equal to the number of vested Stock Units subject to each such award held in the Participant's Deferral Account at the time of such cessation.

(g) Notwithstanding anything herein to the contrary, no Stock Units shall be awarded under Section 5 of this Directors Plan on or after January 1, 2009.

**5A. Stock Appreciation Right Awards.**

(a) **2009 Plan Year Grant.** On February 27, 2009, the Committee shall grant to each Independent Director, pursuant to Section 8 of the Plan, a number of Stock Appreciation Rights equal to the quotient of One Hundred Thousand Dollars ($100,000) divided by the "fair value" (as determined by the Company in accordance with Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment or such revised standard as then applicable ("FAS 123R")) of one Stock Appreciation Right on such date, rounded to the nearest whole number.

(b) **Grants Upon Initial Election to Board.** Unless otherwise determined by the Committee, with respect to each Nonemployee Director who commences service on the Board after January 1, 2010, upon such Nonemployee Director's commencement of service as a member of the Board the Committee shall grant to such Nonemployee Director, pursuant to Section 8 of the Plan, a number of Stock Appreciation Rights equal to (i) the quotient of One Hundred Thousand Dollars ($100,000) divided by the "fair value" (as determined by the Company in accordance with FAS 123R) of one Stock Appreciation Right on such date, rounded to the nearest whole number, multiplied by (ii) a fraction, the numerator of which equals (A) 365 minus (B) the number of days that have elapsed since the most recent Annual General Meeting of Shareholders the prior to the date on which the Nonemployee Director commenced service as a member of the Board, and the denominator of which equals 365.

(c) **Annual Grants.** Unless otherwise determined by the Committee, for each Plan Year beginning after January 1, 2010, on the date whereupon annual equity awards are made to Company employees, the Committee shall grant, pursuant to Section 8 of the Plan, to each Nonemployee Director who is serving as a member of the Board as of the Grant Date, a number of Stock Appreciation Rights equal to the quotient of One Hundred Thousand Dollars ($100,000) divided by the "fair value" (as determined by the Company in accordance with FAS 123R) of one Stock Appreciation Right on such date, rounded to the nearest whole number.

(d) **Base Price.** The Base Price for each award of Stock Appreciation Rights shall be the closing price of the Common Shares on the Grant Date.

(e) **Award Agreement.** Each award of Stock Appreciation Rights shall be evidenced by an award agreement entered into between the Company and the applicable Nonemployee Director and shall be subject to all of the terms and conditions set forth herein and in the Plan.

(f) **Terms and Conditions of Stock Appreciation Rights.** Stock Appreciation Right awards made pursuant to this Section 5A shall be subject to the following terms and conditions:

(i) Each Stock Appreciation Right shall represent the right to receive, upon exercise of the Stock Appreciation Right, a payment, paid in Common Shares, equal to (i) the excess of the Fair Market Value, on the date of exercise, of one Common Share (as adjusted pursuant to Section 12 of the Plan) over the Base Price of the Stock Appreciation Right, divided by (ii) the Fair Market Value, on the date of exercise, of one Common Share.

(ii) Unless determined otherwise by the Committee at the time of grant and set forth in an award agreement, subject to the applicable Nonemployee Director's continuous service as a member of the Board, awards of Stock Appreciation Rights pursuant to Section 5A(a) or Section 5A(c) shall become vested with respect to twenty-five percent (25%) of the number of Stock Appreciation Rights subject to the award on each of July 15 and October 15 of the calendar year in which the award is granted and January 15 and April 15 of the calendar year following the year in which the award is granted (each such date is referred to herein as a "Vesting Date"); provided, however, that no Stock Appreciation Right, whether vested or unvested, may be exercised prior to the date specified in Section 5A(g) of this Directors Plan.

(iii) Unless determined otherwise by the Committee at the time of grant and set forth in an award agreement, subject to the applicable Nonemployee Director's continuous service as a member of the Board, awards of Stock Appreciation Rights pursuant to Section 5A(b) shall become vested in equal installments on each of the Vesting Dates that occur after the Grant Date and on or prior to the next following January 15th; provided, however, that no Stock Appreciation Right, whether vested or unvested, may be exercised prior to the date specified in Section 5A(g) of this Directors Plan.

(iv) In the event that an Nonemployee Director ceases to serve as a member of the Board for any reason, all Stock Appreciation Rights held by such Nonemployee Director at the time of such cessation that have not yet become vested shall be immediately forfeited; provided, however, that in the event of the Nonemployee Director's disability (as such term if defined in Section 22(e) of the Code) or death, the Committee may, in its sole discretion, accelerate the vesting of any unvested Stock Appreciation Rights then held by such Nonemployee Director.

(v) Notwithstanding anything herein to the contrary, in the event of a Change of Control all unvested Stock Appreciation Rights shall be deemed fully vested and exercisable immediately prior to the consummation of the Change of Control.

(g) **Exercisability of Stock Appreciation Right Awards.**

(i) Subject to the applicable Nonemployee Director's continuous service as a member of the Board, Stock Appreciation Rights granted under this Section 5A that become vested pursuant to this Section 5A hereof shall be exercisable by the Nonemployee Director on and after the second anniversary of the final Vesting Date of the award pursuant to this Section 5A and shall remain exercisable until the seventh (7th) anniversary of the Grant Date.

(ii) In the event that an Nonemployee Director ceases to serve as a member of the Board for any reason prior to the second anniversary of the final Vesting Date of an award of Stock Appreciation Rights pursuant to this Section 5A, Stock Appreciation Rights previously granted that vested on or prior to such cessation of service shall be exercisable by the Nonemployee Director on and after the date of such cessation of service and shall remain exercisable until the seventh (7th) anniversary of the Grant Date.

(iii) Notwithstanding anything herein to the contrary, all Stock Appreciation Rights granted under this Section 5A on and after January 1, 2010 that become vested pursuant to this Section 5A hereof shall, subject to the applicable Nonemployee Director's continuous service as a member of the Board, be exercisable by the Nonemployee Director to the extent vested from and after the applicable Vesting Date of the award pursuant to this Section 5A and shall remain exercisable until the seventh (7th) anniversary of the Grant Date.

(h) Notwithstanding anything herein to the contrary, no Stock Appreciation Rights shall be awarded under Section 5A of this Directors Plan on or after January 1, 2009.

**5B. Equity Awards.**

(a) **Form of Equity Awards**. Notwithstanding anything herein to the contrary, from and after May 6, 2010, the Committee shall have the discretion to grant equity awards to Nonemployee Directors (including both annual grants and grants upon initial election to the Board) in the form of either Stock Units and/or Stock Appreciation Rights.

(b) **Grants Upon Initial Election to Board.** Unless otherwise determined by the Committee, with respect to each Nonemployee Director who commences service on the Board after January 1, 2010, upon such Nonemployee Director's commencement of service as a member of the Board the Committee shall grant to such Nonemployee Director an equity award, in the form of Stock Appreciation Rights granted under Section 8 of the Plan, Stock Units granted under Section 9 of the Plan or a combination thereof, having a "fair value" (as determined by the Company in accordance with FAS 123R) on the Grant Date equal to One Hundred Thousand Dollars ($100,000) multiplied by a fraction, the numerator of which equals (i) 365 minus (ii) the number of days that have elapsed since the most recent Annual General Meeting of Shareholders the prior to the date on which the Nonemployee Director commenced service as a member of the Board, and the denominator of which equals 365.

(c) **Annual Grants.** Unless otherwise determined by the Committee, for each Plan Year beginning after January 1, 2010, on the date whereupon annual equity awards are made to Company employees, the Committee shall grant to each Nonemployee Director who is serving as a member of the Board as of the Grant Date an equity award, in the form of Stock Appreciation Rights granted under Section 8 of the Plan, Stock Units granted under Section 9 of the Plan or a combination thereof, having a "fair value" (as determined by the Company in accordance with FAS 123R) on the Grant Date equal to One Hundred Thousand Dollars ($100,000).

(d) **Base Price.** To the extent the annual or initial equity awards are granted in the form of Stock Appreciation Rights, the Base Price for each award of Stock Appreciation Rights shall be the closing price of the Common Shares on the Grant Date.

(e) **Award Agreement.** Each award of equity award granted hereunder shall be evidenced by an award agreement entered into between the Company and the applicable Nonemployee Director and shall be subject to all of the terms and conditions set forth herein and in the Plan.

(f) **Terms and Conditions of Equity Awards.** Awards made pursuant to this Section 5B shall be subject to the following terms and conditions:

(i) Each Stock Appreciation Right awarded under this Section 5B, if any, shall represent the right to receive, upon exercise of the Stock Appreciation Right, a payment, paid in Common Shares, equal to (i) the excess of the Fair Market Value, on the date of exercise, of one Common Share (as adjusted pursuant to Section 12 of the Plan) over the Base Price of the Stock Appreciation Right, divided by (ii) the Fair Market Value, on the date of exercise, of one Common Share.

(ii) Unless otherwise determined by the Committee at the time of grant, the value of each Stock Unit awarded under this Section 5B, if any, shall be equal to one Common Share (as adjusted pursuant to Section 12 of the Plan).

(iii) Unless determined otherwise by the Committee at the time of grant and set forth in an award agreement, subject to the applicable Nonemployee Director's continuous service as a member of the Board, awards of Stock Appreciation Rights and/or Stock Units pursuant to Section 5B(c) shall become vested with respect to twenty-five percent (25%) of the number of Stock Appreciation Rights and/or Stock Units, as applicable, subject to the award on each of July 15 and October 15 of the calendar year in which the award is granted and January 15 and April 15 of the calendar year following the year in which the award is granted (each such date is referred to herein as a "Vesting Date").

(iii) Unless determined otherwise by the Committee at the time of grant and set forth in an award agreement, subject to the applicable Nonemployee Director's continuous service as a member of the Board, awards of Stock Appreciation Rights and/or Stock Units pursuant to Section 5A(b) shall become vested in equal installments on each of the Vesting Dates that occur after the Grant Date and on or prior to the next following April 15th.

(iv) In the event that an Nonemployee Director ceases to serve as a member of the Board for any reason, all Stock Appreciation Rights and/or Stock Units held by such Nonemployee Director at the time of such cessation that have not yet become vested shall be immediately forfeited; provided, however, that in the event of the Nonemployee Director's disability (as such term if defined in Section 22(e) of the Code) or death, the Committee may, in its sole discretion, accelerate the vesting of any unvested Stock Appreciation Rights and/or Stock Units then held by such Nonemployee Director.

(v) Notwithstanding anything herein to the contrary, in the event of a Change of Control all unvested Stock Appreciation Rights and/or Stock Units shall be deemed fully vested and exercisable immediately prior to the consummation of the Change of Control.

(g) **Exercisability of Stock Appreciation Right Awards.** Subject to the applicable Nonemployee Director's continuous service as a member of the Board, any Stock Appreciation Rights granted under this Section 5B that become vested pursuant to this Section 5B hereof shall be exercisable by the Nonemployee Director on the applicable Vesting Date of the award pursuant to this Section 5B and shall remain exercisable until the seventh ($7^{th}$) anniversary of the Grant Date.

(h) **Settlement of Stock Unit Awards.** Each vested Stock Unit granted under this Section 5B will be settled by the delivery of one Common Share (subject to adjustment under Section 12 of the Plan) to the applicable Nonemployee Director or, in the event of the Nonemployee Director's death, to the Nonemployee Director's estate, heir or beneficiary, within thirty (30) days following the applicable Vesting Date.

**6. Deferred Compensation**

**(a) Contributions to Deferral Accounts**.

(i) Subject to Sections 6(a)(ii) and 6(a)(iii) of this Directors Plan, an Independent Director may elect to defer and have credited to his or her Deferral Account for any calendar year up to one hundred percent (100%) of his or her Director's Compensation (as defined below). In addition, pursuant to Section 5(f)(i) of this Directors Plan, on each Grant Date the Stock Units awarded to an Independent Director pursuant to Section 5 of this Directors Plan shall be automatically credited to the applicable Nonemployee Director's Deferral Account. For purposes of this Directors Plan, the term "Director's Compensation" means the amounts payable in cash to an Independent Director for a calendar year for the Independent Director's service on the Board for such calendar year including, without limitation, annual retainer and meeting fees. Notwithstanding anything herein to the contrary, no deferrals shall be made pursuant to this Directors Plan from and after January 1, 2009.

(ii) Independent Directors shall make their elections to defer all or a portion of their Director's Compensation for a calendar year by December 1, but no later than December 31, immediately prior to the beginning of the calendar year in which the Director's Compensation is to be earned, or within thirty (30) calendar days of eligibility to participate for a partial calendar year (with respect to Director's Compensation not yet earned). Any election pursuant to Section 6(a)(i) of this Directors Plan shall be made by the Independent Director by completing and delivering to the Company an election form provided by the Company (a "Deferral Election Form") for such calendar year no later than the last day of the next preceding calendar year, except with respect to a person who first becomes eligible to participate in this Directors Plan during a calendar year, which Independent Director may make such elections within 30 days after first becoming eligible to participate in this Directors Plan, and which elections shall apply only to amounts of Director's Compensation paid for services to be performed after the date of such election.

(iii) All deferral elections shall be irrevocable for the calendar year in which they are in effect. Once made, an Independent Director's deferral election shall remain in effect for all subsequent calendar years for which the Independent Director is an Independent Director unless and until the Independent Director increases, decreases, or terminates such election by submitting a new Deferral Election Form to the Company. Deferral election changes must be submitted to the Company no later than the last day of the calendar year next preceding the calendar year for which the change is to be effective.

**(b) Distributions**.

(i) Distribution Elections. Other than with respect to Stock Units awarded on the Effective Date, no later than the December 31 of each calendar year, each Independent Director who is then eligible to receive an award of Stock Units pursuant to Section 5 of this Directors Plan shall be required to complete and submit to the Committee an election on a form provided by the Company (a "Distribution Election Form") as to the timing and form of distributions from his or her Deferral Account with respect to amounts attributable to (i) the Stock Units awarded on the next following Grant Date and (ii) any Director's Compensation deferred pursuant to Section 6(a) of this Directors Plan with respect to the next following calendar year. If no valid distribution election is made with respect to an award of Stock Units, the portion of the Participant's Deferral Account that is attributable to such award shall be distributed, subject to Section 5(e)(iii) of this Directors Plan, in the form of a lump sum payment on the second anniversary of the final Vesting Date of such award. If no valid distribution election is made with respect to Director's Compensation deferred pursuant to Section 6(a) of this Directors Plan, the portion of the Participant's Deferral Account that is attributable to such amounts shall be distributed in the form of a lump sum payment upon termination of the Independent Director's service as a member of the Board.

(ii) Scheduled In-Service Distributions.

(1) Lump Sum or Installment Payments. A Participant may elect on a Distribution Election Form to receive distributions from the vested portion of his or her Deferral Account while he or she is still a member of the Board (an "In-Service Distribution") in (A) a single lump sum payment, or (B) annual installment payments over a period of five (5) or ten (10) years, with the amount of each payment determined as set forth in Section 6(b)(viii) of this Directors Plan. If the amount a Participant elects to receive pursuant to an In-Service Distribution is less than $100,000, payment shall be made in a single lump sum. If a Participant elects to receive installment payments under (B) above, the amount of each installment payment shall be equal to the balance remaining in the portion of the Participant's Deferral Account that is subject to such installment election (as determined immediately prior to each such payment), multiplied by a fraction, the numerator of which is one (1), and the denominator of which is the total number of remaining installment payments. The installment amount shall be adjusted annually to reflect gains and losses, if any, allocated to such Participant's Deferral Account pursuant to Section 6(c)(ii).

(2) Time of Distributions. A Participant's election under this Section 6(b)(ii) must specify the future year in which the payment of the deferred amounts shall commence, provided that the year in which an In-Service Distribution of amounts attributable to an award of Stock Units is to commence must be at least two (2) years after the final Vesting Date of such award.

(3) Separate Annual Elections. Any desired In-Service Distribution must be separately elected for each Stock Unit award and for any Director's Compensation deferred in any one calendar year. Thus, to elect a scheduled In-Service Distribution with respect to a specific year's Stock Units and Director's Compensation, a new Distribution Election Form must be submitted during the applicable election period. Once the applicable election period has passed, an In-Service Distribution may not be elected for that the portion of the Participant's Deferral Account attributable to Stock Units awarded and Director's Compensation earned in that year.

(4) Amendment of Election. A Participant may delay the commencement of an In-Service Distribution or amend his or her election as to the form of the distribution at any time provided that (A) such amendment must be made in the manner specified by the Committee at least one (1) calendar year prior to the date the distribution would otherwise commence, (B) the amendment will not take effect until at least one (1) calendar year after the amendment is submitted, and (C) the amendment provides for the deferral of the date of payments commence for a minimum of five (5) additional years. For purposes of the limitation set forth clause (C) of the preceding sentence, distributions that are to be paid in installments (as opposed to in a lump sum) shall be treated as a single payment payable on the date the installments are due to commence. Any change in the form or timing of payment may not accelerate distributions to the Participant, except to the extent permitted under Section 409A of the Code without the imposition of the additional tax set forth in Section 409A(a)(1)(B) of the Code.

(5) Termination of Board Service Prior to Completion of In-Service Distribution. If a Participant's Board service with the Company terminates for any reason prior to receiving full payment of an In-Service Distribution or while he or she is receiving scheduled installment payments pursuant to this Section 6(b)(ii), the unpaid portion of the Participant's elected distribution shall be paid in accordance with Section 6(b)(iii) below.

(iii) Distributions upon Termination of Board Service for Reasons Other Than Death.

(1) Lump Sum or Installment Payments. As an alternative to electing an In-Service Distribution under Section 6(b)(ii) of this Directors Plan, a Participant may elect on a Distribution Election Form to receive the vested balance credited to his or her Deferral Account following termination of Board service for any reason other than death in (A) a single lump sum payment, or (B) annual installment payments over a period of five (5) or ten (10) years, with the amount of each payment

determined as set forth in Section 6(b)(viii) of this Directors Plan. If the amount a Participant elects to receive pursuant to an In-Service Distribution is less than $100,000, payment shall be made in a single lump sum. If a Participant elects to receive installment payments under (B) above, the amount of each installment payment shall be equal to the balance remaining in the portion of the Participant's Deferral Account that is subject to such installment election (as determined immediately prior to each such payment), multiplied by a fraction, the numerator of which is one (1), and the denominator of which is the total number of remaining installment payments. The installment amount shall be adjusted annually to reflect gains and losses, if any, allocated to such Participant's Deferral Account pursuant to Section 6(c)(ii).

(2) Death of Participant. If a Participant dies prior to receiving full payment his or her Deferral Account as elected under this Section 6(b)(iii), the balance of the vested portion of such Participant's Deferral Account shall be paid to the Participant's designated beneficiary in the form of a lump sum as soon as administratively practicable following the Participant's death. The amount of any such lump sum payment shall be determined as set forth in Section 6(b)(viii).

(iv) Stock Units Awarded on Effective Date. Notwithstanding anything herein to the contrary, that portion of a Participant's Deferral Account that is attributable the award of Stock Units pursuant to Section 5 of this Directors Plan on the Effective Date shall be distributed, subject to Section 5(e)(iii) of this Directors Plan, in the form of a lump sum payment on the third anniversary of the Effective Date.

(v) Form of Distribution. That portion of a Participant's Deferral Account that remains notionally invested, at the time of distribution, in Stock Units and/or Common Shares shall be distributed in the form of Common Shares. That portion of a Participant's Deferral Account that is notionally invested, at the time of distribution, in any investment alternative other than Stock Units or Common Shares shall be distributed in cash.

(vi) Financial Hardship. The Committee shall have the authority to alter the timing or manner of payment of amounts credited to a Participant's Deferral Account in the event that the Participant establishes, to the satisfaction of the Committee, "severe financial hardship" (as defined herein). For purposes of this Section 6(b)(vi), "severe financial hardship" shall mean any financial hardship resulting from the illness or injury of a Participant or dependent (as determined by the Committee), the casualty loss of a Participant's real or personal property, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. In any event, payment under this Section 6(b)(vi) may not be made to the extent such emergency is or may be relieved: (A) through reimbursement or compensation by insurance or otherwise; or (B) by liquidation of the Participant's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship. Withdrawals of amounts because of a severe financial hardship may only be permitted to the extent reasonably necessary to satisfy the hardship, plus to pay taxes on the withdrawal. The Participant's Deferral Account will be credited with earnings in accordance with this Section 6 up to the date of distribution.

(vii) Incompetence of Distributee. In the event that it shall be found that a person entitled to receive payment under the Plan (including a designated beneficiary) is a minor or is physically or mentally incapable of personally receiving and giving a valid receipt for any payment due (unless prior claim therefor shall have been made by a duly qualified committee or other legal representative), such payment may be made to any person whom the Committee in its sole discretion determines is entitled to receive it, and any such payment shall fully discharge the Company, the Company, the Committee and the Plan from any further liability to the person otherwise entitled to payment hereunder, to the extent of such payment.

(viii) Value of Stock Units on Distribution. In the event of a distribution hereunder, the amount payable to the Participant receiving such distribution shall be as follows:

(A) In the event Participant has selected an investment other than Stock Units or Common Shares, and such Participant has elected to take payment of the Deferral Account in a lump sum payout, or a lump sum payout is otherwise required hereunder, the Company shall pay the Participant an amount in cash equal to the balance in such Participant's Deferral Account as of the date elected by the Participant, or as of the date of the event requiring such lump sum payout, as the case may be.

(B) In the event Participant has selected investment an investment other than Stock Units or Common Shares, and such Participant has elected to take payment of the Deferral Account in installments, the Company shall pay the Participant annually installment payments, with each payment equal to the balance of the Deferral Account on the applicable anniversary date selected by Participant, divided by the number of installments remaining.

(C) In the event Participant has selected investment in Stock Units and/or Common Shares, and such Participant has elected to take payment of the Deferral Account in a lump sum payout, or a lump sum payout is otherwise required hereunder, the Company shall, subject to Section 16 of the Plan, issue to the Participant a number of Common Shares equal to the number of Stock Units and Common Shares in such Participant's Deferral Account.

(D) If Participant has selected investment in Stock Units and/or Common Shares, and such Participant has elected to take payment of the Deferral Account in installment payouts, such Participant shall receive on each installment payment date, subject to Section 16 of the Plan, a number of Common Shares equal to the total number of Stock Units and Common Shares in such Participant's Deferral Account, divided by the number of installments elected.

(E) Any distributions due by the Company under this Section 6 shall be made as soon as administratively feasible, but, subject to Section 16 of the Plan, in no event later than the thirtieth (30th) day after the day the amount of such payment is determined pursuant to this Section 6(b)(viii).

(ix) Section 457A. Notwithstanding anything herein to the contrary, to the extent necessary for this Directors Plan to comply with Section 457A of the Code, all amounts deferred pursuant to this Directors Plan and not distributed in accordance with the terms hereof before December 31, 2017 shall be distributed in lump sum to the applicable Participant on December 31, 2017.

**(c) Deferral Accounts**.

(i) Participants' Accounts. The Company shall establish and maintain an individual bookkeeping Deferral Account for each Participant. Each Deferral Account shall be credited with Stock Units in accordance with Section 6(a) of this Directors Plan, generally within five (5) business days of the applicable Grant Date, and as provided in Section 6(c)(ii). Each Deferral Account shall be credited with the value of any Director's Compensation deferred in accordance with Section 6(a) of this Directors Plan, generally within five (5) business days of the date on which such amounts would have otherwise been paid to the applicable Independent Director, and as provided in Section 6(c)(ii). Except as set forth in Section 5(e), each Participant shall be fully vested in his or her Deferral Account at all times.

(ii) Earnings on Deferred Amounts.

(1) A Participant's Deferral Account shall be credited with earnings (or losses) based on a deemed investment of the Participant's Deferral Account, as directed by each Participant, which deemed investment shall be Stock Units/Common Shares or one or more hypothetical investment alternatives made available by the Committee from time to time; provided, however, that amounts credited to a Participant's Deferral Account in respect of an award Stock Units under this Directors Plan must remain invested Stock Units and/or Common Shares. A Participant shall have no voting rights or any other rights as a holder of Common Shares with respect to any Stock Units or Common Shares allocated to his or her Deferral Account; provided, however, that notwithstanding the foregoing, to the extent a Participant has had Common Shares credited to such Participant's Deferral Account and the Company pays cash dividends with respect to the Common Shares, such Participant's Deferral Account will be credited with an additional number of Common Shares equal to (A) the dividend per Common Share multiplied by (B) the number of Common Shares in such Participant's Deferral Account divided by (C) the Fair Market Value of one Common Share on the date such dividend is paid to the holders of Common Shares.

(2) Deemed earnings (and losses) on a Participant's Deferral Account shall be credited to a Participant's Deferral Account on a daily basis. Any portion of a Participant's Deferral Account which is subject to distribution in installments shall continue to be credited with deemed earnings (or losses) until fully paid out to the Participant.

(3) The Committee reserves the right to change the options available for deemed investments under the Plan from time to time, or to eliminate any such option at any time. A Participant may specify a separate investment allocation with respect any portion of his or her Deferral Account, subject to limitations imposed by the Committee. Participants may modify their deemed investment instructions each business day with respect to any portion (whole percentages only) of their Deferral Account; provided they notify the Committee or its designee within the time and in the manner specified by the Committee. Elections and amendments thereto pursuant to this Section 6(c)(ii) shall be made in the manner prescribed by the Committee.

(iii) Designation of Beneficiary. Each Participant may designate a beneficiary or beneficiaries (each a "Beneficiary") who, upon the Participant's death, or physical or mental incapacity will receive the amounts that otherwise would have been paid to the Participant under this Directors Plan. All designations shall be signed by the Participant, and shall be in such form as prescribed by the Committee. Each designation shall be effective as of the date delivered to the Committee or its designee by the Participant. Participants may change their beneficiary designations on such form as prescribed by the Committee. The payment of amounts credited to a Participant's Deferral Account shall be in accordance with the last unrevoked written beneficiary designation that has been signed by the Participant and delivered to the Committee or its designee prior to the Participant's death. In the event that all the beneficiaries named by a Participant pursuant to this Section 6(c)(iii) predecease the Participant, the deferred amounts that would have been paid to the Participant or the Participant's beneficiaries shall be paid to the Participant's estate. In the event a Participant does not designate a beneficiary, or for any reason such designation is ineffective, in whole or in part, the amounts that otherwise would have been paid to the Participant or the Participant's beneficiaries under the Plan shall be paid to the Participant's estate.

(d) **Trust.** Nothing contained in this Directors Plan shall create a trust of any kind or a fiduciary relationship between the Company and any Participant. Nevertheless, the Company may establish one or more trusts, with such trustee(s) as the Committee may approve, for the purpose of providing for the payment of deferred amounts and earnings thereon. Such trust or trusts may be irrevocable, but the assets thereof shall be subject to the claims of the Company's general creditors upon the bankruptcy or insolvency of the Company.

(e) **Nontransferability**. Participants' rights to deferred amounts and earnings credited thereon under the Directors Plan may not be sold, transferred, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution, or pursuant to a domestic relations order, nor shall the Company make any payment under the Directors Plan to any assignee or creditor of a Participant.

**7. Rights of Participants.**

(a) **Contractual Obligation.** The Directors Plan shall create an unfunded, unsecured contractual obligation on the part of the Company to make payments due under Stock Unit awards, and to make payments from the Participants' Deferral Accounts when due. Payments under the Directors Plan shall be made out of the general assets of the Company or from the trust or trusts referred to in Section 6(d) above.

(b) **Unsecured Interest.** No Participant or party claiming an interest in benefits of a Participant hereunder shall have any interest whatsoever in any specific asset of the Company. To the extent that any party acquires a right to receive payments under the Directors Plan, such right shall be equivalent to that of an unsecured general creditor of the Company. Each Participant, by participating hereunder, agrees to waive any priority creditor status with respect to any amounts due hereunder. The Company shall have no duty to set aside or invest any amounts credited to Participants' Deferral Accounts or Stock Unit awards under this Directors Plan. Accounts established hereunder are solely for bookkeeping purposes and the Company shall not be required to segregate any funds based on such accounts.

**8. Miscellaneous.**

(a) **Notice.** Any notice or filing required or permitted to be given to the Company under the Directors Plan shall be sufficient if in writing and hand delivered, or sent by registered or certified mail to the Committee, and if mailed, shall be addressed to the principal executive offices of the Company. Notice mailed to a Participant shall be at such address as is given in the records of the Company. Notices to the Company shall be deemed given as of the date of delivery. Notice to a Participant or beneficiary shall be deemed given as of the date of hand delivery, or if delivery is made by mail, three (3) days following the postmark date.

(b) **Costs of the Directors Plan.** All costs of implementing and administering the Directors Plan shall be borne by the Company.

**9. Amendments and Termination**

The Company reserves the right to amend, modify, or terminate the Directors Plan (in whole or in part) at any time by action of the Board or the Committee, with or without prior notice. Except as described below in this Section 9, no such amendment or termination shall in any material manner adversely affect any Participant's rights to any amounts already deferred or credited hereunder or deemed earnings thereon, up to the point of amendment or termination, without the consent of the Participant. Termination of the Directors Plan shall not be a permitted distribution event, except to the extent permitted under Section 409A of the Code without the imposition of any additional taxes or other penalties under Section 409A of the Code. If payout is commenced pursuant to the operation of this Section 9, the payment of deferred amounts and earnings thereon shall be made in the manner selected by each Participant under Section 6(b)(iii) herein (other than the commencement date).

Subject to the above provisions, the Board shall have broad authority to amend the Directors Plan to take in to account changes in applicable securities and tax laws and accounting rules.

**10. General Provisions**

(a) **Additional Compensation Arrangements.** Nothing contained in this Directors Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to stockholder approval if such approval is required, and such arrangements may be either generally applicable or applicable only in specific cases.

(b) **No Right to Continued Service.** Neither the adoption of the Directors Plan nor the award of Stock Units hereunder shall confer upon any individual any right to continued service as a member of the Board, nor shall it interfere in any way with the right of the Company to terminate the service of an individual at any time.

(c) **Arbitration.** Any individual making a claim for benefits under this Directors Plan may contest the Committee's decision to deny such claim or appeal therefrom only by submitting the matter to binding arbitration before a single arbitrator. Any arbitration shall be held in Los Angeles, California, unless otherwise agreed to by the Committee. The arbitration shall be conducted pursuant to the Commercial Arbitration Rules of the American Arbitration Association. The arbitrator's authority shall be limited to the affirmation or reversal of the Committee's denial of the claim or appeal, based solely on whether or not the Committee's decision was arbitrary or capricious, and the arbitrator shall have no power to alter, add to, or subtract from any provision of this Directors Plan. Except as otherwise required by applicable law, the arbitrator's decision shall be final and binding on all parties, if warranted on the record and reasonably based on applicable law and the provisions of this Directors Plan. The arbitrator shall have no power to award any punitive, exemplary, consequential or special damages, and under no circumstances shall an award contain any amount that in any way reflects any of such types of damages. Each party shall bear its own attorney's fees and costs of arbitration. Judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

**11. Governing Law.**

The Directors Plan and all awards made and actions taken thereunder shall be governed by and construed in accordance with the internal laws of the State of California.

**Exhibit 10.68**

**HERBALIFE LTD.**
**2005 STOCK INCENTIVE PLAN**

**NONEMPLOYEE DIRECTORS STOCK APPRECIATION RIGHT AGREEMENT**

This Nonemployee Directors Stock Appreciation Right Agreement (this "Agreement") dated as of _____ ___, 20___ (the "Grant Date") between Herbalife Ltd., an entity organized under the laws of the Cayman Islands (the "Company"), and [DIRECTOR] ("Participant").

WHEREAS, the Company, by action of the Board established the Herbalife Ltd. Amended and Restated Independent Directors Deferred Compensation and Stock Appreciation Right Plan (the "Independent Directors Plan");

WHEREAS, the Board has determined that Participant is an independent director of the Company and the Company desires to encourage Participant to own Common Shares for the purposes stated in Section 1 of the Plan and the Independent Directors Plan;

WHEREAS, Participant and the Company have entered into this Agreement to govern the terms of the Stock Appreciation Right Award (as defined below) granted to Participant by the Company.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements contained herein, the Company and Participant, intending to be legally bound, hereby agree as follows:

1. Grant.

(a) The Company hereby grants to the Participant an Award of _____ Stock Appreciation Rights (the "Award") in accordance with Section 8 of the Plan and subject to the terms and conditions set forth herein and in the Plan (each as amended from time to time). Each Stock Appreciation Right represents the right to receive, upon exercise of the Stock Appreciation Right pursuant to this Agreement, from the Company, a payment, paid in Common Shares, par value $.002 per share, of the Company (the "Common Shares"), equal to (i) the excess of the Fair Market Value, on the date of exercise, of one Common Share (as adjusted from time to time pursuant to Section 12 of the Plan) over the Base Price (as defined below) of the Stock Appreciation Right, divided by (ii) the Fair Market Value, on the date of exercise, of one Common Share, subject to terms and conditions set forth herein, in the Independent Directors Plan and in the Plan (each as amended from time to time).

(b) The "Base Price" for the Stock Appreciation Right shall be $_____ per share (subject to adjustment as set forth in Section 12 of the Plan).

(c) Except as otherwise defined herein, capitalized terms used herein shall have the meanings set forth in the Plan or the Independent Directors Plan, as applicable.

2. Vesting; Time for Exercise.

(a) Participant's Stock Appreciation Rights shall not be vested as of the Grant Date and shall be forfeitable unless and until otherwise vested pursuant to the terms of this Agreement. Subject to Participant's continued service as a member of the Board, the Award shall become vested and exercisable with respect to 25% of the Stock Appreciation Rights awarded hereunder on each of July 15, 200__, October 15, 200__, January 15, 200__ and April 15, 200__ (each such date a "Vesting Date"). Stock Appreciation Rights awarded hereunder that have vested and are no longer subject to forfeiture are referred to herein as "Vested SARs." Stock Appreciation Rights awarded hereunder that are not vested and remain subject to forfeiture are referred to herein as "Unvested SARs."

(b) Notwithstanding anything herein or in the Plan to the contrary, upon the cessation of Participant's service as a member of the Board by reason of Participant's of death or disability (as such term if defined in Section 22(e) of the Code), all Unvested SARs shall vest as of the date of such termination of employment.

(c) Notwithstanding anything herein or in the Plan to the contrary, upon the occurrence of a Change of Control, the Award shall become immediately and fully vested and exercisable as of the date of the Change of Control.

3. Expiration. The Award shall expire on the seventh ($7^{th}$) anniversary of the Grant Date; provided, however, that the Award may earlier terminate as provided in Section 13 of the Plan.

4. Method of Exercise. The Award may be exercised by delivery to the Company (attention: Secretary) of a notice of exercise in the form specified by the Company specifying the number of shares with respect to which the Award is being exercised.

5. Fractional Shares. No fractional shares may be purchased upon any exercise.

6. Adjustments of Shares and Awards. Subject to Section 12(a) of the Plan, in the event of any change in the outstanding Shares by reason of an acquisition, spin-off or reclassification, recapitalization or merger, combination or exchange of Common Shares or other corporate exchange, Change of Control or similar event, the Committee shall adjust appropriately the number or kind of shares or securities subject to the Award and Base Prices related thereto and make such other revisions to the Award as it deems are equitably required. Any adjustments made pursuant to this Paragraph 6 shall be implemented in accordance with Section 409A of the Internal Revenue Code of 1986, as amended.

7 . Compliance With Legal Requirements. The Award shall not be exercisable and no Common Shares shall be issued or transferred pursuant to this Agreement or the Plan unless and until all legal requirements applicable to such issuance or transfer have, in the opinion of counsel to the Company, been satisfied. Such legal requirements may include, but are not limited to, (i) registering or qualifying such Common Shares under any state or federal law or under the rules of any stock exchange or trading system, (ii) satisfying any applicable law or rule relating to the transfer of unregistered securities or demonstrating the availability of an exemption from applicable laws, (iii) placing a restricted legend on the Common Shares issued pursuant to the exercise of the Award, or (iv) obtaining the consent or approval of any governmental regulatory body.

8. Shareholder Rights. Participant shall not be deemed a shareholder of the Company with respect to any of the Common Shares subject to the Award, except to the extent that such shares shall have been purchased and transferred to Participant.

9. Taxes. Participant is liable and responsible for all taxes owed in connection with the Award, regardless of any action the Company takes with respect to any tax withholding obligations that arise in connection with the Award. The Company does not make any representation or undertaking regarding the treatment of any tax withholding in connection with the grant, vesting or settlement of the Award or the subsequent sale of Common Shares issuable pursuant to the Award. The Company does not commit and is under no obligation to structure the Award to reduce or eliminate Participant's tax liability.

10. Assignment or Transfer Prohibited. The Award may not be assigned or transferred otherwise than by will or by the laws of descent and distribution, and may be exercised during the life of Participant only by Participant or Participant's guardian or legal representative; provided, however, Participant may assign or transfer the Award to the extent permitted under the Independent Directors Plan, provided that the Award shall be subject to all the terms and condition of the Independent Directors Plan, the Plan, this Agreement and any other terms required by the Committee as a condition to such transfer. Neither the Award nor any right hereunder shall be subject to attachment, execution or other similar process. In the event of any attempt by Participant to alienate, assign, pledge, hypothecate or otherwise dispose of the Award or any right hereunder, except as provided for herein, or in the event of the levy or any attachment, execution or similar process upon the rights or interests hereby conferred, the Company may terminate the Award by notice to Participant, and the Award shall thereupon become null and void.

11. Committee Authority. Any question concerning the interpretation of this Agreement or the Plan, any adjustments required to be made under this Agreement or the Plan, and any controversy that may arise under this Agreement or the Plan shall be determined by the Committee in its sole and absolute discretion. All decisions by the Committee shall be final and binding.

12. Application of the Plan. The terms of this Agreement are governed by the terms of the Independent Directors Plan and the Plan, as both exist on the Grant Date and as amended from time to time. In the event of any conflict between the provisions of this Agreement and the provisions of the Independent Directors Plan and/or the Plan, the terms of the Independent Directors Plan or the Plan (as applicable) shall control, except as expressly stated otherwise in this Agreement. The term "Section" generally refers to provisions within the Independent Directors Plan or the Plan; provided, however, the term "Paragraph" shall refer to a provision of this Agreement.

13. General Provisions.

(a) No Waiver. No waiver of any provision of this Agreement will be valid unless in writing and signed by the person against whom such waiver is sought to be enforced, nor will failure to enforce any right hereunder constitute a continuing waiver of the same or a waiver of any other right hereunder.

(b) Undertaking. Participant hereby agrees to take whatever additional action and execute whatever additional documents the Company may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on either Participant or the Award pursuant to the express provisions of this Agreement.

(c) Entire Contract. This Agreement, the Independent Directors Plan and the Plan constitute the entire contract between the parties hereto with regard to the subject matter hereof. This Agreement is made pursuant to the provisions of the Independent Directors Plan and the Plan and will in all respects be construed in conformity with the express terms and provisions of the Independent Directors Plan and the Plan.

(d) Successors and Assigns. The provisions of this Agreement will inure to the benefit of, and be binding on, the Company and its successors and assigns and Participant and Participant's legal representatives, heirs, legatees, distributees, assigns and transferees by operation of law, whether or not any such person will have become a party to this Agreement and agreed in writing to join herein and be bound by the terms and conditions hereof.

(e) Securities Law Compliance. Participant understands that the Company is under no obligation to register for resale the Common Shares issued upon exercise of the Award. The Company may impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any resales by Participant or other subsequent transfers by Participant of any Common Shares issued as a result of or under this Award, including without limitation (i) restrictions under an insider trading policy, (ii) restrictions that may be necessary in the absence of an effective registration statement under the Securities Act of 1933, as amended, covering the Award and/or the Common Shares underlying the Award and (iii) restrictions as to the use of a specified brokerage firm or other agent for such resales or other transfers. Any sale of the Common Shares must also comply with other applicable laws and regulations governing the sale of such shares.

(f) Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to any awards granted under the Plan by electronic means or to request Participant's consent to participate in the Independent Directors Plan and the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and, if requested, to agree to participate in the Independent Directors Plan and the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company, and such consent shall remain in effect throughout Participant's term of service with the Company and thereafter until withdrawn in writing by Participant.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

HERBALIFE LTD.

By: _____

Name:
Title:

_____
[DIRECTOR]

**Exhibit 10.71**

**HERBALIFE LTD.**
**2005 STOCK INCENTIVE PLAN**

**STOCK UNIT AWARD AGREEMENT**

This Stock Unit Award Agreement (this "Agreement") is dated as of this ___ day of _____, 2007 (the "Grant Date"), and is between Herbalife Ltd. (the "Company") and _____ ("Participant").

WHEREAS, the Company, by action of the Board and approval of its shareholders established the Herbalife Ltd. 2005 Stock Incentive Plan (the "Plan");

WHEREAS, Participant is employed by the Company or one or more of its Subsidiaries and the Company desires to encourage Participant to own Common Shares for the purposes stated in Section 1 of the Plan;

WHEREAS, Participant and the Company have entered into this Agreement to govern the terms of the Stock Unit Award (as defined below) granted to Participant by the Company.

NOW, THEREFORE, in consideration of the foregoing, the parties hereto agree as follows:

1. Grant.

(a) The Company hereby grants to Participant an Award of _____ Stock Units (the "Award") in accordance with Section 9 of the Plan and subject to the conditions set forth in this Agreement and the Plan (as amended from time to time). Each Stock Unit represents the right to receive one Common Share (as adjusted from time to time pursuant to Section 12 of the Plan) subject to the fulfillment of the vesting and other conditions set forth in this Agreement. By accepting the Award, Participant irrevocably agrees on behalf of Participant and Participant's successors and permitted assigns to all of the terms and conditions of the Award as set forth in or pursuant to this Agreement and the Plan (as such Plan may be amended from time to time).

(b) Except as otherwise defined herein, capitalized terms used herein shall have the meanings set forth in the Plan.

2. Vesting.

(a) Participant's Stock Units and rights in and to the Common Shares subject to the Stock Units shall not be vested as of the Grant Date and shall be forfeitable unless and until otherwise vested pursuant to the terms of this Agreement. Subject to Participant's continued employment with the Company and/or its subsidiaries or affiliates the Award shall become vested in accordance with the following schedule: (i) if the Company achieves the performance goal set forth on Exhibit A attached hereto, one-third of the Stock Units subject to the Award shall vest on each of the first three anniversaries of the Grant Date, and (ii) if the Company fails to achieve the performance goal set forth on Exhibit A attached hereto, 100% of the Stock Units subject to the Award shall vest on the third anniversary of the Grant Date (each such date, a "Vesting Date"). Stock Units that have vested and are no longer subject to forfeiture are referred to herein as "Vested Units." Stock Units that are not vested and remain subject to forfeiture are referred to herein as "Unvested Units."

(b) Notwithstanding anything herein or in the Plan to the contrary, upon the occurrence of a Section 409A Change of Control (as defined below), the vesting of the Award shall be accelerated such that 50% of the then Unvested Units shall become Vested Units as of immediately prior to the consummation of the Section 409A Change of Control; and

(c) Notwithstanding anything herein or in the Plan to the contrary:

(i) in the event that, (x) within the 90-day period immediately preceding a Change of Control or (y) at any time following a Change of Control, Participant's employment with the Company and its Subsidiaries (or their respective successors) is terminated for any reason other than by reason of Participant's resignation without Good Reason or a termination for Cause, all Unvested Units shall vest as of the date of such termination of employment;

(ii) except as set forth in Paragraph 2(c)(i), in the event that (A) Participant's employment with the Company and its Subsidiaries (or their respective successors) is terminated for any reason other than by reason of Participant's resignation for any reason or a termination by the Company for Cause and (B) at the time of such termination of employment, Michael O. Johnson is no longer serving as the Chief Executive Officer of the Company, the vesting of the Award shall be accelerated such that 50% of the then Unvested Units shall become Vested Units as of immediately prior to such termination of employment; and

(iii) in the event that Participant's employment with the Company is terminated by reason of Participant's death or disability (as such term if defined in Section 22(e) of the Code), all Unvested Units shall vest as of the date of such termination of employment.

(d) In addition to the foregoing, subject to Paragraph 7 below, in the event of a Change of Control, the Committee as constituted immediately before such Change of Control may, in its sole discretion, accelerate the vesting of this Award upon such Change of Control or take such other actions as provided in Section 13 of the Plan.

(e) For purposes of this Agreement, the term "Cause" shall have the meaning ascribed to such term in any written employment agreement between Participant and the Company or one or more of its Subsidiaries, as the same may be amended or modified from time to time.

(f) For purposes of this Agreement, the term "Good Reason" shall have the meaning ascribed to such term in any written employment agreement between Participant and the Company or one or more of its Subsidiaries, as the same may be amended or modified from time to time.

(g) For purposes hereof, the term "Section 409A Change in Control" shall mean the consummation of (i) a "change in the ownership" of the Company, (ii) a "change in the effective control" of the Company or (iii) a "change in the ownership of a substantial portion of the assets" of the Company (each as defined under Section 409A of the Internal Revenue Code of 1986, as amended).

3. Settlement of Stock Units.

(a) Each Vested Unit will be settled by the delivery of one Common Share (subject to adjustment under Section 12 of the Plan) to Participant or, in the event of Participant's death, to Participant's estate, heir or beneficiary, within thirty (30) days following the applicable Vesting Date; provided that the Participant has satisfied all of the tax withholding obligations described in Paragraph 8, and that Participant has completed, signed and returned any documents and taken any additional action that the Company deems appropriate to enable it to accomplish the delivery of the Common Shares.

(b) The date upon which Common Shares are to be issued under Paragraph 3(a) above is referred to as the 'Settlement Date." The issuance of the Common Shares hereunder may be effected by the issuance of a stock certificate, recording shares on the stock records of the Company or by crediting shares in an account established on Participant's behalf with a brokerage firm or other custodian, in each case as determined by the Company. Fractional shares will not be issued pursuant to the Award.

(c) Notwithstanding the above, (i) for administrative or other reasons, the Company may from time to time temporarily suspend the issuance of Common Shares in respect of Vested Units, (ii) the Company shall not be obligated to deliver any Common Shares during any period when the Company determines that the delivery of shares hereunder would violate any federal, state or other applicable laws, (iii) the Company may issue Common Shares hereunder subject to any restrictive legends that, as determined by the Company's counsel, are necessary to comply with securities or other regulatory requirements and (iv) the date on which shares are issued hereunder may include a delay in order to provide the Company such time as it determines appropriate to address tax withholding and other administrative matters.

4. Shareholder Rights. Prior to any issuance of Common Shares in settlement of the Award, no Common Shares will be reserved or earmarked for Participant or Participant's account nor shall Participant have any of the rights of a stockholder with respect to such Common Shares. Except as set forth in Paragraph 5, the Participant will not be entitled to any privileges of ownership of the Common Shares (including, without limitation, any voting rights) underlying Vested Units and/or Unvested Units unless and until Common Shares are actually delivered to Participant hereunder.

5. Dividend Equivalent Rights. From and after the Grant Date and unless and until the Award is forfeited or otherwise transferred back to the Company, Participant will be credited with additional Stock Units having a value equal to dividends declared by the Company, if any, with record dates that occur prior to the settlement of the Award as if the Common Shares underlying the Award had been issued and outstanding, based on the Fair Market Value of a Common Share on the applicable dividend payment date. Any such additional Stock Units shall be considered part of the Award and shall also be credited with additional Stock Units as dividends, if any, are declared, and shall be subject to the same restrictions and conditions as the Stock Units subject to the Award with respect to which they were credited (including, but not limited to, the forfeiture provisions set forth in Paragraph 6). Notwithstanding the foregoing, no such additional Stock Units will be credited with respect to any dividend declared by the Company in connection with which the Award is adjusted pursuant to Section 12 of the Plan.

6. Effect of Termination of Employment. Except as provided in this Paragraph 6 or the Plan, upon a termination of Participant's employment with the Company for any reason, the Unvested Units shall be forfeited by Participant and cancelled and surrendered to the Company without payment of any consideration to Participant. Notwithstanding anything herein to the contrary, upon and following a termination of Participant's employment with the Company by reason of Participant's Retirement (as defined below), the Award shall continue to vest in accordance with the terms of Paragraph 2 and be settled in accordance with Paragraph 3, in each case, as if Participant remained employed by the Company for a period of three years following such Retirement, at which time any then Unvested Units shall be forfeited by Participant and cancelled and surrendered to the Company without payment of any consideration to Participant. For purposes of this Agreement, the term "Retirement" shall mean termination of Participant's employment with the Company and its Subsidiaries if the sum of Participant's age and years of continuous service with the Company and its Subsidiaries is then equal to at least 75.

7. Adjustments of Common Shares and Awards. Subject to Section 12(a) of the Plan, in the event of any change in the outstanding Common Shares by reason of an acquisition, spin-off or reclassification, recapitalization or merger, combination or exchange of Common Shares or other corporate exchange, Change of Control or similar event, the Committee shall adjust appropriately the number or kind of shares or securities subject to the Award and make such other revisions to the Award as it deems are equitably required.

8. Withholding Taxes.

(a) Participant is liable and responsible for all taxes owed in connection with the Award, regardless of any action the Company takes with respect to any tax withholding obligations that arise in connection with the Award. The Company does not make any representation or undertaking regarding the treatment of any tax withholding in connection with the grant, vesting or settlement of the Award or the subsequent sale of Common Shares issuable pursuant to the Award. The Company does not commit and is under no obligation to structure the Award to reduce or eliminate Participant's tax liability.

(b) Prior to any event in connection with the Award (e.g., vesting or payment in respect of the Award) that the Company determines may result in any domestic or foreign tax withholding obligation, whether national, federal, state or local, including any social tax obligation (the "Tax Withholding Obligation"), Participant is required to arrange for the satisfaction of the amount of such Tax Withholding Obligation in a manner acceptable to the Company.

(c) Unless the Committee provides otherwise, at any time not less than five (5) business days before any Tax Withholding Obligation arises (e.g., a Settlement Date), Participant shall notify the Company of Participant's election to pay Participant's Tax Withholding Obligation by wire transfer, cashier's check or by authorizing the Company to withhold a portion of the Common Shares that would otherwise be issued to Participant as a result of the settlement of the Stock Units or by tendering Common Shares (either actually or by attestation) previously acquired, or other means permitted by the Company. In such case, Participant shall satisfy his or her tax withholding obligation by paying to the Company on such date as it shall specify an amount that the Company determines is sufficient to satisfy the expected Tax Withholding Obligation by (i) wire transfer to such account as the Company may direct, (ii) delivery of a cashier's check payable to the Company, Attn: General Counsel, at the Company's principal executive offices, or such other address as the Company may from time to time direct, (iii) authorizing the Company to withhold a portion of the Common Shares that would otherwise be issued to Participant as a result of the settlement of the Stock Units or by tendering Common Shares (either actually or by attestation) previously acquired, or (iv) such other means as the Company may establish or permit (including by means of a "same day sale" program developed under Regulation T as promulgated by the Federal Reserve Board to the extent permitted by the Company and applicable law). Participant agrees and acknowledges that prior to the date the Tax Withholding Obligation arises, the Company will be required to estimate the amount of the Tax Withholding Obligation and accordingly may require the amount paid to the Company under this Paragraph 8(c) to be more than the minimum amount that may actually be due and that, if Participant has not delivered or otherwise provided payment of a sufficient amount to the Company to satisfy the Tax Withholding Obligation (regardless of whether as a result of the Company underestimating the required payment or Participant failing to timely make the required payment), the additional Tax Withholding Obligation amounts shall be satisfied by such other means as the Committee deems appropriate.

9. Securities Law Compliance. Participant understands that the Company is under no obligation to register for resale the Common Shares issued upon settlement of the Award. The Company may impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any resales by Participant or other subsequent transfers by Participant of any Common Shares issued as a result of or under this Award, including without limitation (i) restrictions under an insider trading policy, (ii) restrictions that may be necessary in the absence of an effective registration statement under the Securities Act of 1933, as amended, covering the Award and/or the Common Shares underlying the Award and (iii) restrictions as to the use of a specified brokerage firm or other agent for such resales or other transfers. Any sale of the Common Shares must also comply with other applicable laws and regulations governing the sale of such shares.

10. Assignment or Transfer Prohibited. The Award (whether or not vested) may not be assigned or transferred otherwise than by will or by the laws of descent and distribution; provided, however, Participant may assign or transfer the Award to the extent permitted under the Plan, provided that the Award shall be subject to all the terms and condition of the Plan, this Agreement and any other terms required by the Committee as a condition to such transfer. Neither the Award nor any right hereunder shall be subject to attachment, execution or other similar process. In the event of any attempt by Participant to alienate, assign, pledge, hypothecate or otherwise dispose of the Award or any right hereunder, except as provided for herein, or in the event of the levy or any attachment, execution or similar process upon the rights or interests hereby conferred, the Company may terminate the Award by notice to Participant, and the Award shall thereupon become null and void.

11. Committee Authority. Any question concerning the interpretation of this Agreement or the Plan, any adjustments required to be made under this Agreement or the Plan, and any controversy that may arise under this Agreement or the Plan shall be determined by the Committee in its sole and absolute discretion. All decisions by the Committee shall be final and binding.

12. Application of the Plan. The terms of this Agreement are governed by the terms of the Plan, as it exists on the date of hereof and as the Plan is amended from time to time. In the event of any conflict between the provisions of this Agreement and the provisions of the Plan, the terms of the Plan shall control, except as expressly stated otherwise herein. As used herein, the term "Section" generally refers to provisions within the Plan, and the term "Paragraph" refers to provisions of this Agreement.

13. No Right to Continued Employment. Nothing in the Plan, in this Agreement or any other instrument executed pursuant thereto or hereto shall confer upon Participant any right to continued employment with the Company or any of its Subsidiaries or affiliates.

14. Further Assurances. Each party hereto shall cooperate with each other party, shall do and perform or cause to be done and performed all further acts and things, and shall execute and deliver all other agreements, certificates, instruments, and documents as any other party hereto reasonably may request in order to carry out the intent and accomplish the purposes of this Agreement and the Plan.

15. Entire Agreement. This Agreement and the Plan together set forth the entire agreement and understanding between the parties as to the subject matter hereof and supersede all prior oral and written and all contemporaneous or subsequent oral discussions, agreements and understandings of any kind or nature.

16. Successors and Assigns. The provisions of this Agreement will inure to the benefit of, and be binding on, the Company and its successors and assigns and Participant and Participant's legal representatives, heirs, legatees, distributees, assigns and transferees by operation of law, whether or not any such person will have become a party to this Agreement and agreed in writing to join herein and be bound by the terms and conditions hereof.

17. Section 409A Compliance. Notwithstanding anything in this Agreement to the contrary: (a) a termination of employment shall not be deemed to have occurred for purposes of settlement of any portion of the Award upon or following a termination of employment unless such termination is also a "separation from service" within the meaning of Section 409A of the Code and, for purposes of any such provision of this Agreement, references to a "termination," "termination of employment" or like terms shall mean "separation from service;" and (b) if Participant is deemed on the date of termination to be a "specified employee" within the meaning of that term under Section 409A(a)(2)(B) of the Code, then with regard to the settlement of any portion of the Award that is considered deferred compensation under Section 409A of the Code payable on account of a "separation from service" that is not exempt from Section 409A of the Code as involuntary separation pay or a short-term deferral (or otherwise), such settlement shall occur on the date which is the earlier of (i) the expiration of the six-month period measured from the date of such "separation from service" of the Participant, and (ii) the date of Participant's death.

[*signature page follows*]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

HERBALIFE LTD.

By: _____

[Participant]

Name:
Title:

Exhibit A

Performance-Based Vesting Criteria

| Performance Period | Performance Goal |
|---|---|
| Fiscal Year 2010 | Operating Income of $342 million |

The achievement of the Performance Goal for the Performance Period (or lack thereof) shall be determined in the sole discretion of the Committee and certified by the Committee in writing. No Stock Units shall vest under this Award until such determination and certification have been made.

**Exhibit 31.1**

**Section 302 Certification**

I, Michael O. Johnson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Herbalife Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a - -15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ MICHAEL O. JOHNSON
Michael O. Johnson
*Chief Executive Officer*

Dated: August 2, 2010

**Exhibit 31.2**

**Section 302 Certification**

I, John DeSimone, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Herbalife Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a - -15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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

Dated: August 2, 2010

**Exhibit 32.1**

**CERTIFICATION**
**Pursuant to 18 U.S.C. Section 1350**
**Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Herbalife Ltd., or Company, on Form 10-Q for the fiscal quarter ended June 30, 2010 as filed with the U.S. Securities and Exchange Commission on the date hereof, or Report, and pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of the Company certifies that:

- the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ MICHAEL O. JOHNSON
Michael O. Johnson
*Chief Executive Officer*

Dated: August 2, 2010

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

Dated: August 2, 2010

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.