HERBALIFE LTD.
Form 10-Q
August 01, 2011

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from __________ to __________.

Commission file number: 1-32381

HERBALIFE LTD.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

Number of shares of registrant s common shares outstanding as of July 27, 2011 was 118,349,691

HERBALIFE LTD.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements	3
Unaudited Condensed Consolidated Balance Sheets	3
Unaudited Condensed Consolidated Statements of Income	4
Unaudited Condensed Consolidated Statements of Cash Flows	5
Notes to Unaudited Condensed Consolidated Financial Statements	6
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3. Quantitative and Qualitative Disclosures About Market Risk	35
Item 4. Controls and Procedures	38
Forward Looking Statements	38

PART II. OTHER INFORMATION

Item 1. Legal Proceedings	39
Item 1A. Risk Factors	39
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	54
Item 3. Defaults Upon Senior Securities	55
Item 4. (Removed and Reserved)	55
Item 5. Other Information	55
Item 6. Exhibits	55
Signatures and Certifications	59

Exhibit 10.58
Exhibit 18.1
Exhibit 31.1
Exhibit 31.2
Exhibit 32.1
EX-101 INSTANCE DOCUMENT
EX-101 SCHEMA DOCUMENT
EX-101 CALCULATION LINKBASE DOCUMENT
EX-101 LABELS LINKBASE DOCUMENT
EX-101 PRESENTATION LINKBASE DOCUMENT
EX-101 DEFINITION LINKBASE DOCUMENT

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. ***FINANCIAL STATEMENTS***

HERBALIFE LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2011	December 31, 2010
	(In thousands, except share amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 254,467	$ 190,550
Receivables, net of allowance for doubtful accounts of $2,436 (2011) and $3,202 (2010)	116,555	85,612
Inventories	219,034	182,467
Prepaid expenses and other current assets	104,815	93,963
Deferred income taxes	43,747	42,994
Total current assets	738,618	595,586
Property, at cost, net of accumulated depreciation and amortization of $167,385 (2011) and $166,912 (2010)	185,887	177,427
Deferred compensation plan assets	20,591	18,536
Deferred financing costs, net of accumulated amortization of $351 (2011) and $2,279 (2010)	5,378	998
Other assets	32,031	25,880
Marketing related intangibles and other intangible assets, net	312,155	310,894
Goodwill	104,959	102,899
Total assets	$ 1,399,619	$ 1,232,220
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 64,904	$ 43,784
Royalty overrides	184,652	162,141
Accrued compensation	61,131	69,376
Accrued expenses	153,956	141,867
Current portion of long-term debt	1,781	3,120
Advance sales deposits	62,908	35,145
Income taxes payable	13,333	15,383
Total current liabilities	542,665	470,816
NON-CURRENT LIABILITIES:		
Long-term debt, net of current portion	158,797	175,046
Deferred compensation plan liability	23,813	20,167
Deferred income taxes	55,181	55,572
Other non-current liabilities	23,112	23,407

Total liabilities		803,568		745,008
CONTINGENCIES				
SHAREHOLDERS EQUITY:				
Common shares, $0.001 par value; 1.0 billion shares authorized;				
118.2 million (2011) and 117.8 million (2010) shares outstanding		118		118
Paid-in-capital in excess of par value		271,749		248,693
Accumulated other comprehensive loss		(6,916)		(27,285)
Retained earnings		331,100		265,686
Total shareholders equity		596,051		487,212
Total liabilities and shareholders equity	$	1,399,619	$	1,232,220

See the accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

HERBALIFE LTD.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	(Unaudited) (In thousands, except per share amounts)			
Product sales	$ 750,092	$ 589,373	$ 1,426,881	$ 1,116,595
Shipping & handling revenues	129,562	99,433	247,869	190,844
Net sales	879,654	688,806	1,674,750	1,307,439
Cost of sales	171,023	136,561	333,816	277,033
Gross profit	708,631	552,245	1,340,934	1,030,406
Royalty overrides	289,232	224,780	553,609	432,099
Selling, general & administrative expenses	266,225	211,110	510,751	417,993
Operating income	153,174	116,355	276,574	180,314
Interest expense, net	855	2,146	3,503	4,099
Income before income taxes	152,319	114,209	273,071	176,215
Income taxes	41,139	32,034	73,872	42,169
NET INCOME	$ 111,180	$ 82,175	$ 199,199	$ 134,046
Earnings per share:				
Basic	$ 0.93	$ 0.69	$ 1.68	$ 1.12
Diluted	$ 0.88	$ 0.65	$ 1.57	$ 1.06
Weighted average shares outstanding:				
Basic	119,007	119,054	118,609	119,686
Diluted	126,617	125,685	126,610	126,212
Dividends declared per share	$ 0.20	$ 0.10	$ 0.33	$ 0.20

See the accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	Six Months Ended	
	June 30, 2011	June 30, 2010
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 199,199	$ 134,046
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	36,657	34,403
Excess tax benefits from share-based payment arrangements	(19,544)	(4,463)
Share-based compensation expenses	11,103	10,820
Amortization of discount and deferred financing costs	435	248
Deferred income taxes	671	(15,053)
Unrealized foreign exchange transaction loss (gain)	5,452	(12,345)
Write-off of deferred financing costs	914	
Foreign exchange loss from adoption of highly inflationary accounting in Venezuela		15,131
Other	899	1,619
Changes in operating assets and liabilities:		
Receivables	(26,966)	(11,616)
Inventories	(26,489)	(12,172)
Prepaid expenses and other current assets	(6,391)	(15,099)
Other assets	(4,977)	(2,229)
Accounts payable	19,411	13,781
Royalty overrides	16,873	1,072
Accrued expenses and accrued compensation	(2,995)	5,670
Advance sales deposits	26,323	30,937
Income taxes payable	16,427	(4,846)
Deferred compensation plan liability	3,645	729
NET CASH PROVIDED BY OPERATING ACTIVITIES	250,647	170,633
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property	(44,428)	(23,917)
Proceeds from sale of property	190	6
Deferred compensation plan assets	(2,055)	686
NET CASH USED IN INVESTING ACTIVITIES	(46,293)	(23,225)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(38,689)	(24,061)
Borrowings from long-term debt	390,700	229,000
Principal payments on long-term debt	(408,329)	(235,715)
Deferred financing costs	(5,729)	
Share repurchases	(115,287)	(79,220)
Excess tax benefits from share-based payment arrangements	19,544	4,463
	8,280	4,400

Proceeds from exercise of stock options and sale of stock under employee stock purchase plan				
NET CASH USED IN FINANCING ACTIVITIES		(149,510)		(101,133)
EFFECT OF EXCHANGE RATE CHANGES ON CASH		9,073		(26,858)
NET CHANGE IN CASH AND CASH EQUIVALENTS		63,917		19,417
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		190,550		150,801
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	254,467	$	170,218
CASH PAID DURING THE PERIOD				
Interest paid	$	4,062	$	4,988
Income taxes paid	$	49,738	$	58,718

See the accompanying notes to unaudited condensed consolidated financial statements.

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

1. Organization

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

2. Significant Accounting Policies

Basis of Presentation

The unaudited interim financial information of the Company has been prepared in accordance with Article 10 of the Securities and Exchange Commission s, or the SEC, Regulation S-X. Accordingly, it does not include all of the information required by generally accepted accounting principles in the U.S., or U.S. GAAP, for complete financial statements. The condensed consolidated balance sheet at December 31, 2010 was derived from the audited financial statements at that date and does not include all the disclosures required by U.S. GAAP. The Company s unaudited condensed consolidated financial statements as of June 30, 2011, and for the three and six months ended June 30, 2011 and 2010, include Herbalife and all of its direct and indirect subsidiaries. In the opinion of management, the accompanying financial information contains all adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company s unaudited condensed consolidated financial statements as of June 30, 2011, and for the three and six months ended June 30, 2011 and 2010. These unaudited condensed consolidated financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2010, or the 2010 10-K. Operating results for the three and six months ended June 30, 2011, are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

On April 28, 2011, the Company s shareholders approved a two-for-one stock split, or the stock split, of the Company s common shares. One additional common share was distributed to the Company s shareholders on or around May 17, 2011, for each common share held on May 10, 2011. All references in the financial statements and notes to number of shares and per share amounts have been retrospectively adjusted for all periods presented to reflect the stock split.

New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. This ASU will require companies to present the components of net and comprehensive income in either one or two consecutive financial statements and eliminates the option to present other comprehensive income in the statement of changes in shareholders equity. This ASU is effective for fiscal years and interim periods within those years, beginning after December 15, 2011. The Company is currently evaluating the potential impact of this adoption on its consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* This ASU expands existing disclosure requirements for fair value measurements and provides additional information on how to measure fair value. The Company is required to apply this ASU prospectively for interim and annual periods beginning after December 15, 2011. The Company is currently evaluating the potential impact of this adoption on its consolidated financial statements.

Table of Contents

Change in Accounting Principle

In the second quarter of 2011, the Company changed its method of accounting for excess tax benefits recognized as a result of the exercise of employee stock options, stock appreciation rights, or SARs, and other share-based equity grants, from the tax-law-ordering method to the with-and-without method. Under the tax law ordering method, the deduction for share-based compensation is applied against income tax liabilities before other credits are applied, such as foreign tax credits. The with-and-without method applies the deduction for share-based compensation against taxable income after other credits have been applied against taxable income, to the extent allowable and subject to applicable limitations. The with-and-without method separately determines the impact of the tax benefit from share-based compensation after considering the tax effects related to the Company s on-going operations. A benefit is recorded when deductions for share-based compensation reduce taxes payable or increase tax refund receivable. The Company believes that the with-and-without method is a preferable method of determining the benefit applicable to share-based compensation because it better reflects the Company s ongoing operations. This change in accounting method primarily impacts the allocation of income taxes and tax benefits between continuing operations, deferred tax items, and additional paid in capital for financial reporting purposes, but it does not have any impact on the ultimate amount of income tax reported on the Company s income tax returns and it does not impact the Company s income taxes payable included within its accompanying consolidated balance sheet. This change in accounting principle does not impact the consolidated financial statements related to fiscal years prior to 2010.

This change in accounting principle is applied to all periods presented and the following tables summarize the impact of this change on the Company s consolidated financial statements, and as applicable, to the notes to the consolidated financial statements:

Consolidated Balance Sheet

	December 31, 2010	
	As Previously Reported	As Adjusted
	(in thousands)	
Paid-in capital in excess of par value	$ 257,375	$ 248,693
Retained earnings	$ 257,004	$ 265,686

Consolidated Statements of Income

	Three Months Ended June 30, 2010		Six Months Ended June 30, 2010	
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted
	(In thousands, except per share amount)			
Income Taxes	$ 32,276	$ 32,034	$ 42,411	$ 42,169
Net Income	$ 81,933	$ 82,175	$ 133,804	$ 134,046
Basic earnings per share (1)	$ 0.69	$ 0.69	$ 1.12	$ 1.12
Diluted earnings per share (1)	$ 0.66	$ 0.65	$ 1.07	$ 1.06

(1) Basic and diluted earnings per share, as previously reported, for the three and six months ended June 30, 2010, have also been adjusted to reflect the stock split.

Common Share Amounts Used to Compute Basic and Diluted Earnings Per Share

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010

	As Previously Reported (1)	As Adjusted	As Previously Reported (1)	As Adjusted
	(In thousands)			
Weighted average shares used in basic computations	119,054	119,054	119,686	119,686
Dilutive effect of exercise of equity grants outstanding	4,742	6,221	4,694	6,128
Dilutive effect of warrants	410	410	398	398
Weighted average shares used in diluted computations	124,206	125,685	124,778	126,212

(1) Basic and diluted weighted shares outstanding, as previously reported, for the three and six months ended June 30, 2010, have been adjusted to reflect the stock split

Table of Contents

Consolidated Statement of Cash Flows

	Six Months Ended June 30, 2010	
	As Previously Reported	As Adjusted
	(In thousands)	
Net Income	$ 133,804	$ 134,046
Excess tax benefits from share-based payment arrangements	$ (4,705)	$ (4,463)
Income taxes payable	$ (4,604)	$ (4,846)
Net cash provided by operating activities	$ 170,391	$ 170,633
Excess tax benefits from share-based payment arrangements	$ 4,705	$ 4,463
Net cash used in financing activities	$ (100,891)	$ (101,133)

If the Company had not changed from the prior tax law ordering method of accounting for excess tax benefits in the second quarter of fiscal year 2011, income taxes, net income and earnings per share would have been reflected as noted below:

Consolidated Statements of Income

	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
	As Computed Under Prior Method (In thousands, except per share amount)	
Income Taxes	$ 43,022	$ 76,205
Net Income	$ 109,297	$ 196,866
Basic earnings per share	$ 0.92	$ 1.66
Diluted earnings per share	$ 0.88	$ 1.58

Venezuela

In February 2011, Herbalife Venezuela purchased U.S. dollar denominated bonds with a face value of $20 million U.S. dollars in a bond offering from Petróleos de Venezuela, S.A., a Venezuelan state-owned petroleum company, for 86 million Bolivars and then immediately sold the bonds for $15 million U.S. dollars, resulting in an average effective conversion rate of 5.7 Bolivars per U.S. dollar. The 86 million Bolivars were previously remeasured at the regulated system rate, or SITME rate, of 5.3 Bolivars per U.S. dollar and recorded as cash and cash equivalents of $16.3 million on the Company s consolidated balance sheet at December 31, 2010. This Bolivar to U.S. dollar conversion resulted in the Company recording a net pre-tax loss of $1.3 million U.S. dollars during the first quarter of 2011 which is included in its condensed consolidated statement of income for the six months ended June 30, 2011.

As of June 30, 2011, Herbalife Venezuela s net monetary assets and liabilities denominated in Bolivars was approximately $13.7 million, and included approximately $20.0 million in Bolivar denominated cash and cash equivalents. The majority of these Bolivar denominated assets and liabilities were remeasured at the SITME rate. Although Venezuela is an important market in the Company s South and Central America Region, Herbalife Venezuela s net sales represented less than 2% of the Company s consolidated net sales for both the six months ended June 30, 2011 and 2010 and its total assets represented less than 3% of the Company s consolidated total assets as of both June 30, 2011 and December 31, 2010.

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

3. Inventories

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

	June 30, 2011	December 31, 2010
	(In millions)	
Raw materials	$ 21.0	$ 13.7
Work in process	1.2	0.6
Finished goods	196.8	168.2
Total	$ 219.0	$ 182.5

Total inventories are presented net of the reserves for obsolete and slow moving inventory of $10.8 million and $9.4 million at June 30, 2011 and December 31, 2010, respectively.

8

Table of Contents

4. Long-Term Debt

Long-term debt consists of the following:

	June 30, 2011	December 31, 2010
	(In millions)	
Borrowings under the prior senior secured credit facility	$	$ 174.9
Borrowings under the new senior secured revolving credit facility	158.0	
Capital leases	2.2	2.9
Other debt	0.4	0.3
Total	160.6	178.1
Less: current portion	1.8	3.1
Long-term portion	$ 158.8	$ 175.0

Interest expense was $3.1 million and $2.5 million for the three months ended June 30, 2011 and 2010, respectively, and $6.4 million and $5.0 million for the six months ended June 30, 2011 and 2010, respectively. Interest expense for the six months ended June 30, 2011 included a $0.9 million write off of unamortized deferred financing costs resulting from the extinguishment of the prior senior secured credit facility, or the Prior Credit Facility, as discussed below.

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

In March 2011, the Company used $196.0 million in U.S. dollar borrowings under the New Credit Facility to repay all amounts outstanding under the Prior Credit Facility. The Company incurred approximately $5.7 million of debt issuance costs in connection with the New Credit Facility. These debt issuance costs were recorded as deferred financing costs on the Company s condensed consolidated balance sheet and are being amortized over the term of the New Credit Facility. On June 30, 2011 and December 31, 2010, the weighted average interest rate for borrowings under the New Credit Facility and the Prior Credit Facility was 1.97% and 1.75%, respectively.

The New Credit Facility requires the Company to comply with a leverage ratio and an interest coverage ratio. In addition, the New Credit Facility contains customary covenants, including covenants that limit or restrict the Company s ability to incur liens, incur indebtedness, make investments, dispose of assets, make certain restricted payments, pay dividends, repurchase its common shares, merge or consolidate and enter into certain transactions with affiliates. As of June 30, 2011, the Company was compliant with its debt covenants.

During the three months ended March 31, 2011, the Company borrowed $235.7 million and $54.0 million under the New Credit Facility and Prior Credit Facility, respectively, and paid a total of $55.7 million and $228.9 million of the New Credit Facility and Prior Credit Facility, respectively. During the three months ended June 30, 2011, the Company borrowed $101.0 million under the New Credit Facility and paid a total of $123.0 million of the New Credit Facility. As of June 30, 2011, the U.S. dollar amount outstanding under the New Credit Facility was $158.0 million. There were no outstanding foreign currency borrowings as of June 30, 2011 under the New Credit Facility. As of

December 31, 2010, the amounts outstanding under the Prior Credit Facility, consisting of a term loan and revolving facility, were $143.9 million and $31.0 million, respectively.

Table of Contents

5. Contingencies

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

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

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 that judgment and on June 21, 2010, Herbalife cross-appealed. The parties entered a joint stipulation of dismissal with the Court on May 24, 2011.

Certain of the Company s subsidiaries have been subject to tax audits by governmental authorities in their respective countries. In certain of these tax audits, governmental authorities are proposing that significant amounts of additional taxes and related interest and penalties are due. The Company and its tax advisors believe that there are substantial defenses to their allegations that additional taxes are owed, and the Company is vigorously contesting the additional proposed taxes and related charges. On May 7, 2010, the Company received an assessment from the Mexican Tax Administration Service in an amount equivalent to approximately $97 million, translated at the period ended spot rate, for various items, the majority of which was Value Added Tax, or VAT, allegedly owed on certain of the Company s products imported into Mexico during the years 2005 and 2006. This assessment is subject to interest and inflationary adjustments. On July 8, 2010, the Company initiated a formal administrative appeal process. On May 13, 2011, the Mexican Tax Administration Service issued a resolution on the Company s administrative appeal. The resolution nullified the assessment. The Mexican Tax Administration Service can further review the tax audit findings and re-issue some or all of the original assessment. Prior to the nullification the Company entered into agreements with certain insurance companies to allow for the potential issuance of surety bonds in support of its appeal of the assessment. Such surety bonds, if issued, would not affect the availability of the Company s New Credit Facility. These arrangements with the insurance companies remain in place in the event that the assessment is re-issued. The Company did not record a provision as the Company, based on analysis and guidance from its advisors, does not believe a loss would be probable if the assessment is re-issued or if any additional assessment is issued. Further, the Company is currently unable to reasonably estimate a possible loss or range of loss that could result from an unfavorable outcome if the assessment was re-issued or any additional assessments were to be issued for these or

other periods. The Company believes that it has meritorious defenses if the assessment is re-issued or would have meritorious defenses if any additional assessment is issued.

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

6. Comprehensive Income

Total comprehensive income consisted of the following:

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	(In millions)			
Net income	$ 111.2	$ 82.2	$ 199.2	$ 134.0
Unrealized (loss) gain on derivative instruments, net of taxes	(0.1)	2.5	0.2	4.6
Foreign currency translation adjustment	5.3	(15.1)	20.2	(20.3)
Comprehensive income	$ 116.4	$ 69.6	$ 219.6	$ 118.3

7. 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 and by the Company in its Suzhou, China facility and in its manufacturing facility located in Lake Forest, California, and are then sold to independent distributors who sell Herbalife products to retail consumers or other distributors. Revenues reflect sales of products by the Company to distributors and are categorized based on the distributors geographic location.

As of June 30, 2011, the Company sold products in 75 countries throughout the world and is organized and managed by geographic regions. The Company aggregates its operating segments, excluding China, into one reporting segment, or the Primary Reporting Segment, as management believes that the Company s operating segments have similar operating characteristics and similar long term operating performance. In making this determination, management believes that the operating segments are similar in the nature of the products sold, the product acquisition process, the types of customers to whom products are sold, the methods used to distribute the products, and the nature of the regulatory environment. China has been identified as a separate reporting segment as it does not meet the criteria for aggregation. The operating information for the Primary Reporting Segment and China, and sales by product line are as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	(In millions)			
Net Sales:				
Primary Reporting Segment				
United States	$ 179.4	$ 161.6	$ 341.6	$ 308.3
Mexico	113.9	80.9	217.8	152.7
Others	535.0	395.1	1,018.3	762.8
Total Primary Reporting Segment	828.3	637.6	1,577.7	1,223.8
China	51.4	51.2	97.1	83.6
Total Net Sales	$ 879.7	$ 688.8	$ 1,674.8	$ 1,307.4

Contribution Margin(1)(2)(3):

Primary Reporting Segment								
United States	$	77.7	$	66.0	$	146.1	$	131.1
Mexico		51.0		32.2		91.4		57.1
Others		245.6		182.4		464.5		333.6
Total Primary Reporting Segment		374.3		280.6		702.0		521.8
China		45.1		46.8		85.4		76.5
Total Contribution Margin	$	419.4	$	327.4	$	787.4	$	598.3
Selling, general and administrative expenses		266.2		211.1		510.8		418.0
Interest expense, net		0.9		2.1		3.5		4.1
Income before income taxes		152.3		114.2		273.1		176.2
Income taxes		41.1		32.0		73.9		42.2
Net Income	$	111.2	$	82.2	$	199.2	$	134.0

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	(In millions)			
Net sales by product line:				
Weight Management	$ 552.3	$ 430.5	$ 1,050.9	$ 817.7
Targeted Nutrition	197.3	159.8	377.5	298.4
Energy, Sports and Fitness	43.4	30.1	78.9	55.9
Outer Nutrition	37.0	31.0	73.6	62.0
Literature, promotional and other(4)	49.7	37.4	93.9	73.4
Total Net Sales	$ 879.7	$ 688.8	$ 1,674.8	$ 1,307.4
Net sales by geographic region:				
North America	$ 185.2	$ 166.4	$ 352.2	$ 317.7
Mexico	113.9	80.9	217.8	152.7
South and Central America	130.1	82.8	255.4	174.1
EMEA	162.0	135.6	315.9	266.4
Asia Pacific	237.1	171.9	436.4	312.9
China	51.4	51.2	97.1	83.6
Total Net Sales	$ 879.7	$ 688.8	$ 1,674.8	$ 1,307.4

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

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

(3) Compensation to China sales employees and service fees to China licensed business providers totaling $23.7 million and $24.3 million for the three months ended June 30, 2011 and 2010, respectively, and $45.5 million and $40.5 million for the six months ended June 30, 2011 and 2010, respectively, is included in selling, general and administrative expenses while distributor compensation for all other countries is included in contribution margin.

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

As of June 30, 2011 and December 31, 2010, total assets for the Company s Primary Reporting Segment were $1,322.9 million and $1,162.1 million, respectively. As of June 30, 2011 and December 31, 2010, total assets for the China segment were $76.7 million and $70.1 million, respectively.

8. Share-Based Compensation

The Company has share-based compensation plans, which are more fully described in Note 9, *Share-based Compensation*, to the Consolidated Financial Statements in the 2010 10-K. During the six months ended June 30,

2011, the Company granted stock awards subject to continued service, consisting of stock units and stock appreciation rights, with vesting terms fully described in the 2010 10-K.

For the three months ended June 30, 2011 and 2010, share-based compensation expense amounted to $5.5 million for both periods. For the six months ended June 30, 2011 and 2010, share-based compensation expense amounted to $11.1 million and $10.8 million, respectively. As of June 30, 2011, the total unrecognized compensation cost related to all non-vested stock awards was $46.4 million and the related weighted-average period over which it is expected to be recognized is approximately 1.7 years.

All share and per share data have been adjusted for the two-for-one stock split discussed in Note 2, *Significant Accounting Policies*.

Table of Contents

The following tables summarize the activity under all share-based compensation plans for the six months ended June 30, 2011:

Stock Options & Stock Appreciation Rights	Awards (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In millions)
Outstanding at December 31, 2010	12,780	$ 14.38	5.7 years	$ 253.1
Granted	1,212	$ 52.56		
Exercised	(1,963)	$ 12.20		
Forfeited	(107)	$ 19.28		
Outstanding at June 30, 2011	11,922	$ 18.59	5.8 years	$ 465.6
Exercisable at June 30, 2011	5,850	$ 12.82	4.1 years	$ 262.2

Incentive Plan and Independent Directors Stock Units	Shares (In thousands)	Weighted Average Grant Date Fair Value	Aggregate Fair Value (In millions)
Outstanding and nonvested December 31, 2010	1,160.5	$ 13.76	$ 16.0
Granted	22.8	$ 41.68	0.9
Vested	(427.7)	$ 17.65	(7.6)
Forfeited	(10.0)	$ 12.54	(0.1)
Outstanding and nonvested at June 30, 2011	745.6	$ 12.40	$ 9.2

The weighted-average grant date fair value of stock awards granted during the three months ended June 30, 2011 and 2010 was $21.01 and $10.99, respectively. The weighted-average grant date fair value of stock awards granted during the six months ended June 30, 2011 and 2010 was $21.01 and $10.82, respectively. The total intrinsic value of stock awards exercised during the three months ended June 30, 2011 and 2010, was $47.1 million and $7.5 million, respectively. The total intrinsic value of stock awards exercised during the six months ended June 30, 2011 and 2010, was $64.0 million and $13.4 million, respectively.

The Company recognizes excess tax benefits associated with share-based compensation to shareholders equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, the Company follows the with-and-without approach which was adopted in the second quarter of 2011. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company, which are also subject to applicable limitations. As of June 30, 2011, and December 31, 2010, the Company had $11.0 million and $8.7 million, respectively, of unrealized excess tax benefits. See Note 2, *Significant Accounting Policies,* for further discussion of the Company s change in accounting principle from the tax-law-ordering method to the with-and-without approach.

9. Income Taxes

As of June 30, 2011, the total amount of unrecognized tax benefits, related interest and penalties was $32.1 million, $5.5 million and $1.4 million, respectively. During the six months ended June 30, 2011, the Company recorded tax, interest and penalties related to uncertain tax positions of $3.9 million, $1.0 million and $0.2 million respectively which were reduced by the expiration of the statutes of limitations for tax of $3.4 million, interest of $1.1 million, and penalties of $0.1 million which resulted in a year to date net increase for tax and penalties of $0.5 million and $0.1 million, respectively, and a net decrease for interest of $0.1 million. 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, $32.1 million of unrecognized tax benefits, $5.5 million of interest and $1.4 million of penalties, would impact the effective tax rate.

During the six months ended June 30, 2011, the Company benefited from the terms of a tax holiday in the People s Republic of China. The tax holiday commenced on January 1, 2008 and will conclude on December 31, 2012. Under the terms of the holiday, the Company was subject to a zero tax rate in China during 2008 and 2009, 11% tax rate in 2010, and is subject to a graduated rate of 12% in 2011. The tax rate will gradually increase to a maximum rate of 25% in 2013.

10. 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 New Credit Facility, which is a variable rate credit facility. The hedged risk is the variability of forecasted interest rate cash flows, where the hedging strategy involves the purchase of interest rate swaps. For the outstanding cash flow hedges on interest rate exposures at June 30, 2011, the Company is hedging certain of its monthly interest rate exposures over approximately two years and one month.

During August 2009, the Company entered into four interest rate swap agreements with an effective date of December 31, 2009. The agreements collectively provide for the Company to pay interest for less than a four-year period at a weighted average fixed rate of 2.78% on notional amounts aggregating to $140.0 million while receiving interest for the same period at the one month LIBOR rate on the same notional amounts. These agreements will expire in July 2013. These swaps at inception were designated as cash flow hedges against the variability in the LIBOR interest rate on the Company s term loan under the Prior Credit Facility or against the variability in the LIBOR interest rate on the replacement debt. The Company s term loan under the Prior Credit Facility was terminated in March 2011 and refinanced with the New Credit Facility as discussed further in Note 4, *Long-Term Debt*. The Company s swaps remain effective and continue to be designated as cash flow hedges against the variability in certain LIBOR interest rate borrowings under the New Credit Facility at LIBOR plus 1.50% to 2.50%, fixing the Company s weighted average effective rate on the notional amounts at 4.28% to 5.28%. There was no hedge ineffectiveness recorded as result of this refinancing event.

The Company formally assesses both at inception and at least quarterly thereafter, whether derivatives used in hedging transactions are effective in offsetting changes in cash flows of the hedged item. As of June 30, 2011, the hedge relationships continued to qualify as effective hedges under FASB ASC Topic 815, *Derivatives and Hedging*, or ASC 815. Consequently, all changes in the fair value of the derivatives are deferred and recorded in other comprehensive income (loss) until the related forecasted transactions are recognized in the consolidated statements of income. The fair value of the interest rate swap agreements are based on third-party bank quotes. At June 30, 2011 and December 31, 2010, the Company recorded the interest rate swaps as liabilities at their fair value of $6.2 million and $6.6 million, respectively.

Foreign Currency Instruments

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

The Company designates as cash-flow hedges those foreign currency forward contracts it entered into to hedge forecasted inventory purchases and intercompany management fees that are subject to foreign currency exposures. 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. These contracts allow the Company to sell Euros in exchange for U.S. dollars at specified contract rates. 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, 2011, and December 31, 2010, the aggregate notional amounts of cash-flow designated hedge contracts outstanding were approximately $33.0 million and $32.1 million, respectively. At June 30, 2011, the outstanding contracts were expected to mature over the next twelve months. The Company s derivative financial instruments are

recorded on the consolidated balance sheet at fair value based on third-party bank quotes. As of June 30, 2011, the Company recorded liabilities at fair value of $1.9 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. As of December 31, 2010, the Company recorded assets at fair value of $0.6 million and liabilities at fair value of $0.8 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. The Company assesses hedge effectiveness and measures hedge ineffectiveness at least quarterly. During the three months ended June 30, 2011 and 2010, the ineffective portion relating to these hedges was immaterial and the hedges remained effective as of June 30, 2011.

As of June 30, 2011, and December 31, 2010, the majority of the Company s outstanding foreign currency forward contracts had maturity dates of less than twelve months with the majority of freestanding derivatives expiring within one month and three months, respectively. There were no foreign currency option contracts outstanding as of June 30, 2011, and December 31, 2010. See Part I, Item 3 *Quantitative and Qualitative Disclosures About Market Risk* in this Quarterly Report on Form 10-Q for foreign currency instruments outstanding as of June 30, 2011.

Gains and Losses on Derivative Instruments

The following table summarizes gains (losses) relating to derivative instruments recorded in other comprehensive income (loss) during the three and six months ended June 30, 2011 and 2010:

	Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss)			
	For the Three Months Ended		For the Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	(In millions)			
Derivatives designated as hedging instruments:				
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	$ (0.6)	$ 8.3	$ (2.5)	$ 13.3
Interest rate swaps	$ (1.5)	$ (3.3)	$ (1.5)	$ (5.9)

The following table summarizes gains (losses) relating to derivative instruments recorded to income during the three and six months ended June 30, 2011 and 2010:

	Amount of Gain (Loss) Recognized in Income				Location of Gain (Loss) Recognized in Income
	For the Three Months Ended		For the Six Months Ended		
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	
	(In millions)				
Derivatives designated as hedging instruments:					
Foreign exchange currency contracts relating to inventory hedges and intercompany management fee hedges (1)	$ (0.1)	$	$	$ (0.1)	Selling, general and administrative expenses
Derivatives not designated as hedging instruments:					
Foreign exchange currency contracts	$ (1.8)	$ (1.7)	$ 1.1	$ (9.2)	Selling, general and administrative expenses

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

15

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, 2011 and 2010:

	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income				Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income
	For the Three Months Ended		For the Six Months Ended		
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	(Effective Portion)
	(In millions)				
Derivatives designated as hedging instruments:					
Foreign exchange currency contracts relating to inventory hedges	$ (0.1)	$ (0.1)	$ (0.3)	$ (0.7)	Cost of sales
Foreign exchange currency contracts relating to intercompany management fee hedges	$ (0.9)	$ 2.9	$ (1.5)	$ 4.6	Selling, general and administrative expenses
Interest rate contracts	$ (0.9)	$ (0.9)	$ (1.8)	$ (1.8)	Interest expense, net

The Company reports its derivatives at fair value as either assets or liabilities within its condensed consolidated balance sheet. See Note 13, *Fair Value Measurements*, for information on derivative fair values and their condensed consolidated balance sheet location as of June 30, 2011, and December 31, 2010.

11. Shareholders Equity

Dividends

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

On February 22, 2011, the Company announced that its board of directors approved a cash dividend of $0.13 per common share in an aggregate amount of $14.8 million that was paid to shareholders on March 22, 2011. On May 2, 2011, the Company announced that its board of directors approved a cash dividend of $0.20 per common share in an aggregate amount of $23.9 million that was paid to shareholders on June 7, 2011.

The aggregate amount of dividends declared and paid during the three months ended June 30, 2011 and 2010 were $23.9 million and $12.0 million, respectively. The aggregate amount of dividends declared and paid during the six months ended June 30, 2011 and 2010 were $38.7 million and $24.1 million, respectively.

Share Repurchases

On April 30, 2009, the Company announced that its board of directors authorized a new program for the Company to repurchase up to $300 million of Herbalife common shares during the next two years, at such times and prices as determined by the Company s management. On May 3, 2010, the Company s board of directors approved an increase to the share repurchase authorization from $300 million to $1 billion. In addition, the Company s board of directors approved the extension of the expiration date of the share repurchase program from April 2011 to December 2014. The New Credit Facility permits repurchase of common shares as long as no default or event of default exists and the consolidated leverage ratio specified in the New Credit Facility is not exceeded.

The Company did not repurchase any common shares in the open market during the three months ended March 31, 2011. During the three months ended June 30, 2011, the Company repurchased approximately 1.8 million of its common shares through open market purchases at an aggregate cost of approximately $98.8 million or an average cost of $54.15 per share. As of June 30, 2011, the remaining authorized capacity under the Company s share repurchase program was approximately $677.9 million.

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

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

Stock Split

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

12. Earnings Per Share

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
	(in thousands)			
Weighted average shares used in basic computations	119,007	119,054	118,609	119,686
Dilutive effect of exercise of equity grants outstanding	7,350	6,221	7,748	6,128
Dilutive effect of warrants	260	410	253	398
Weighted average shares used in diluted computations	126,617	125,685	126,610	126,212

There were an aggregate of 1.2 million of equity grants that were outstanding during both the three and six months ended June 30, 2011, and an aggregate of 4.1 million and 4.4 million of equity grants that were outstanding during the three and six months ended June 30, 2010, respectively, consisting of stock options, SARs, and stock units, but were not included in the computation of diluted earnings per share because their effect would be anti-dilutive.

13. 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.

Table of Contents

The Company measures certain assets and liabilities at fair value as discussed throughout the notes to its consolidated financial statements. Foreign exchange currency contracts and interest rate swaps are valued using standard calculations and models. Foreign exchange currency contracts are valued primarily based on inputs such as observable forward rates, spot rates and foreign currency exchange rates at the reporting period ended date. Interest rate swaps are valued primarily based on inputs such as LIBOR and swap yield curves at the reporting period ended date. Assets or liabilities that have recurring measurements and are measured at fair value consisted of only Level 2 derivatives and are shown below at their gross values at June 30, 2011 and December 31, 2010:

Fair Value Measurements at Reporting Date Using

	Derivative Balance Sheet Location	Significant Other Observable Inputs (Level 2) Fair Value at June 30, 2011	Significant Other Observable Inputs (Level 2) Fair Value at December 31, 2010
		(in millions)	
ASSETS:			
Derivatives designated as cash flow hedging instruments:			
Foreign exchange currency contracts relating to intercompany management fee hedges	Prepaid expenses and other current assets	$	$ 0.6
Derivatives not designated as cash flow hedging instruments:			
Foreign exchange currency contracts	Prepaid expenses and other current assets	$ 0.4	$ 2.3
		$ 0.4	$ 2.9
LIABILITIES:			
Derivatives designated as cash flow hedging instruments:			
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	Accrued expenses	$ 1.9	$ 0.8
Interest rate swaps	Accrued expenses	$ 6.2	$ 6.6
Derivatives not designated as hedging instruments:			
Foreign exchange currency contracts	Accrued expenses	$ 0.4	$ 3.0
		$ 8.5	$ 10.4

14. Subsequent Events

On August 1, 2011, the Company announced that its board of directors approved a cash dividend of $0.20 per common share, payable on August 29, 2011 to shareholders of record as of August 15, 2011.

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

Overview

We are a global network marketing company that sells weight management products, nutritional supplements, energy, sports & fitness products and personal care products. We pursue our mission of changing people s lives by providing a financially rewarding business opportunity to distributors and quality products to distributors and their customers who seek a healthy lifestyle. We are one of the largest network marketing companies in the world with net sales of approximately $2.7 billion for the year ended December 31, 2010. As of June 30, 2011, we sold our products in 75 countries through a network of approximately 2.3 million independent distributors. In China, we sell our products through retail stores, sales representatives, sales employees and licensed business providers. We believe the quality of our products and the effectiveness of our distribution network, coupled with geographic expansion, has been the primary reasons for our success throughout our 31-year operating history.

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

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

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

We report revenue from our six regions:

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