HERBALIFE LTD.
Form 10-Q
May 01, 2007

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 March 31, 2007**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

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 90067
(Address of principal executive offices) (Zip code)

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer 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 April 25, 2007 was 71,843,113.

HERBALIFE LTD.

Index to Financial Statements and Exhibits
Filed with the Quarterly Report of the Company on Form 10-Q
For the Three Months ended March 31, 2007

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

PART I. FINANCIAL INFORMATION

Item 1. ***FINANCIAL STATEMENTS***

HERBALIFE LTD.

CONSOLIDATED BALANCE SHEETS

	December 31, 2006	March 31, 2007 (Unaudited)
	(In thousands, except share amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 154,323	$ 162,207
Receivables, net of allowance for doubtful accounts of $6,917 (2006) and $6,783 (2007)	51,758	49,268
Inventories, net	146,036	130,114
Prepaid expenses and other current assets	41,320	48,914
Deferred income taxes	60,190	56,248
Prepaid income taxes	2,080	
Total current assets	455,707	446,751
Property, at cost, net of accumulated depreciation and amortization of $32,671 (2006) and $40,245 (2007)	105,266	106,182
Deferred compensation plan assets	17,607	18,002
Other assets	11,261	11,352
Deferred financing costs, net of accumulated amortization of $268 (2006) and $547 (2007)	2,063	1,784
Marketing related intangibles	310,000	310,000
Product certification, product formulas and other intangible assets, net of accumulated amortization of $20,892 (2006) and $21,667 (2007)	1,808	1,033
Goodwill	113,221	112,964
TOTAL	$ 1,016,933	$ 1,008,068
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 39,990	$ 26,557
Royalty overrides	116,896	103,899
Accrued compensation	45,808	33,968
Accrued expenses	103,767	100,435

Current portion of long term debt	5,599	4,290
Advance sales deposits	11,432	7,076
Income taxes payable		20,330
Total current liabilities	323,492	296,555
NON-CURRENT LIABILITIES:		
Long term debt, net of current portion	179,839	149,892
Deferred compensation	18,166	18,329
Deferred income taxes	126,152	126,169
Other non-current liabilities	15,394	16,754
Total liabilities	663,043	607,699
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS EQUITY:		
Common shares, $0.002 par value, 175.0 million shares authorized, 71.6 million (2006) and 71.8 million (2007) shares issued and outstanding	143	144
Paid-in-capital in excess of par value	132,755	138,533
Accumulated other comprehensive loss	(782)	(1,262)
Retained earnings	221,774	262,954
Total shareholders equity	353,890	400,369
TOTAL	$ 1,016,933	$ 1,008,068

See the accompanying notes to consolidated financial statements

3

Table of Contents

HERBALIFE LTD.

CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended	
	March 31, 2006	March 31, 2007
	(Unaudited) (In thousands, except per share amounts)	
Product sales	$ 393,604	$ 437,993
Handling & freight income	62,184	70,106
Net sales	455,788	508,099
Cost of sales	91,366	107,283
Gross profit	364,422	400,816
Royalty overrides	165,298	180,260
Selling, general & administrative expenses	135,044	149,428
Operating income	64,080	71,128
Interest expense, net	6,015	2,204
Income before income taxes	58,065	68,924
Income taxes	19,369	27,744
NET INCOME	$ 38,696	$ 41,180
Earnings per share:		
Basic	$ 0.55	$ 0.57
Diluted	$ 0.53	$ 0.55
Weighted average shares outstanding:		
Basic	69,947	71,722
Diluted	73,451	74,943

See the accompanying notes to consolidated financial statements

Table of Contents

HERBALIFE, LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31, 2006	March 31, 2007
	(Unaudited) (In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 38,696	$ 41,180
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,064	8,263
Stock-based compensation expense	2,434	3,482
Excess tax benefits from share-based payment arrangements	(1,491)	(1,321)
Amortization of discount and deferred financing costs	286	76
Deferred income taxes	4,544	3,951
Unrealized foreign exchange loss (gain)	(537)	2,474
Write-off of deferred financing costs and unamortized discounts	181	204
Other	(49)	887
Changes in operating assets and liabilities:		
Receivables	(7,637)	3,025
Inventories	4,886	15,174
Prepaid expenses and other current assets	(11,156)	(10,312)
Other assets	(2,407)	(103)
Accounts payable	(7,492)	(13,441)
Royalty overrides	2,389	(12,858)
Accrued expenses and accrued compensation	4,349	(14,254)
Advance sales deposits	5,926	(4,350)
Income taxes payable	3,201	23,860
Deferred compensation liability	530	163
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 43,717	$ 46,100
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(12,083)	(9,060)
Proceeds from sale of property	46	36
Deferred compensation plan assets	(2,623)	(395)
NET CASH USED IN INVESTING ACTIVITIES	$ (14,660)	$ (9,419)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(12,286)	(31,301)
Exercise of stock options	806	976
Excess tax benefits from share-based payment arrangements	1,491	1,321
NET CASH USED IN FINANCING ACTIVITIES	$ (9,989)	$ (29,004)

EFFECT OF EXCHANGE RATE CHANGES ON CASH	1,905	207
NET CHANGE IN CASH AND CASH EQUIVALENTS	20,973	7,884
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	88,248	154,323
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 109,221	$ 162,207
CASH PAID FOR:		
Interest	$ 1,673	$ 3,270
Income taxes	$ 13,046	$ 7,737
NON-CASH ACTIVITIES:		
Acquisitions of property through capital leases	$ 100	$ 47

See the accompanying notes to consolidated financial statements

HERBALIFE LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Herbalife Ltd. (and together with its subsidiaries, the Company) is a leading global network marketing company that sells weight management, nutritional supplement and personal care products through a network of over 1.5 million independent distributors except in China, where the company currently sells the products through retail stores and an employed sales force. The Company reports revenue from seven geographic units: North America, which consists of the U.S., Canada, Jamaica and the Dominican Republic; Mexico and Central America, which consists of Mexico, Costa Rica and Panama; Brazil; South America and Southeast Asia, which includes New Zealand and Australia and excludes Brazil; EMEA, which consists of Europe, the Middle East and Africa; and Greater China, which consists of China, Taiwan and Hong Kong.

2. Basis of Presentation

The unaudited interim financial information of the Company has been prepared in accordance with Article 10 of the Securities and Exchange Commission s Regulation S-X. Accordingly, it does not include all of the information required by accounting principles generally accepted in the U.S. for complete financial statements. The Company s unaudited consolidated financial statements as of and for the three months ended March 31, 2007 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 March 31, 2007 and for the three months ended March 31, 2006 and March 31, 2007. Operating results for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

New Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, or SFAS No. 159, which permits entities to choose to measure many financial instruments, and certain other items, at fair value. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 applies to reporting periods beginning after November 15, 2007. The Company is currently evaluating the impact, if any, of adopting SFAS No. 159.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurement, or SFAS No. 157, which defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact, if any, of adopting SFAS No. 157.

Reclassifications

Certain reclassifications were made to the prior period financial statements to conform to current period presentation.

3. Transactions with related parties

Whitney & Co., LLC, or Whitney, holds a 50 percent indirect ownership interest in TBA Entertainment, or TBA, a provider of creative services to the Company. For the three months ended March 31, 2006, no payments were made to TBA. For the three months ended March 31, 2007, payments to TBA were $0.8 million.

Table of Contents

HERBALIFE LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Long-Term Debt

Long-term debt consists of the following:

	As of December 31, 2006	As of March 31, 2007
	(In millions)	
Borrowings under senior credit facility	$ 179.5	$ 149.5
Capital leases	5.2	4.3
Other debt	0.7	0.4
	185.4	154.2
Less: current portion	5.6	4.3
	$ 179.8	$ 149.9

On July 21, 2006, the Company entered into a $300.0 million senior secured credit facility with a syndicate of financial institutions as lenders. The credit facility is comprised of a $200.0 million term loan and a $100.0 million revolving credit facility and replaced the $225.0 million senior secured credit facility, originally entered into on December 21, 2004. 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 revolver 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. The Company incurred approximately $2.3 million of debt issuance costs in connection with entering into the new credit facility in July 2006 which are being amortized over the term of the debt. The Company repaid all amounts outstanding under the $225.0 million senior secured credit facility. Consequently, the Company expensed $1.7 million of unamortized deferred financing costs related to that credit facility. Also in July 2006, the Company redeemed the outstanding $0.1 million aggregate principal amount of its 113/4% Notes.

On August 23, 2006, the Company borrowed $200.0 million pursuant to the term loan under the new credit facility to fund the redemption of its 91/2% Notes due 2011. The total redemption price of the 91/2% Notes was $187.8 million and consisted of $165.0 million aggregate principal amount, $16.6 million purchase premium and $6.2 million accrued interest. The redemption premium of $16.6 million and the write-off of unamortized deferred financing costs and discounts of $4.6 million associated with the 91/2% Notes were included in interest expense in the third quarter of 2006.

In September 2006, the Company prepaid $20.0 million of its new term loan borrowings resulting in $0.1 million additional interest expense from the write-off of unamortized deferred financing costs. In March 2007, the Company made another prepayment of $29.5 million and the Company expensed approximately $0.2 million of related unamortized deferred financing costs.

No borrowings were outstanding under the revolver at March 31, 2007.

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.

Herbalife International and certain of its independent distributors have been named as defendants in a purported class action lawsuit filed February 17, 2005, in the Superior Court of California, County of San Francisco, and served on Herbalife International on March 14, 2005 *(Minton v. Herbalife International, et al).* The case has been transferred to the Los Angeles County Superior Court. The plaintiff is challenging the marketing practices of certain Herbalife International independent distributors and Herbalife International under various state laws

HERBALIFE LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

prohibiting endless chain schemes, insufficient disclosure in assisted marketing plans, unfair and deceptive business practices, and fraud and deceit. The plaintiff alleges that the Freedom Group system operated by certain independent distributors of Herbalife International products places too much emphasis on recruiting and encourages excessively large purchases of product and promotional materials by distributors. The plaintiff also alleges that Freedom Group pressured distributors to disseminate misleading promotional materials. The plaintiff seeks to hold Herbalife International vicariously liable for the actions of its independent distributors and is seeking damages and injunctive relief. The Company believes that it has meritorious defenses to the suit.

Herbalife International and certain of its distributors have been named as defendants in a class action lawsuit filed July 16, 2003, in the Circuit Court of Ohio County in the State of West Virginia *(Mey v. Herbalife International, Inc., et al).* The complaint alleges that certain telemarketing practices of certain Herbalife International distributors violate the Telephone Consumer Protection Act, or TCPA, and seeks to hold Herbalife International vicariously liable for the practices of its distributors. More specifically, the plaintiffs complaint alleges that several of Herbalife International s distributors used pre-recorded telephone messages to contact prospective customers in violation of the TCPA s prohibition of such practices. Herbalife International s distributors are independent contractors and if any such distributors in fact violated the TCPA they also violated Herbalife s policies which require its distributors to comply with all applicable federal, state and local laws. The Company believes that it has meritorious defenses to the suit.

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

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

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

6. Comprehensive Income

	Three Months Ended	
	March 31, 2006	March 31, 2007

	(In millions)	
Net income	$ 38.7	$ 41.2
Unrealized gain (loss) on derivative instruments	0.1	(0.1)
Foreign currency translation adjustment	(0.1)	(0.3)
Comprehensive income	$ 38.7	$ 40.8

8

Table of Contents

HERBALIFE LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. The Company s products are manufactured by third party providers and then sold to independent distributors who sell Herbalife products to retail consumers or other distributors.

The Company sells products in 64 countries throughout the world and is organized and managed by geographic units. The Company aggregates its operating segments into one 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 products are sold to, the methods used to distribute the products, and the nature of the regulatory environment.

Revenues reflect sales of products to distributors based on the distributors geographic location.

In July 2006, the Company changed its geographic units from four to seven as part of the Company s on-going Realignment for Growth efforts. These changes were intended to create growth opportunities for distributors, support faster decision making across the organization by reducing the number of layers of management, improve the sharing of ideas and tools and accelerate growth in its high potential markets. Historical information presented related to the Company s geographic units has been reclassified to conform to the current geographic presentation. The Company s reporting segment s operating information and sales by product line are as follows:

	Three Months Ended	
	March 31, 2006	March 31, 2007
	(In millions)	
Net sales:		
United States	$ 81.4	$ 99.7
Mexico	83.5	94.0
Others	290.9	314.4
Total net sales	$ 455.8	$ 508.1
Operating margin (1):		
United States	$ 27.8	$ 32.9
Mexico	37.3	37.2
Others	134.0	150.4
Total operating margin	$ 199.1	$ 220.5
Selling, general and administrative expenses	135.0	149.4
Interest expense, net	6.1	2.2

Income before income taxes		58.0		68.9
Income taxes		19.3		27.7
Net income	$	38.7	$	41.2

Table of Contents

HERBALIFE LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	As of December 31, 2006	As of March 31, 2007
	(In millions)	
Total Assets:		
United States	$ 698.0	$ 662.2
Mexico	63.7	63.5
Others	255.2	282.4
Total assets	$ 1,016.9	$ 1,008.1

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2007
	(In millions)	
Net sales by product line:		
Weight management	$ 190.2	$ 220.1
Targeted nutrition	200.6	224.0
Outer Nutrition®	40.9	36.4
Literature, promotional and other (2)	24.1	27.6
Total net sales	$ 455.8	$ 508.1
Net sales by geographic unit:		
North America (3)	$ 87.1	$ 104.5
Mexico and Central America (8)	84.0	95.9
Brazil	35.5	33.3
South America and Southeast Asia (4)	43.5	55.8
EMEA (5)	141.5	143.2
Greater China (6)	28.6	40.7
North Asia (7)	35.6	34.7
Total net sales	$ 455.8	$ 508.1

(1) Operating margin consists of net sales less cost of sales and Royalty Overrides.

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

(3) Consists of the U.S., Canada, Jamaica and Dominican Republic.

(4) Includes New Zealand and Australia and excludes Brazil.

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

(6) Consists of China, Hong Kong and Taiwan.

(7) Consists of Japan and Korea.

(8) Consists of Mexico, Costa Rica and Panama.

8. Stock Based Compensation

The Company has five stock-based compensation plans, the WH Holdings (Cayman Islands) Ltd. Stock Incentive Plan, or the Management Plan, the WH Holdings (Cayman Islands) Ltd. Independent Directors Stock Incentive Plan, or the Independent Directors Plan, the Herbalife Ltd. 2004 Stock Incentive Plan, or the 2004 Stock Incentive Plan, the Herbalife Ltd. 2005 Stock Incentive Plan, or the 2005 Stock Incentive Plan, and the Herbalife

Table of Contents

HERBALIFE LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Ltd. Independent Directors Deferred Compensation and Stock Unit Plan, or the Independent Director Stock Unit Plan. The Management Plan provides for the grant of options to purchase common shares of Herbalife to members of the Company s management. The Independent Directors Plan provides for the grant of options to purchase common shares of Herbalife to the Company s independent directors. The 2004 Stock Incentive Plan replaced the Management Plan and the Independent Directors Plan and after the adoption thereof, no additional awards were made under either the Management Plan or the Independent Directors Plan. However, the shares remaining available for issuance under these plans were absorbed by and became available for issuance under the 2004 Stock Incentive Plan. The terms of the 2005 Stock Incentive Plan are substantially similar to the terms of the 2004 Stock Incentive Plan. The 2005 Stock Incentive Plan authorizes the issuance of 4,000,000 common shares pursuant to awards, plus any shares that remained available for issuance under the 2004 Stock Incentive Plan at the time of the adoption of the 2005 Stock Incentive Plan. The purpose of the Independent Directors Stock Unit Plan is to facilitate equity ownership in the Company by its independent directors through the award of stock units and to allow for deferral by the independent directors of compensation realized in connection with such stock units. The Company s stock compensation awards outstanding as of March 31, 2007 include stock options, stock appreciation rights, or SARS, and stock units.

Prior to January 1, 2006, the Company applied the intrinsic value method as outlined in Accounting Principles Board, or APB, Opinion No. 25, Accounting for Stock Issued to Employees, or APB 25, and related interpretations, in accounting for share-based awards made under the Company s plans. Under the intrinsic value method, compensation expense is recorded on the date of grant to the extent that the current market price of the underlying stock exceeds the exercise price. On January 1, 2006, the Company adopted SFAS No. 123R. This statement replaces SFAS No. 123, Accounting for Stock Based Compensation, and supersedes APB 25. SFAS No. 123R requires that all share-based compensation be recognized as an expense in the financial statements and that such cost be measured based on the fair value of the awards granted. The Company adopted SFAS No. 123R using the modified prospective transition method which requires the recognition of compensation expense on a prospective basis only. Accordingly, prior period financial statements have not been restated. Under this transition method, stock-based compensation cost for the year 2006 includes (a) compensation cost for all share-based awards granted prior to, but not yet vested as of, January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123; and (b) compensation cost for all share-based awards granted subsequent to January 1, 2006 based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R.

SFAS No. 123R also requires the Company to estimate forfeitures in calculating the expense relating to share-based compensation as opposed to recognizing forfeitures as an expense reduction as they occur. The adjustment to apply estimated forfeitures to previously recognized share-based compensation was considered immaterial and as such was not classified as a cumulative effect of a change in accounting principle.

The Company records compensation expense over the requisite service period which is equal to the vesting period. For awards granted prior to January 1, 2006, compensation expense is recognized on a graded-vesting basis over the vesting term. For awards granted on or after January 1, 2006, compensation expense is recognized on a straight-line basis over the vesting term. For the three months ended March 31, 2006 and 2007, stock-based compensation expense was included in Selling, General & Administrative Expenses in the amount of $2.4 million and $3.5 million, respectively, as well as related income tax benefits recognized in earnings in the amount of $1.0 million and $1.2 million, respectively.

As of March 31, 2007, the total unrecognized compensation cost related to nonvested stock awards was $28.6 million and the related weighted-average period over which it is expected to be recognized is approximately 2.2 years.

Prior to the Company s adoption of SFAS No. 123R, benefits of tax deductions in excess of recognized compensation costs were reported as operating cash inflows. SFAS No. 123R requires that these excess tax benefits be recorded as a financing cash inflow rather than as a reduction of taxes paid. For the three months ended March 31, 2006 and 2007, tax benefits of $1.5 million and $1.3 million were generated from option exercises, respectively.

HERBALIFE LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company s stock-based compensation plans provide for grants of stock options, SARS, and stock units (collectively called the awards). Stock options typically vest quarterly over a five-year period beginning on the grant date, and certain stock option grants vest over a period of less than five years. SARS vest quarterly over a five-year period beginning on the grant date. The contractual term of stock options and SARS is ten years. Stock unit awards under the 2005 Incentive Plan, or Incentive Plan Stock Units, vest annually over a three year period which is equal to the contractual term. Stock unit awards under the Independent Directors Stock Unit Plan, or Independent Director Stock Units, vest at a 25% rate 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. Unless otherwise determined at the time of grant, the value of each stock unit shall be equal to one common share of Herbalife.

The fair value of each award is estimated on the date of grant using the Black-Scholes-Merton option-pricing model based on the assumptions in the following tables. The expected term of the award is based on observed historical exercise patterns. Because of the very limited historical data, all groups of employees have been determined to have similar historical exercise patterns for valuation purposes. The expected volatility of stock awards is primarily based upon on the historical volatility of the Company s common stock and, due to the limited period of public trading data for its common stock, it is also validated against the volatility rates of a peer group of companies. The risk free interest rate is based on the implied yield on a U.S. Treasury zero-coupon issue with a remaining term equal to the expected term of the award. The dividend yield reflects that the Company has not paid any cash dividends since inception. The following table summarizes the weighted average assumptions used in the calculation of fair market value for the three months ended March 31, 2006 and 2007.

	Stock Options Three Months Ended March 31,		SARS Three Months Ended March 31,		Incentive Plan Stock Units Three Months Ended March 31,		Independent Directors Stock Units Three Months Ended March 31,	
	2006	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**
Expected volatility	37.03%		38.62%		38.62%		37.20%	41.82%
Dividends yield	zero		zero		zero		zero	zero
Expected term	6.3 years		6.3 years		2.5 years		3.0 years	3.0 years
Risk-free interest rate	3.94%		4.45%		3.84%		3.41%	5.00%

The following tables summarize the activity under the stock-based compensation plans for the three months ended March 31, 2007:

Stock Options & SARS	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value

	(In thousands)			**(In millions)**
Outstanding at December 31, 2006	9,452	$ 16.45		
Exercised	(131)	8.00		
Forfeited	(46)	15.97		
Outstanding at March 31, 2007	9,275	$ 16.57	7.2 years	$ 209.9
Exercisable at March 31, 2007	4,305	$ 13.32	6.6 years	$ 111.4

Table of Contents

HERBALIFE LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, 2006	186.1	$ 35.28	$ 6.1
Granted	18.7	32.01	0.6
Vested	(43.3)	34.16	(1.0)
Cancelled	(0.8)	34.21	
Outstanding and nonvested at March 31, 2007	160.7	$ 35.20	$ 5.7

The weighted-average grant date per share fair value of stock awards granted during the three months ended March 31, 2006 and 2007 was $17.06 and $32.01, respectively. The total intrinsic value of stock awards exercised during the three months ended March 31, 2006 and 2007 was $4.3 million and $3.9 million, respectively.

9. Income Taxes

On January 1, 2007 the Company adopted the provisions of FIN 48, Accounting for Uncertainty in Income Taxes, an interpretation of FAS 109, Accounting for Income Taxes. At the date of adoption, the total amount of unrecognized tax benefits, including related interest and penalties, was $42.1 million. If the total amount of unrecognized tax benefits was recognized, $26.0 million of unrecognized tax benefits, $6.9 million of interest and $2.7 million of penalties, would impact the effective tax rate and $6.5 million would result in an increase to goodwill. The Company accounts for interest and penalties generated by tax contingencies as a component of income tax expense. Also, the adoption of FIN 48 does not have a material impact to the retained earnings.

The Company believes that it is reasonably possible that the amount of unrecognized tax benefits could increase or decrease within the next twelve months and that change could be significant because of uncertainties from international transfer pricing issues, the deductibility of certain operating expenses in various foreign jurisdictions, settlements in foreign tax audits and the expiration of the statute of limitation in several foreign jurisdictions. Because of the nature of these uncertainties, the Company is not able to estimate the range of reasonably possible changes to the amount of unrecognized tax benefits within the next twelve months.

At the adoption date, the Company s tax filings are generally subject to examination in major tax jurisdictions for years ending on or after December 31, 2002.

10. Derivative Instruments and Hedging Activities

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 December 31, 2006 and March 31, 2007, the maximum length of time over which the Company is hedging these exposures is approximately three years.

On July 21, 2006 the interest rate swap agreement, originally entered into on February 21, 2005, was terminated due to the Company s debt refinancing and interest income of approximately $0.8 million was recorded in the Company s consolidated statements of income during the quarter ended September 30, 2006. Under the new credit facility, the Company is obligated to enter into an interest rate hedge for up to 25% of the aggregate principal amount of the term loan for a minimum of three years. On August 23, 2006, the Company entered into a new interest rate swap agreement. The agreement provides for the Company to pay interest for a three-year period at a fixed rate of 6.76% on various notional amounts while receiving interest for the same period at the LIBOR rate on the same notional principal amounts. The swap was designated as a cash flow hedge against LIBOR interest rate movements on the new term loan. 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

HERBALIFE LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of December 31, 2006 and March 31, 2007, the hedge relationship qualified as an effective hedge under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. Consequently, all changes in the fair value of the derivatives are deferred and recorded in other comprehensive income, or OCI, until the related forecasted transaction is recognized in the consolidated statements of income.

The Company also designates certain derivatives as free standing derivatives for which hedge accounting does not apply. The changes in the fair market value of these derivatives are included in Selling, General and Administrative Expense in the Company s consolidated statements of income. The Company purchases average rate put options, as well as forward extra contracts (a combination of a foreign forward exchange contract and an option), to partially mitigate the impact if the foreign currency weakens beyond the strike rate. The Company also uses foreign currency forward and ratio forward contracts to hedge foreign-currency-denominated intercompany transactions. The fair values of the option and forward contracts are based on third-party bank quotes.

11. Restructuring Reserve

In July 2006, the Company initiated a realignment of its employee base as part of its Realignment for Growth plan. The Company recorded $3.0 million of professional fees, severance and related costs in the preparation stage of the realignment in the third quarter of 2006 and $7.5 million of severance and related costs, which was included in Selling, General and Administrative Expenses, related to this realignment in the fourth quarter of 2006.

In the first quarter of 2007, the Company recorded severance and related costs of $1.5 million, which was included in Selling, General and Administrative Expenses, related to the realignment. The Company expects to complete the realignment during 2007 and recognize an additional $0.3 million of related costs by the end of 2007.

The following table summarizes the components of this reserve during fiscal 2007:

	Severance	Retention Benefits	Others	Total
Balance as of December 31, 2006	$ 4.6	$ 0.2	$ 0.4	$ 5.2
Charges	1.1	0.2	0.2	1.5
Cash payments	(3.1)	(0.1)	(0.3)	(3.5)
Balance as of March 31, 2007	$ 2.6	$ 0.3	$ 0.3	$ 3.2

12. Whitney Offer

On February 2, 2007, the Company s Board of Directors received a proposal from Whitney V L.P. and its affiliates to acquire all of the Company s outstanding common shares for $38.00 per share in cash. The Company s Board of Directors established a special committee consisting solely of independent directors to review the proposal. On March 30, 2007, the special committee of the Board of Directors rejected the offer from Whitney V L.P. and thereafter, the Board of Directors disbanded the special committee.

13. Subsequent Event

On April 18, 2007, the Company announced that its Board of Directors has authorized a program for the company to repurchase up to $300 million of Herbalife common stock during the next two years, at such times and prices as determined by company management, as market conditions warrant. Additionally, the company s Board of Directors adopted a regular quarterly cash dividend program. As part of this program, the company announced a $0.20 per share cash dividend for the first quarter 2007, payable on May 15, 2007 to shareholders of record on April 30, 2007.

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, nutritional supplement 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 $1.9 billion for the year ended December 31, 2006. We sell our products in 64 countries through a network of over 1.5 million independent distributors except in China, where we sell our products through retail stores and an employed sales force. We believe the quality of our products and the effectiveness of our distribution network, coupled with geographic expansion, have been the primary reasons for our success throughout our 27-year operating history.

We offer products in three principal categories: weight management products, nutritional supplements which we refer to as Targeted Nutrition and personal care products which we refer to as Outer Nutrition®. Our products are often sold in programs, which are comprised of a series of related products designed to simplify weight management and nutrition for consumers and maximize our distributors cross-selling opportunities.

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

The opportunities and challenges upon which we are most focused are: retailing of our products, recruitment and retention of distributors and improving distributor productivity, new markets, further penetrating existing markets including China, globalizing successful distributor methods of operation (such as Nutrition Clubs), introducing new products, developing niche market segments and further investing in our infrastructure.

In July 2006, we changed our geographic units from four to seven units as part of our on-going realignment for growth efforts. These changes are intended to create growth opportunities for our distributors, support faster decision making across the organization by reducing layers of management, improve the sharing of ideas and tools and accelerate growth in our high potential markets. Under the new geographic units we report revenue from:

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

Mexico and Central America, which consists of Mexico, Costa Rica and Panama;

Brazil;

South America and Southeast Asia, which includes New Zealand and Australia and excludes Brazil;

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

Greater China, which consists of China, Taiwan and Hong Kong; and

North Asia, which consists of Japan and Korea.

Historical information presented related to our geographic units has been reclassified to conform to our current geographic presentation.

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 for us, as it excludes the impact of foreign currency fluctuations and ignores the differences generated by varying retail pricing across geographic markets. In general, an increase in Volume Points in a particular group or country directionally indicates an increase in local currency net sales.

Table of Contents

Volume Points by Geographic Unit

	For the Three Months Ended March 31,		
	2006	2007	% Change
	(Volume points in millions)		
North America	130.7	162.3	24.2%
Mexico & Central America	136.4	154.7	13.4%
Brazil	44.7	40.3	(9.8)%
South America & Southeast Asia	56.7	75.5	33.2%
EMEA	148.9	140.4	(5.7)%
Greater China	31.9	44.7	40.1%
North Asia	30.7	32.8	6.8%
Worldwide	580.0	650.7	12.2%

Number of New Supervisors by Geographic Unit as of Reporting Period

Another key non-financial measure on which we focus is the number of distributors qualified as new supervisors under our compensation system. Distributors qualify for supervisor status based on their Volume Points. The growth in the number of new supervisors is a general indicator of the level of distributor recruitment, which generally drives net sales in a particular country or group.

	As of March 31,		
	2006	2007	% Change
North America	7,616	9,013	18.3%
Mexico & Central America	8,299	7,176	(13.5)%
Brazil	5,087	4,108	(19.2)%
South America & Southeast Asia	6,366	8,858	39.1%
EMEA	9,132	7,642	(16.3)%
Greater China	2,833	5,314	87.6%
North Asia	2,284	2,115	(7.4)%
Worldwide	41,617	44,226	6.3%

Table of Contents

Number of Supervisors and Retention Rates by Geographic Unit as of Requalification Period

Our compensation system requires each supervisor to re-qualify for such status each year, prior to February. In February of each year, we delete from the rank of supervisor those distributors who did not satisfy the supervisor qualification requirements during the preceding twelve months. Distributors who meet the supervisor requirements at any time during the year are promoted to supervisor status at that time, including any supervisors who were deleted, but who subsequently requalified.

	Number of Supervisors		Supervisors Retention Rate	
	2006	2007	2006	2007
North America	45,778	54,375	41.2%	43.1%
Mexico & Central America	38,344	62,622	57.4%	55.2%
Brazil	27,318	28,974	29.0%	28.8%
South America & Southeast Asia	30,846	46,393	31.6%	33.9%
EMEA	66,103	64,862	45.0%	46.2%
Greater China	19,447	25,868	34.7%	34.7%
North Asia	15,736	15,697	48.6%	43.0%
Worldwide	243,572	298,791	41.5%	42.5%

Supervisors must re-qualify annually. The requalification period covers the twelve months starting in February and ending the following January. The number of supervisors by geographic unit as of the reporting dates will normally be higher than the number of supervisors by geographic unit as of the requalification period because supervisors who do not re-qualify during the relevant twelve-month period will be dropped from the rank of supervisor the following February. For the latest twelve month re-qualification period ending January 2007, approximately 42.5 percent of our supervisors re-qualified. Since supervisors purchase most of our products for resale to other distributors and consumers, comparisons of supervisor totals on a year-to-year, same period basis are good indicators of our recruitment and retention efforts in different geographic units.

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

We provide distributors with products, support material, 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 reflects distribution allowances and handling and freight income, represent what we collect and recognize as net sales in its financial statements. We discuss Retail Sales because of its fundamental role in our compensation systems, internal controls and operations, including its role as the basis upon which distributor discounts, royalties and bonuses are awarded. In addition, it is used as the basis for certain information included in daily and monthly reports reviewed by our management. However, such a measure is not in accordance with Generally Accepted Accounting Principles in the U.S., or GAAP. You should not consider Retail

Table of Contents

Sales in isolation from, nor as a substitute for, net sales and other consolidated income or cash flow statement data prepared in accordance with GAAP, or as a measure of profitability or liquidity. A reconciliation of Net Sales to Retail Sales is presented below under Results of Operations. Product Sales represent the actual product purchase price paid to us by our distributors, after giving effect to distributor discounts referred to as distributor allowances, which approximate 50% of retail sales prices. Distributor allowances as a percentage of sales may vary by country depending upon regulatory restrictions that limit or otherwise restrict distributor allowances.

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

Royalty Overrides are our most significant expense and consist of:

- royalty overrides, and production bonuses which total approximately 15% and 7%, respectively, of the Retail Sales of Weight Management, Targeted Nutrition, 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, Outer Nutrition® and promotional products; and

- other discretionary incentive cash bonuses to qualifying distributors.

Royalty Overrides are generally earned based on retail sales, and approximate in the aggregate about 22% of retail sales or approximately 36% of our net sales. Royalty Overrides together with distributor allowances represent the potential earnings to distributors of up to approximately 73% of retail sales. The compensation to distributors is generally for the development, retention and improved productivity of their distributor sales organizations and is paid to several levels of distributors on each sale. Due to restrictions on direct selling in China, our full-time employed sales representatives in China are compensated with wages, bonuses and benefits instead of the distributors earnings, distributor allowances and royalty overrides. 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 contracts and option contracts to mitigate our foreign currency exchange risk.

Summary Financial Results

For the three months ended March 31, 2007, net sales increased 11.5% to $508.1 million from $455.8 million for the three months ended March 31, 2006. The increase reflects the continued retailing success from distributors using the Nutrition Club operating method in Mexico and the U.S. The growth in the two markets accounted for 55.1% of the overall increase in net sales. Venezuela and certain other South American countries also experienced significant sales growth due in part to the opening of Peru during the first quarter of 2007, while net sales in Brazil declined. Net sales for the three months ended March 31, 2007 in EMEA and North Asia, were flat when compared to the same period in 2006.

Table of Contents

Net income increased for the three months ended March 31, 2007 to $41.2 million, or $0.55 per diluted share, from $38.7 million, or $0.53 per diluted share for the same period in 2006. The net income increase was driven by revenue growth primarily in Mexico and the U.S. markets and lower interest expense following a debt refinancing in July 2006. Net income for the three months ended March 31, 2007 included a $1.0 million unfavorable after tax impact in connection with the Realignment for Growth plan and a $3.6 million charge for an increase in tax reserve. Net income for the three months ended March 31, 2006 included the impact of a $3.7 million tax benefit resulting from an international income tax settlement.

Results of Operations

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

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

	Three Months Ended	
	March 31, 2006	**March 31, 2007**
Operations:		
Net sales	100.0%	100.0%
Cost of sales	20.1	21.1
Gross profit	79.9	78.9
Royalty overrides	36.3	35.5
Selling, general & admin expenses	29.6	29.4
Operating income	14.0	14.0
Interest expense	1.3	0.4
Income before income taxes and minority interest	12.7	13.6
Income taxes	4.2	5.5
Net income	8.5%	8.1%

Table of Contents

Three months ended March 31, 2007 compared to three months ended March 31, 2006

Net Sales

The following chart reconciles Retail Sales to net sales:

Sales by Geographic Region

	Three Months Ended March 31,										
	2006					2007					
	Retail Sales	Distributor Allowance	Product Sales	Handling & Freight Income	Net Sales	Retail Sales	Distributor Allowance	Product Sales	Handling & Freight Income	Net Sales	Chang in Net Sales
	(Dollars in millions)										
EA	$ 232.3	$ (111.3)	$ 121.0	$ 20.5	$ 141.5	$ 234.1	$ (112.7)	$ 121.4	$ 21.8	$ 143.2	1.2
xico & tral erica	141.5	(68.7)	72.8	11.2	84.0	161.3	(78.4)	82.9	13.0	95.9	14.2
th America	140.9	(67.7)	73.2	13.9	87.1	168.5	(80.3)	88.2	16.3	104.5	20.0
MSEA	73.3	(34.6)	38.7	4.8	43.5	94.4	(45.5)	48.9	6.9	55.8	28.3
zil	59.0	(28.3)	30.7	4.8	35.5	54.2	(25.7)	28.5	4.8	33.3	(6.2
ater China	45.9	(20.2)	25.7	2.9	28.6	62.6	(25.4)	37.2	3.5	40.7	42.3
th Asia	58.2	(26.7)	31.5	4.1	35.6	56.1	(25.3)	30.8	3.9	34.7	(2.5
rldwide	$ 751.1	$ (357.5)	$ 393.6	$ 62.2	$ 455.8	$ 831.2	$ (393.3)	$ 437.9	$ 70.2	$ 508.1	11.5

Changes in net sales are directly associated with the recruiting and retention of our distributor force, retailing of our products, the quality and completeness of the 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 corporate level is to provide distributors with a competitive and broad product line, encourage strong teamwork and leadership among the Chairman s Club and President s Team distributors and offer leading edge business tools to make doing business with Herbalife simple. Management uses the distributor marketing program coupled with educational and motivational tools and promotions to incentivize distributors to increase recruiting, retention and retailing, which in turn affect net sales. Such tools include company sponsored sales events such as Extravaganzas 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 can increase the productivity of the supervisor network. The expenses for such programs are included in Selling General & Administrative Expenses. Sales are driven by several factors, including the number and productivity of distributors and supervisors 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 & Administrative Expenses.

The factors described above have helped distributors increase their business, which in turn has driven growth in our business. The following net sales by geographic unit discussion further details some of the above factors and describes unique growth factors specific to certain major countries. We believe that the correct business foundation, coupled with ongoing training and promotional initiatives, is required to increase recruiting and retention of distributors and retailing of our products. The correct business foundation includes strong country management that works closely with the distributor leadership, 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, World Team Schools, Promotional Events and regional Extravaganzas are integral components of developing a highly motivated and educated distributor sales organization that will work toward increasing the recruitment and retention of distributors.

Our strategy will continue to include creating and maintaining growth within existing markets while expanding into new markets. We expect to increase our spending in Selling, General & Administrative Expenses to maintain or stimulate sales growth, while making strategic investments in new initiatives and in new markets. In addition, new ideas and distributor business methods, or DMO s, are being generated in our regional markets, either by distributors, country management or corporate management. Examples are the Nutrition Clubs in Mexico, the Total Plan in Brazil, The Wellness Coach in France, The Sampling Program in the U.S., and Generation Herbalife, or GenH, in many of our markets, as described under Net Sales below. 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

Net sales in North America increased $17.4 million, or 20.0%, for the three months ended March 31, 2007, as compared to the same period of 2006. In local currency, net sales increased 20.2% for the three months ended March 31, 2007, as compared to the same period of 2006. The fluctuation of foreign currency rates had an unfavorable impact of $0.1 million on net sales for the three months ended March 31, 2007. The overall increase was a result of net sales growth in the U.S. of $18.3 million or 22.5% for the three months ended March 31, 2007, as compared to the same period of 2006. In the U.S., we expanded our branding efforts with AEG by entering into an exclusive sponsorship agreement with the LA Galaxy soccer team. We also agreed to a major sponsorship agreement with an AVP Volleyball tour athlete, Karch Kiraly.

The increase in net sales in the U.S. was a result of a number of factors, including supervisor growth, up 19.7% at March 31, 2007, as compared to the same period of 2006, the continued strong relationship between the U.S. country management team and the distributor leadership, continued branding efforts such as sponsorship of the 2007 Amgen Tour of California bicycle race and the growth of the Nutrition Club DMO amongst our Latino distributors. To further support the retailing and recruiting efforts of our distributors, we opened a new sales center in Phoenix, Arizona in April 2007 and introduced a new flavor, Pina Colada, into our top selling Formula 1 shake line in the U.S. In January 2007, our Kickoff Supervisor Trainings attracted over 6,700 Distributors across 16 cities.

We believe that 2007 net sales in North America should continue to show positive year over year growth primarily as a result of the expected continuation of strong momentum in the U.S., the continued success and expansion of the Nutrition Club concept and increased focus on the Lead Generation/Sampling.

Mexico and Central America

Net sales in Mexico and Central America for the three months ended March 31, 2007 increased $11.9 million, or 14.2%, as compared to the same period of 2006. In local currency, net sales for the three months ended March 31, 2007 increased 18.6%, as compared to the same period of 2006. The fluctuation of foreign currency rates had an unfavorable impact of $3.8 million on net sales for the three months ended March 31, 2007. The overall increase was primarily a result of net sales growth in Mexico of $10.5 million or 12.6% for the three months ended March 31, 2007.

The increase in net sales in Mexico was primarily driven by very strong sales in the re-qualification month of January 2007 and strong supervisor growth, up 56.2% at March 31, 2007, as compared to March 31, 2006. The 2007 retention rate was 55.1%, as compared to the prior year of 57.5%, reflecting infrastructure and distributor training issues which have affected overall sales growth in Mexico. During the first quarter we expanded two existing sales centers in Leon and Tijuana and opened two new third party operations. In addition, we relocated and expanded our Mexico City South sales center. All of these moves were designed to improve our infrastructure and provide additional distributor access points to support the expansion of our business. In January 2007, we held a President s Team Tour and a life style day in 8 different cities attracting over 10,000 attendees. In March 2007, 21 Supervisor Training School meetings were held in various cities attracting 11,300 attendees. In Central America, El Salvador was opened in February 2007, becoming our 64th country.

We believe that 2007 net sales in Mexico and Central America will be flat to slightly positive as compared to 2006 net sales levels as first quarter sequential sales growth in Mexico was up less than 1% compared to the fourth quarter of 2006. We believe that we have made significant progress in addressing the root causes for the slow down in Mexico by making changes in the infrastructure, training and distributor business practice issues. In addition to the sales centers opened in the first quarter, we plan to open four additional facilities in the second quarter designed to improve our product availability throughout Mexico. We have developed a comprehensive training plan with our Mexican distributor leadership and are currently implementing an extensive training and compliance auditing program targeting our Nutrition Club DMO to promote distributor best practices that we believe will accelerate our Nutrition Club growth. On the business practice front, we have hired a new Ethics and Business Practices director and have 25 inspectors in the field conducting Nutrition Club visits and audits in 17 cities. In addition, TAB Team members have been asked to perform inspections of Nutrition Clubs operating in their organization and report their findings back to the Company in April 2007. All of these efforts should be largely completed by the end of the second quarter, at which time we believe that we will have successfully addressed and resolved the major issues.

Brazil

Net sales in Brazil decreased $2.2 million, or 6.2%, for the three months ended March 31, 2007, as compared to the same period of 2006. In local currency, net sales decreased 10.0% for the three months ended March 31, 2007, as compared to the same period of 2006. The fluctuation of foreign currency rates had a favorable impact of $1.3 million on net sales for the three months ended March 31, 2007.

The net sales decline in Brazil reflected the decrease in the recruiting rate of new supervisors and a more difficult than anticipated transition of existing distributors to the Customer Club DMO. Specifically, we have seen a decline in the business of those distributors who have recently adopted Customer Clubs as their primary method of operation. As these distributors become more familiar with the best practices associated with operating their Clubs and building a sustainable customer base, we expect their business to increase. Distributors operating clubs for over a year experienced a 15% increase in business during the quarter, compared to the same period in 2006. Also contributing to the sales decline was a drop in Outer Nutrition sales as distributors changed from the Daily Action Plan DMO to the adoption of other referral tools. In February we held an Extravaganza in Fortaleza Brazil which attracted 3,500 distributors and featured Customer Club training, re-launch and training for the Nourifusion skin care line and key Chairman s Club and President s Team training. We are also sponsoring the 2007 Trofeu Brasil de Triathlon championship with the first race in Santos held on March 18, 2007.

We believe that 2007 sales in Brazil will essentially be flat with 2006 as we continue to be challenged by many of the same issues we faced in the first quarter. In order to help mitigate these challenges, we will proactively address these issues with several initiatives including monthly conference calls with distributor leadership to strengthen current promotions and improve training for Customer Club concepts and rules, a new Nutrition Club manual incorporating new rules and procedures based on legal requirements in an effect to share best practices, Nutrition Club site visits and the introduction of audit processes and monitoring. We will also be launching a new product catalog and introducing new locally developed Outer Nutrition products at more affordable price points and providing NouriFusion samples as well as updating training materials for other commonly used DMO s.

South America and Southeast Asia

Net sales in South America and Southeast Asia increased $12.3 million, or 28.3%, for the three months ended March 31, 2007, as compared to the same period of 2006. In local currency, net sales increased 23.6% for the three months ended March 31, 2007, as compared to the same period of 2006. The fluctuation of foreign currency rates had a favorable impact of $2.0 million on net sales for the three months ended March 31, 2007. The overall increase was attributable mainly to net sales increases in Colombia, Argentina, Venezuela, Thailand and Malaysia, and the opening of Peru in December 2006 as a new market. In the first quarter of 2007, we held an extravaganza for the South America region in Bogota, Columbia, which was attended by over 11,000 distributors from more than 20 countries.

Colombia, Argentina, Venezuela, Thailand and Malaysia experienced sales increases of 94.1%, 26.5%, 168.1%, 52.4% and 29.9%, respectively, for the quarter ended March 31, 2007, as compared to the same period of 2006. This growth was the result of new supervisor growth and positive momentum from local events, including monthly Supervisor Training Schools, Malaysia s 1st Anniversary, Chile s 10th Anniversary celebrations, and Thailand s Kick-off Spectacular; sponsored activities such as the Beach Volleyball Tour in Australia and New Zealand; and several new product launches, including Herbalifeline in Colombia and Nourifusion in Malaysia.

We believe the 2007 sales in South America and Southeast Asia should continue to show positive year over year growth primarily as a result of continued momentum in Argentina and Venezuela, the opening of Peru, the

Table of Contents

planned opening of Paraguay in the fourth quarter of 2007, and the ability to respond more quickly to distributor and consumer needs as a result of the Realignment for Growth efforts.

EMEA

EMEA net sales increased $1.7 million, or 1.2%, for the three months ended March 31, 2007, as compared to the same period of 2006. In local currency, net sales decreased 5.5% for the three months ended March 31, 2007, as compared to the same period of 2006. The fluctuation of foreign currency rates had a favorable impact on net sales of $9.5 million for the three months ended March 31, 2007.

The net sales increase was primarily due to the favorable impact of foreign currency rates and continued growth in Portugal, Spain, France and Italy, which experienced sales increases of 37.3%, 18.1%, 8.4% and 6.9%, respectively. Germany and the Netherlands continued to experience decreases in net sales of 21.1% and 19.5%, respectively, for the quarter ended March 31, 2007, as compared to the same period of 2006.

The net sales increases in Portugal, Spain, France and Italy continued, primarily due to a well balanced performance across distributor retailing, recruiting and retention efforts, a united distributor leadership working closely with the local management, and a program focus on various Lead Generation DMO s. In addition, there has been an increasing emphasis on good health and nutrition in France and in Portugal, and leadership has restructured Distributor training to include DMOs such as Nutrition Clubs, Wellness Evaluation and Sampling activities.

The decline in Germany was primarily driven by the continued loss of momentum resulting in a decrease in supervisors, down 27.2% at March 31, 2007, as compared to the same period of 2006. In Germany, significant distributor training has been undertaken, concentrating on long term customers, Nutrition Clubs and wellness coaching DMO s.

The net sales decline in the Netherlands was primarily driven by lower recruiting of new distributors. A major media campaign was conducted in January 2007, including radio, newsprint, flyers and other advertising materials in conjunction with the Distributors to further support the market.

While progress is being made, the turnaround is expected to be slow in Germany and the Netherlands and net sales for 2007 are expected to be below the 2006 level for these countries.

We expect 2007 net sales in EMEA to be essentially flat when compared to 2006. We have identified several high-potential markets such as Russia and Poland for which we are developing initiatives along with our distributors to grow sales and we are increasing local branding activities. Throughout EMEA the local branding activities include sponsoring the London Triathlon, the Lisbon triathlon and Beach Volleyball World Tour in Portugal, the French Ironman Triathlon, the Madrid Triathlon and the Moscow Marathon, which are intended to continually improve our corporate and brand reputation in these markets. We are also enhancing distributor communication processes and training, and continuing to launch our newer products into more markets, most notably Liftoff^{tm}, which was introduced in 20 markets in EMEA in 2006 and the first quarter of 2007, and Cookies & Cream flavor of our top selling Formula 1 shake line.

Greater China

Greater China net sales increased $12.1 million, or 42.3%, for the three months ended March 31, 2007, as compared to the same period of 2006. In local currency, net sales increased 42.7% for the three months ended March 31, 2007, as compared to the same period of 2006. The fluctuation of foreign currency rates had an unfavorable impact of $0.1 million on net sales for the three months ended March 31, 2007. The overall increase in net sales was attributable to the sales increases in China and Taiwan, while Hong Kong continued to experience a decline in sales.

Net sales in China increased by $7.4 million, or 173.4%, for the three months ended March 31, 2007, as compared to the same period of 2006. Since March of 2005 we have opened 42 stores and 20 service centers in 31 provinces throughout China. On March 23, 2007, we received our Direct Sellers license for the cities of Suzhou and Nanjing in the Jiangsu province.

Table of Contents

Net sales in Taiwan increased $5.9 million, or 28.5%, for the three months ended March 31, 2007, as compared to the same period of 2006. The increase in net sales is primarily attributable to the refocus of local distributor leadership and some of their key members whose attention had temporarily shifted to the opening of Malaysia in 2006 and the emerging business opportunity in China.

Net sales in Hong Kong decreased $1.1 million, or 29.0%, for the three months ended March 31, 2007, as compared to the same period of 2006. The decline in net sales was primarily the result of a loss of momentum, attributable to the focus on the emerging opportunity in China, resulting in a decrease in supervisors, down 32.2% at March 31, 2007, as compared to March 31, 2006.

We believe the 2007 sales in Greater China should continue its positive year over year growth primarily as a result of the continued growth in Taiwan along with expansion of our business in China. We believe that the Direct Sellers licenses received in China in the first quarter of 2007 will foster sales growth in China over the long term.

North Asia

North Asia net sales decreased $0.9 million, or 2.5%, for the three months ended March 31, 2007, as compared to the same period of 2006. In local currency, net sales decreased 3.0% for the three months ended March 31, 2007, as compared to the same period of 2006. The fluctuation of foreign currency rates had a favorable impact of $0.2 million on net sales for the three months ended March 31, 2007.

Net sales in Japan decreased $2.9 million, or 12.8%, for the three months ended March 31, 2007, as compared to the same period of 2006. Continued competitive pressures from new companies entering the market and a decline in the recruiting of new supervisors were the primary reasons for the decline in sales. Although the full year retention rate decreased slightly compared to prior year, 48.9% versus 50.9%, the number of re-qualified supervisors remained approximately equal. We are currently running a Singapore Challenge promotion aimed at creating distributor excitement for the Summer Extravaganza to be held in Singapore later this year. The promotion runs through June 2007. We also held a Supervisor Spectacular event at the end of February 2007 which attracted 2,500 supervisors. We continue to be a sponsor of the Toray Tennis Tournament which was held January 30, 2007 through February 4, 2007 and attracted over 53,000 spectators.

Net sales in Korea increased $2.0 million, or 14.6%, for the three months ended March 31, 2007, as compared to the same period of 2006. We believe that a portion of the sales increase in Korea was the result of distributors buying ahead of an April 1, 2007 price increase and this may adversely affect sales in the second quarter of 2007. A Lift-Off promotion which ran from January 2007 through March 2007 was held to create excitement for the launch of Lift-Off in April 2007. In addition, a Korea Spectacular event was held in January which attracted 1,200 attendees.

We believe the 2007 sales in North Asia will be flat to slightly positive when compared to 2006 driven primarily by growth in Korea and a modest improvement in the rate of decline in Japan. We believe the current promotion running in Japan will provide incremental sales and reinvigorate our distributor leadership there. Korea will be launching Lift-Off in April 2007 and will be hosting a Leadership Training event in June 2007.

Sales by Product Category

	Three Months Ended March 31,		
	2006		2007
		Handling		Handling

	Retail Sales	Distributor Allowance	Product Sales	& Freight Income	Net Sales	Retail Sales	Distributor Allowance	Product Sales	& Freight Income	Net Sales	% Cha in N Sal
	(Dollars in millions)										
Management	$ 322.5	$ (159.0)	$ 163.5	$ 26.7	$ 190.2	$ 370.8	$ (182.0)	$ 188.8	$ 31.3	$ 220.1	1
ed Nutrition	340.2	(167.8)	172.4	28.2	200.6	377.3	(185.2)	192.1	31.9	224.0	1
Nutrition®	69.4	(34.2)	35.2	5.7	40.9	61.3	(30.1)	31.2	5.2	36.4	(1
ure, ional and	19.0	3.5	22.5	1.6	24.1	21.8	4.0	25.8	1.8	27.6	1
	$ 751.1	$ (357.5)	$ 393.6	$ 62.2	$ 455.8	$ 831.2	$ (393.3)	$ 437.9	$ 70.2	$ 508.1	1

24

Table of Contents

Our increased emphasis on the science of weight management and nutrition during the past two years has resulted in product introductions such as *Niteworks*tm and *Garden 7* tm, Best Defensetm and the introduction of *ShapeWorks*tm, a personalized meal replacement program. Due to the launch of these new products together with the continued positive sales momentum discussed above, net sales of weight management products and targeted nutrition products increased. The change of product mix due to various DMO s, as well as the change in country mix, resulted in a decrease in the sales of Outer Nutrition® products. With the introduction of new outer nutrition products like *NouriFusion*, and the increased use of the Total Plan by distributors in Brazil and worldwide, which uses outer nutrition® products as its foundation, we anticipate moderate sales growth in 2007. We expect growth rates within these categories will vary from time to time as we launch new products.

Gross Profit

Gross profit was $400.8 million for the three months ended March 31, 2007, as compared to $364.4 million in the same period of 2006. As a percentage of net sales, gross profit for the three months ended March 31, 2007 decreased slightly from 79.9% to 78.9%, as compared to the same period in 2006. The decrease in gross profit percentage in the first quarter of 2007 was primarily due to changes in country mix, foreign exchange fluctuations and higher freight and excise tax in certain countries. For the changes in country mix, there was an unfavorable impact to the overall gross profit percentage related to the increase in North America sales, which has a lower gross profit margin, as a percent of worldwide sales, and the decrease in EMEA sales, which has a higher gross profit margin, as a percent of worldwide sales. Generally, gross profit percentages do not vary significantly as a percentage of sales other than due to product or country mix, ongoing cost reduction initiatives and provisions for slow moving and obsolete inventory. Additionally, we believe that we have the ability to mitigate ingredient and manufacturing cost increases from our suppliers by raising the prices of our products or shifting product sourcing to alternative manufacturers.

Royalty Overrides

Royalty Overrides as a percentage of net sales were 35.5% for the three months ended March 31, 2007, as compared to 36.3% in the same period of 2006. The decrease for the quarter ended March 31, 2007 was primarily due to changes in the mix of products and countries, a lower Active World Team bonus and the increase in sales in China where compensation to our full-time sales representatives was included in Selling, General & Administrative Expenses instead of Royalty Overrides. 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 or in certain countries. Due to the structure of our global compensation plan, we do not expect to see significant fluctuations in Royalty Overrides as a percent of net sales.

Selling, General, & Administrative Expenses

Selling, General, & Administrative expenses as a percentage of net sales were 29.6% and 29.4% for the three months ended March 31, 2006 and March 31, 2007, respectively.

For the three months ended March 31, 2007, Selling, General & Administrative expenses increased $14.4 million to $149.4 million, from $135.0 million in the same period of 2006. The increase included $7.8 million in higher salaries and benefits due primarily to normal merit increases, severance related to the realignment for growth plan (discussed in Note 11 to our consolidated financial statements) and higher compensation costs associated with employee sales representatives in China; $1.9 million in higher expenses related to sales events and promotions; and $1.2 million in higher depreciation and amortization related mostly to expansion and relocation to new facilities. The increases were partially offset by $2.3 million in lower legal and litigations expenses and lower professional fees related to IT infrastructure development.

We expect 2007 Selling, General & Administrative expenses to increase in absolute dollars over 2006 levels reflecting general salary merit increases, continued investments in China and various sales growth initiatives including sales events and promotions, partially offset by labor savings in 2007, resulting from our Realignment for Growth plan initiated in 2006. As a result of these initiatives, we believe that Selling General & Administrative Expenses as a percentage of net sales should improve compared to 2006 levels.

Table of Contents

Net Interest Expense

Net interest expense was $2.2 million for the three months ended March 31, 2007, as compared to $6.0 million for the same period of 2006. The lower interest expense in 2007 was primarily due to the redemption in August 2006 of the outstanding $165.0 million aggregate principal amount of our 91/2% Notes due 2011, which bears a higher interest rate, and the lower balance of total long term borrowings.

Income Taxes

Income taxes were $27.7 million for the three months ended March 31, 2007, as compared to $19.4 million in the same period of 2006. As a percentage of pre-tax income, the effective income tax rate was 40.2% for the three months ended March 31, 2007, as compared to 33.4% in the same period of 2006. The increase in the effective tax rate for the three months ended March 31, 2007, as compared to the same period of 2006, was caused primarily by an increase in unrecognized tax benefits, i.e. income tax reserves, that are not related to the adoption of FIN 48 and the favorable settlement of the international tax audits in the first quarter of 2006, and was partially offset by a decrease in the operating effective tax rate in the first quarter of 2007, as compared to the same period in 2006. Excluding the effect of the increase in prior year unrecognized tax benefits, the effective tax rate would have been approximately 35.1% for the three months ended March 31, 2007.

Restructuring Reserve

In July 2006, we initiated a realignment of our employee base as part of our Realignment for Growth plan. We recorded $3.0 million of professional fees, severance and related costs in the preparation stage of the plan in the third quarter of 2006, $7.5 million of severance and related costs in the fourth quarter of 2006 and $1.5 million of severance and related costs in the first quarter of 2007. We expect to complete the realignment during 2007 and recognize an additional $0.3 million of related costs by the end of 2007.

Liquidity and Capital Resources

We have historically met our working capital and capital expenditure requirements, including funding for expansion of operations, through net cash flows provided by operating activities. Our principal source of liquidity is our operating cash flows. Variations in sales of our products would directly affect the availability of funds. There are no material restrictions on the ability to transfer and remit funds among our international affiliated companies.

For the three months ended March 31, 2007, we generated $46.1 million from operating cash flows, as compared to $43.7 million for the same period of 2006. The increase in cash generated from operations reflected an increase in operating income of $7.0 million, which was primarily driven by 11.5% growth in net sales, partially offset by higher royalty overrides and Selling, General and Administrative expenses.

Capital expenditures, including capital leases, for the three months ended March 31, 2007 were $9.1 million, as compared to $12.2 million for the same period in 2006. The majority of these expenditures represented investments in management information systems, the development of our direct-to-consumer platform, and the expansion of our facilities in China, Peru and Mexico. We expect to incur capital expenditures of up to $45.0 million in 2007.

We terminated our $225.0 million senior secured credit facility in July 2006 in connection with the debt refinancing. We repaid all amounts outstanding under that credit facility amounting to $79.6 million. Interest expense in the third quarter of 2006 includes $1.7 million of write-off of deferred financing cost. We entered into a $300.0 million senior secured credit facility with a syndicate of financial institutions as lenders in August 2006. The new credit facility is comprised of a $200.0 million term loan and a revolving credit facility of $100.0 million. 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% and the revolver bears interest at LIBOR plus a margin of 1.25%. We borrowed $200.0 million pursuant to the new term loan in August 2006 to fund the redemption of the outstanding $165.0 million aggregate principal amount of our 91/2% Notes due 2011. During 2006 we prepaid $20.0 million of our new term loan borrowings. In March 2007, we made another prepayment of $29.5 million. In July 2006, we also redeemed the outstanding $0.1 million principal amount of the 113/4% Notes due 2010.

Table of Contents

The following summarizes our contractual obligations including interest at March 31, 2007 and the effect such obligations are expected to have on our liquidity and cash flows in future periods:

	Payments Due by period						
	Total	2007	2008	2009	2010	2011	2012 & Thereafter
	(In millions)						
Senior Secured Term Loan	$ 212.8	$ 8.9	$ 11.8	$ 11.6	$ 11.5	$ 11.4	$ 157.6
Capital Leases	4.3	2.1	1.1	0.9	0.1	0.1	
Other debt	0.4	0.4					
Operating leases	122.3	17.7	18.4	16.2	13.0	11.6	45.4
Total	$ 339.8	$ 29.1	$ 31.3	$ 28.7	$ 24.6	$ 23.1	$ 203.0

As of March 31, 2007, we had positive working capital of $151.0 million. Cash and cash equivalents were $162.2 million at March 31, 2007, compared to $154.3 million at December 31, 2006.

We expect that cash and funds provided from operations and available borrowings under our new 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 the new term loan. There can be no assurance, however, that our business will service our debt or fund our other liquidity needs.

The majority of our purchases from suppliers are generally made in U.S. dollars, while sales to Herbalife distributors generally are made in local currencies. Consequently, strengthening of the U.S. dollar versus a foreign currency can have a negative impact on operating margins and can generate transaction losses on intercompany transactions. For discussion of our foreign exchange contracts and other hedging arrangements, see the quantitative and qualitative disclosures about market risks described below.

Whitney Offer

On February 2, 2007, our Board of Directors received a proposal from Whitney V L.P. and its affiliates to acquire all of our outstanding common shares for $38.00 per share in cash. Our Board of Directors established a special committee consisting solely of independent directors to review the proposal. On March 30, 2007, the special committee of the Board of Directors rejected the offer from Whitney V L.P. and thereafter, the Board of Directors disbanded the special committee

Subsequent Events

On April 18, 2007, we announced that our Board of Directors has authorized a program for the Company to repurchase up to $300 million of our common shares during the next two years, at such times and prices as determined by our management, as market conditions warrant. Additionally, our Board of Directors adopted a regular quarterly cash dividend program. As part of this program, we announced a $0.20 per share cash dividend for the first quarter 2007, payable on May 15, 2007 to shareholders of record on April 30, 2007.

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.

Herbalife International and certain of its independent distributors have been named as defendants in a purported class action lawsuit filed February 17, 2005, in the Superior Court of California, County of San Francisco, and served on Herbalife International on March 14, 2005 *(Minton v. Herbalife International, et al).* The case has been transferred to the Los Angeles County Superior Court. The plaintiff is challenging the marketing practices of certain Herbalife International independent distributors and Herbalife International under various state laws prohibiting endless chain schemes, insufficient disclosure in assisted marketing plans, unfair and deceptive business practices, and fraud and deceit. The plaintiff alleges that the Freedom Group system operated by certain independent distributors of Herbalife International products places too much emphasis on recruiting and encourages excessively large purchases of product and promotional materials by distributors. The plaintiff also alleges that Freedom Group pressured distributors to disseminate misleading promotional materials. The plaintiff seeks to hold Herbalife International vicariously liable for the actions of its independent distributors and is seeking damages and injunctive relief. The Company believes that it has meritorious defenses to the suit.

Herbalife International and certain of its distributors have been named as defendants in a class action lawsuit filed July 16, 2003, in the Circuit Court of Ohio County in the State of West Virginia *(Mey v. Herbalife International, Inc., et al).* The complaint alleges that certain telemarketing practices of certain Herbalife International distributors violate the Telephone Consumer Protection Act, or TCPA, and seeks to hold Herbalife International vicariously liable for the practices of its distributors. More specifically, the plaintiffs complaint alleges that several of Herbalife International s distributors used pre-recorded telephone messages to contact prospective customers in violation of the TCPA s prohibition of such practices. Herbalife International s distributors are independent contractors and if any such distributors in fact violated the TCPA they also violated Herbalife s policies which require its distributors to comply with all applicable federal, state and local laws. The Company believes that it has meritorious defenses to the suit.

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

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

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

Critical Accounting Policies

Our Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. We consider the following policies to be most critical in understanding the judgments that are involved in preparing the financial statements and the uncertainties that could impact our results of operations, financial condition and cash flows.

We are 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 Statement of Financial Accounting Standards, or SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. Our products are manufactured by third party providers and then sold to independent distributors who sell Herbalife products to retail consumers or other distributors.

We sell products in 64 countries throughout the world and we are organized and managed by geographic region. In the first quarter of 2003, we elected to aggregate our operating segments into one reporting segment, 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 products are sold to, the methods used to distribute the products, and the nature of the regulatory environment.

Revenue is recognized when products are shipped and title passes to the independent distributor or importer. Amounts billed for freight and handling costs are included in net sales. We generally receive the net sales price in cash or through credit card payments at the point of sale. Related royalty overrides and allowances for product returns are recorded when the merchandise is shipped.

Allowances for product returns primarily in connection with our buyback program are provided at the time the product is shipped. This accrual is based upon historic return rates for each country and the relevant return pattern, which reflects anticipated returns to be received over a period of up to 12 months following the original sale. Historically, product returns and buybacks have not been significant. Product returns and buybacks were approximately 0.9% and 0.9% for the three months ended March 31, 2006 and 2007, respectively. No material changes in estimates have been recognized for the three months ended March 31, 2006 and 2007.

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 $11.4 million and $12.2 million as of December 31, 2006 and March 31, 2007, respectively.

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

Goodwill and other intangibles not subject to amortization are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset s fair value. This determination is made at the reporting unit level and consists of two steps. First, the Company determines the fair value of a reporting unit and compares it to its carrying amount. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit s goodwill and other intangibles over the implied fair value. The implied fair value is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS No. 141, *Business Combinations.* The residual fair value after this allocation is the implied fair value of the reporting unit s goodwill and other intangibles. As of March 31, 2007, we had goodwill of approximately $113.0 million, and marketing franchise of $311.0 million. No impairment was needed for the three months ended March 31, 2006 and 2007. Goodwill was reduced in 2006 by approximately $21.0 million due primarily to the effect of the settlement of an international tax audit related to the pre-acquisition period and the realization of pre-acquisition net operating losses. Goodwill was reduced by $0.3 million in the first quarter of 2007 due primarily to change in pre-acquisition income tax reserve.

Contingencies are accounted for in accordance with SFAS No. 5, Accounting for Contingencies. SFAS No. 5 requires that we record an estimated loss from a loss contingency when information available prior to issuance of our financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Accounting for contingencies requires us to use judgment. Many of these contingencies can take years to be resolved. Generally, as

Table of Contents

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 recognized. The net operating loss carryforwards expire in varying amounts over a future period of time. Realization of the income tax carryforwards is dependent on generating sufficient taxable income prior to expiration of the carryforwards. Although realization is not assured, we believe it is more likely than not that the net carrying value of the income tax carryforwards will be realized. The amount of the income tax carryforwards that is considered realizable, however, could change if estimates of future taxable income during the carryforward period are adjusted.

We account for stock-based compensation in accordance with SFAS No. 123R, *Share-Based Payment.* 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 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 Herbalife s common stock and, due to the limited period of public trading data for its common stock, it is also validated against the volatility of a company peer group. The expected life of awards is based on observed historical exercise patterns, which can vary over time. As stock-based compensation expense recognized in the Statement of Income is based on awards ultimately expected to vest, the amount of expense has been reduced for estimated forfeitures. SFAS No. 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience.

We account for uncertain tax positions in accordance with FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, or FIN 48 an interpretation of SFAS No. 109. FIN 48 addressed the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company 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. The impact of the adoption of FIN 48 did not have a material impact on the results of operations, financial condition or liquidity.

New Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, or SFAS No. 159, which permits entities to choose to measure many financial instruments, and certain other items, at fair value. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 applies to reporting periods beginning after November 15, 2007. We are currently evaluating the impact, if any, of adopting SFAS No. 159.

In September 2006, the FASB issued No. 157, Fair Value Measurement, or SFAS No. 157, which defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact, if any, of adopting SFAS No. 157.

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.

Table of Contents

We have adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133, as amended and interpreted, established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair-value hedge, the changes in the fair value of the derivative and the underlying hedged item are recognized concurrently in earnings. If the derivative is designated as a cash-flow hedge, changes in the fair value of the derivative are recorded in other comprehensive income, or OCI, and are recognized in the statement of operations when the hedged item affects earnings. SFAS No. 133 defined new 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 enter into foreign exchange derivatives in the ordinary course of business primarily to reduce exposure to currency fluctuations attributable to inter-company transactions and foreign denominated revenue. All of these foreign exchange contracts are designated as free standing derivatives for which hedge accounting does not apply.

We purchase average rate put options, which give us the right, but not the obligation, to sell foreign currency at a specified exchange rate (strike rate). These contracts provide protection in the event that the foreign currency weakens beyond the option strike rate. We also enter into various forward extra contracts (a combination of a foreign forward exchange contract and an option), which provide protection against adverse market movement at a strike rate slightly worse than the forward and participate in favorable currency move up to a predetermined trigger level. We are only obliged to sell foreign currency at the strike rate when the spot exchange rate is traded at or above the trigger rate.

The following table provides information about the details of our option contracts:

Foreign Currency	Coverage (In millions)	Average Strike Price	Barrier	Fair Value (In millions)
Purchase Puts (Company may sell Euro/buy USD)				
Euro	$ 63.0	1.30 - 1.33	1.39 - 1.40	$ (0.6)
Purchase Puts (Company may sell real/buy USD)				
Brazilian real	$ 11.5	2.13 - 2.24	1.99	$ (0.4)
Purchase Puts (Company may sell won/buy USD)				
Korean won	$ 13.5	940.50 - 942.00	919.25 - 923.00	$ 0.0

Foreign exchange forward contracts are used to hedge advances between subsidiaries. The objective of these contracts is to neutralize the impact of foreign currency movements on the subsidiary s operating results. We also purchased ratio forward contract which protect against adverse market movement at a rate better than the current forward. The fair value of forward contracts is based on third-party bank quotes.

31

Table of Contents

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

Foreign Currency	Contract Rate	Original Notional Amount		Contract Value March 31, 2007		Fair Value March 31, 2007	
At March 31, 2007							
Buy USD sell YEN	112.25	$	2.3	$	2.3	$	
Buy USD sell YEN	113.45	$	4.5	$	4.6	$	0.1
Sell Euro buy USD	1.32	$	72.1	$	71.1	$	(1.0)
Buy BRL sell USD	2.08	$	5.3	$	5.3	$	
Buy DKK sell Euro	7.45	$	1.4	$	1.4	$	
Buy Euro sell GBP	0.68	$	0.9	$	0.9	$	
Sell MXN buy Euro	14.81	$	50.5	$	50.3	$	(0.2)
Buy Euro sell SEK	9.30	$	0.8	$	0.8	$	
Buy Euro sell USD	1.34	$	46.9	$	46.9	$	
Buy GBP sell Euro	0.68	$	3.5	$	3.5	$	
Buy INR sell USD	43.24	$	6.5	$	6.4	$	(0.1)
Buy KRW sell USD	940.05	$	4.2	$	4.2	$	
Buy MYR sell Euro	4.61	$	0.7	$	0.7	$	
Buy NOK sell Euro	8.10	$	2.0	$	2.0	$	
Buy NZD sell Euro	1.88	$	0.7	$	0.7	$	
Buy PLN sell Euro	3.88	$	1.4	$	1.4	$	
Buy SEK sell Euro	9.35	$	2.6	$	2.6	$	
Buy TWD sell Euro	43.62	$	4.9	$	4.9	$	
Sell Euro buy USD	1.34	$	27.6	$	27.5	$	(0.1)
Buy USD sell TRY	1.41	$	2.5	$	2.5	$	
Buy YEN sell Euro	155.50	$	17.7	$	17.5	$	(0.2)
Buy YEN sell USD	116.41	$	9.3	$	9.2	$	(0.1)
Total forward contracts		$	268.3	$	266.7	$	(1.6)

All our foreign subsidiaries, excluding those operating in hyper-inflationary environments, designate their local currencies as their functional currency. At March 31, 2007, the total amount of our foreign subsidiary cash was $162.2 million, of which $4.4 million was invested in U.S. dollars.

Interest Rate Risk

As of March 31, 2007, the aggregate annual maturities of the term loan obtained in July 2006 were: 2007-$1.1 million; 2008-$1.5 million; 2009-$1.5 million; 2010-$1.5 million; 2011-$1.5 million; and $142.4 million thereafter. The fair value of this loan approximates its carrying value of $149.5 million as of March 31, 2007. The term loan bears a variable interest rate. On March 31, 2007, the average interest rate was 6.82%.

On July 21, 2006, the interest rate swap agreement associated with the $225.0 million Credit Facility, originally entered into on February 21, 2005, was terminated due to our debt refinancing and interest income of $0.8 million was recorded in our consolidated statements of income for the quarter ended September 30, 2006. Under the new credit facility (see note 4), we are obligated to enter into an interest rate hedge for up to 25% of the aggregate principal amount of new term loan for a minimum of three years. On August 23, 2006, we entered into a new interest rate swap agreement. This agreement provides for us to pay interest for a three-year period at a fixed rate of 5.26% on the initial notional principal amount of $180.0 million while receiving interest for the same period at the LIBOR on the same notional principal amount. The swap has been designated as a cash flow hedge against the variability in LIBOR on the new term loan at LIBOR plus 1.50%, thereby fixing our effective rate on the notional principal amounts at 6.76%. At March 31, 2007, the notional principal amount was reduced to $130.0 million. As of

Table of Contents

March 31, 2007, we recorded the interest rate swap as a liability at fair value of $0.6 million with the offsetting amount recorded in other comprehensive income.

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 report. Based on such evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective as of March 31, 2007.

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-(f) under the Exchange Act) that occurred during the last fiscal quarter 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 to our filings with the Securities and Exchange Commission. Important factors that could cause our actual results, performance and achievements, or industry results to differ materially from estimates or projections contained in our forward-looking statements include, among others, the following:

- our relationship with, and our ability to influence the actions of, our distributors;
- adverse publicity associated with our products or network marketing organization;
- uncertainties relating to interpretation and enforcement of recently enacted legislation in China governing direct selling;
- risk of 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;
- risk of improper action by our employees or international distributors in violation of applicable law;
- changing consumer preferences and demands;

loss or departure of any member of our senior management team which could negatively impact our distributor relations and operating results;

the competitive nature of our business;

regulatory matters governing our products, including potential governmental or regulatory actions concerning the safety or efficacy of our products, and network marketing program including the direct selling market in which we operate;

Table of Contents

risks associated with operating internationally, including foreign exchange risks;

our dependence on increased penetration of existing markets;

contractual limitations on our ability to expand our business;

our reliance on our information technology infrastructure and outside manufacturers;

the sufficiency of trademarks and other intellectual property rights;

product concentration;

our reliance on our management team;

uncertainties relating to the application of transfer pricing, duties and similar tax regulations;

taxation relating to our distributors;

product liability claims; and

there can be no assurance that 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 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 are incorporated by reference speak only as of the date of those documents. We do not undertake any obligation to update or release any revisions to any forward-looking statement or to report any events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law.

PART II. OTHER INFORMATION

Item 1. *LEGAL PROCEEDINGS*

See discussion under Note 5 to the Notes to the Consolidated Financial Statements included in Item 1 of this report.

Item 1.a *RISK FACTORS*

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 over 1.5 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, 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 product, 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.

In light of the high year-over-year rate of turnover in our distributor base, we have our supervisors re-qualify annually in order to help us maintain a more accurate count of their numbers. For the latest twelve month re-qualification period ending January 2007, 42.5% of our supervisors re-qualified. Distributors who purchase our product for personal consumption or for short-term income goals may stay with us for several months to one year.

Table of Contents

Supervisors who have committed time and effort to build a sales organization will generally stay for longer periods. Distributors have highly variable levels of training, skills and capabilities. The turnover rate of our distributors, and our operating results, can be adversely impacted if we, and our senior distributor leadership, do not provide the necessary mentoring, training and business support tools for new distributors to become successful sales people in a short period of time.

We estimate that, of our over 1.5 million independent distributors, we had approximately 298,000 supervisors after re-qualification in February 2007. These supervisors, together with their downline sales organizations, account for substantially all of our revenues. Our distributors, including our supervisors, may voluntarily terminate their distributor agreements with us at any time. The loss of a group of leading supervisors, together with their downline sales organizations, or the loss of a significant number of distributors for any reason, could negatively impact sales of our products, impair our ability to attract new distributors and harm our financial condition and operating results.

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

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

Extensive federal, state and local laws regulate our business, our products and our 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. If any of these events occur, the value of an investment in our common shares could be impaired. For example, in *Mey v. Herbalife International, et al.*, the plaintiff seeks to hold the Company vicariously liable for actions of certain of its distributors, each of whom is an independent contractor. While the Company vigorously denies such distributors were acting as agents of the Company, and although the court specifically did not rule on the question of vicarious liability, on April 21, 2006 it did grant the plaintiff s motion to certify the case as a class action. We believe that we have meritorious defenses and will continue to vigorously defend this lawsuit.

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 our 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

Table of Contents

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 national 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. 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 negatively impact our reputation or the market demand for our products.

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.

Table of Contents

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 (generally $50 to $75) to become a Herbalife distributor, (2) we do not require any specific amount of time to work as a distributor, (3) we do not insist on any special training to be a distributor and (4) we do not prohibit a new distributor from working with another company. Our ability to remain competitive therefore depends, in significant part, on our success in recruiting and retaining distributors through an attractive compensation plan, the maintenance of an attractive product portfolio and other incentives. We cannot ensure that our programs for recruitment and retention of distributors will be successful, and if they are not, our financial condition and operating results would be harmed.

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

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

On April 12, 2006 the Federal Trade Commission, or the FTC, issued a notice of proposed rulemaking which, if implemented, will regulate all sellers of business opportunities in the United States. The proposed rule would, among other things, require all sellers of business opportunities, which would likely include the Company, to (i) implement a seven day waiting period before entering into an agreement with a prospective business opportunity purchaser, and (ii) provide all prospective business opportunity purchasers with substantial information in writing at the beginning of the waiting period regarding the business opportunity, including information relating to: representations made as to the earnings experience of other business opportunity purchasers, the names and telephone numbers of recent purchasers in their geographic area, cancellation or refund policies and requests within the prior two years, certain legal actions against the company, its affiliated companies and company officers, directors, sales managers and certain others. The Company, other direct selling companies, the Direct Selling Association, or the DSA, and other interested parties have filed over 17,000 comments with the FTC that are publicly available regarding the proposed rule through the FTC s website at http://www.ftc.gov/os/comments/businessopprule/index.htm. The Company, the DSA, other direct selling companies, and other interested parties also filed rebuttal comments with the FTC in September, 2006. Based on information currently available, we anticipate that the final rule may require several years to become final and effective, and may differ substantially from the rule as originally proposed. Nevertheless the proposed rule, if implemented in its original form, would negatively impact our U.S. business.

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. 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 March 7, 2003, the U.S. Food and Drug Administration, or the FDA, proposed a new regulation to require current Good Manufacturing Practices, or cGMPs, affecting the manufacture, packing, and holding of dietary supplements. The proposed regulation would establish standards to ensure that dietary supplements and dietary ingredients are not adulterated with contaminants or impurities, and are labeled to accurately reflect the active ingredients and other ingredients in the products. It also includes proposed requirements for designing and constructing physical plants, establishing quality control procedures, and testing manufactured dietary ingredients and dietary supplements, as well as proposed requirements for maintaining records and for handling consumer complaints related to cGMPs. We are evaluating this proposal with respect to its potential impact upon the various contract manufacturers that we use to manufacture our products, some of whom might not meet the new standards. It is important to note that the proposed regulation, in an effort to limit disruption, includes a three-year phase-in for small businesses of any final regulation that is issued. At such time as the FDA issues the final cGMP regulation we expect that some of our smaller contract manufacturers will not be fully impacted by the proposed regulation for up to three years. However, the proposed regulation can be expected to result in additional costs and possibly the need 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 Federal Trade Commission and various state agencies in the United States as well as regulations on direct selling in foreign markets administered by foreign agencies. We are subject to the risk that, in one or more markets, our network marketing program could be found not to be in compliance with applicable law or regulations. Regulations applicable to network marketing organizations generally are directed at preventing fraudulent or deceptive schemes, often referred to as pyramid or chain sales schemes, by ensuring that product sales ultimately are made to consumers and that advancement within an organization is based on sales of the organization s products rather than investments in the organization or other non-retail sales-related criteria. The regulatory requirements concerning network marketing programs do not include bright line rules and are inherently fact-based, and thus, even in jurisdictions where we believe that our network marketing program is in full compliance with applicable laws or regulations governing network marketing systems, we are subject to the risk that these laws or regulations or the enforcement or interpretation of these laws and regulations by governmental agencies or courts can change. The failure of our network marketing program to comply with current or newly adopted regulations could negatively impact our business in a particular market or in general.

We are also subject to the risk of private party challenges to the legality of our network marketing program. The multi-level marketing programs of other companies have been successfully challenged in the past, and in a current lawsuit, allegations have been made challenging the legality of our network marketing program in Belgium. Test Ankoop-Test Achat, a Belgian consumer protection organization, sued Herbalife International Belgium, S.V., or HIB, on August 26, 2004, alleging that HIB violated Article 84 of the Belgian Fair Trade Practices Act by engaging in pyramid selling, *i.e.*, establishing a network of professional or non-professional sales people who hope to make a profit more through the expansion of that network than through the sale of products to end-consumers. The plaintiff is seeking a payment of 25,000 (equal to approximately $33,000 as of March 31, 2007) per purported violation as well as costs of the trial. For the year ended December 31, 2006, our net sales in Belgium were approximately $14.4 million. Currently, the lawsuit is in the pleading stage. The plaintiffs filed their initial brief on September 27, 2006. We filed a reply brief on May 9, 2006. 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.

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 82% of our net sales for the year ended December 31, 2006, 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.

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 we use elsewhere in the world.

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

In August 2005, China published regulations governing direct selling (effective December 1, 2005) and prohibiting pyramid promotional schemes (effective November 1, 2005), and a number of administrative methods and proclamations were issued in September 2005 and in September 2006. These regulations require us to use a business model different from that which we offer in other markets. To allow us to operate under these regulations, we have created and introduced a model specifically for China. In China, we have Company-operated retail stores that sell through employed sales management personnel to customers and preferred customers. We provide training and certification procedures for sales personnel in China. We also have non-employee sales representatives who sell through our retail stores. Our sales representatives are also permitted by the terms of our direct selling license to sell away from fixed retail locations in two cities, Suzhou and Nanjing. 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, others 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.

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.

As we expand operations in China, we anticipate that certain distributors will switch their focus from their home markets to that of China. As a result, we may see reduced distributor focus in Hong Kong, Taiwan and possibly other of our markets as Chinese nationals that are distributors shift their attention to China, and a resultant reduction in distributor growth, leadership and revenue in these other countries.

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 in which we compete 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. 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 international markets, such as Mexico, 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. Thus, if we are unable to continue to expand into new markets or further penetrate existing markets, our operating results would suffer and the market value of our common shares could decline.

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.

In connection with the going private transaction of our predecessor company, we entered into an agreement with our distributors that provided assurances that the change in ownership of our Company would not negatively affect certain aspects of their business. Through this agreement, we have 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 ongoing or 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, and the potential of growth in the value of your investment in our common shares, 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 timely provide products to our distributors and their customers, and services to our distributors, depends on the integrity of our information technology system, which we are in the process of upgrading, including the reliability of software and services supplied by our vendors. We are implementing an Oracle enterprise-wide technology solution, a scalable and stable open architecture platform, to enhance our and our distributors efficiency and productivity. In addition, we are upgrading our internet-based marketing and distributor services platform, *MyHerbalife.com.*

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 negative 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 our products, if these third parties fail to reliably supply products to us at required levels of quality, then our financial condition and operating results would be harmed.

All of our products are manufactured by outside companies, except for a small amount of products manufactured in our own manufacturing facility in China. 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, especially after the FDA imposes cGMP regulations.

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, PharmaChem Labs for teas and *Niteworks*tm and JB Labs for fiber. 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.

Table of Contents

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.

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 and attempt to monitor our distributors marketing materials, we cannot ensure that all such materials comply with 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 responsible 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 our 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

Table of Contents

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 recently settled lawsuit Unither Pharma, Inc. and others had alleged that sales by Herbalife International of (1) its *Niteworks*tm and Prelox Blue products and (2) its former products Woman s Advantage with DHEA and Optimum Performance infringed on patents that are licensed to or owned by those parties. Although we do not believe that we are infringing on any third party intellectual property rights, 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 22.0%, 27.0% and 28.4% of retail sales for the fiscal years ended December 31, 2004, 2005 and 2006, respectively. If consumer demand for this product decreases significantly or we cease offering this product without a suitable replacement, then our financial condition and operating results would be harmed.

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

We depend on the continued services of our Chief Executive Officer, Michael O. Johnson, and our current senior management team and the relationships that they have developed with our senior distributor leadership, especially in light of the high level of turnover in our former senior management team, and the resulting need to reestablish good working relationships with our senior distributor leadership after the death of our founder in May 2000. Although we have entered into employment agreements with many 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 negatively impact our distributor relations and operating results. If any of these executives do not remain with us, our business could suffer. The loss of key personnel, including our regional managers in Mexico and Central America, Greater China, Brazil, North America, South America and Southeast Asia, EMEA, and North Asia, 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;
- allow the imposition of 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, which the lenders thereunder could proceed to foreclose against.

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

As a multinational corporation, in many countries including the United States we are subject to transfer pricing and other tax regulations designed to ensure that our intercompany transactions are consummated at prices that have not been manipulated to produce a desired tax result, that appropriate levels of income are reported as earned by our United States or local entities, and that we are taxed appropriately on such transactions. In addition, our operations are subject to regulations designed to ensure that appropriate levels of customs duties are assessed on the importation of our products. We are currently subject to pending or proposed audits that are at various levels of review, assessment or appeal in a number of jurisdictions involving transfer pricing issues, income taxes, customs duties, value added taxes, withholding taxes, sales and use and other taxes and related interest and penalties in material amounts. In some circumstances, additional taxes, interest and penalties have been assessed and we will be required to pay the assessments or litigate to reverse the assessments. 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. 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.

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 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 herbs, vitamins and minerals 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 innovative ingredients that do not have long histories of human consumption. We generally do not conduct or sponsor clinical studies for our products and 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

Table of Contents

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.

One of our shareholders exerts significant influence over us and has the power to significantly influence the approval or rejection of all shareholder actions and may take actions that conflict with your interests.

As of April 20, 2007, affiliates of Whitney & Co., LLC own approximately 25.9% of the voting power of our share capital. Whitney & Co., LLC has the power to exert significant influence over us and the approval or rejection of any matter on which our shareholders may vote, including the election of directors, amendment of our memorandum and articles of association and approval of significant corporate transactions as well as our management and policies. This influence over corporate actions may also delay, deter or prevent transactions that would result in a change of control not involving Whitney & Co., LLC. Moreover, Whitney & Co., LLC may have interests that conflict with yours.

We are subject to, among other things, requirements regarding the effectiveness of internal control 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 results of operations.

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 Securities and Exchange Commission, 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 report on Form 10-K for the year ended December 31, 2006, 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. At the time of the filing of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, one such investigation was pending. This investigation concerned certain activities related to one of our foreign subsidiaries and related matters, and involved possible violations of applicable law. The then pending review of this investigation necessitated our filing of a request for extension on Form 12b-25 with the SEC. This investigation has now been completed, and the Audit Committee of our Board of Directors has adopted, and we have begun to implement, a remediation plan in response to the related findings. We believe the results of this investigation will not have a material adverse effect on our financial condition or results of 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 results of operations.

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, and by the Companies Law (2004 Revision) 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, directors or controlling shareholders 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.

Unlike many jurisdictions in the United States, Cayman Islands law does not specifically provide for shareholder appraisal rights on a merger or consolidation of a company. This may make it more difficult for shareholders to assess the value of any consideration they may receive in a merger or consolidation or to require that the offer give shareholders additional consideration if they believe the consideration offered is insufficient.

Shareholders of Cayman Islands exempted companies such as ourselves 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.

Subject to limited exceptions, under Cayman Islands law, a minority shareholder may not bring a derivative action against the board of directors. Maples and Calder, our Cayman Islands counsel, has informed us that they are not aware of any reported class action or derivative action having been brought in a Cayman Islands court.

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 adversely affect the value of our common shares and provide shareholders with less input into the management of the Company than they might otherwise have.

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.

Table of Contents

Unlike many jurisdictions in the United States, Cayman Islands law does not provide for mergers as that expression is understood under corporate law in the United States. However, Cayman Islands law does have statutory provisions that provide for the reconstruction and amalgamation of companies, which 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 each class of shareholders, in each case, by a majority of the number of holders of each class of a company s shares that are present and voting (either in person or by proxy) at such a meeting, which holders must also represent 75% in value of such class issued that are present and voting (either in person or by proxy) at such meeting (excluding the shares owned by the parties to the scheme of arrangement).

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 have a material adverse effect on the creditors interests. Furthermore, the Grand 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 have been fairly represented at the meeting in question;
- the scheme of arrangement is such as a businessman would reasonably approve; and
- the scheme or arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

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 (a) 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 (b) 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***

None.

Table of Contents

Item 3. ***DEFAULTS UPON SENIOR SECURITIES***

None.

Item 4. ***SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS***

None.

Item 5. ***OTHER INFORMATION***

(a) None.

(b) None.

Item 6. ***EXHIBITS***

(a) Exhibit Index:

EXHIBIT INDEX

Exhibit Number	Description	Reference
2.1	Agreement and Plan of Merger, dated April 10, 2002, by and among Herbalife International, Inc., WH Holdings (Cayman Islands) Ltd. and WH Acquisition Corp.	(a)
3.1	Form of Amended and Restated Memorandum and Articles of Association of Herbalife Ltd.	(d)
4.1	Form of Share Certificate	(d)
9.1	Shareholders 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, CCG AV, LLC-Series E, and certain other persons	(a)
10.1	Form of Indemnity Agreement between Herbalife International Inc. and certain officers and directors of Herbalife International Inc.	(a)
10.2	Office lease agreement between Herbalife International of America Inc. and State Teacher s Retirement System, dated July 11, 1995	(a)
10.3#	Herbalife International of America, Inc. s Senior Executive Deferred Compensation Plan, effective January 1, 1996, as amended	(a)
10.4#	Herbalife International of America, Inc. s Management Deferred Compensation Plan, effective January 1, 1996, as amended	(a)
10.5	Master Trust Agreement between Herbalife International of America, Inc. and Imperial Trust Company, Inc., effective January 1, 1996	(a)
10.6#	Herbalife International Inc. 401K Profit Sharing Plan and Trust, as amended	(a)
10.7	Trust Agreement for Herbalife 2001 Executive Retention Plan, effective March 15, 2001	(a)
10.8#	Herbalife 2001 Executive Retention Plan, effective March 15, 2001	(a)
10.9		(a)

	Purchase Agreement, dated as of June 21, 2002, by and among WH Acquisition Corp., Herbalife International, Inc., WH Intermediate Holdings Ltd., WH Luxembourg Holdings SàRL, WH Luxembourg Intermediate Holdings SàRL, WH Luxembourg CM SàRL and UBS Warburg LLC	
10.10	Registration Rights Agreement, dated as of June 27, 2002, by and among WH Acquisition Corp., WH Intermediate Holdings Ltd., WH Luxembourg Holdings SàRL, WH Luxembourg Intermediate Holdings SàRL, WH Luxembourg CM SàRL and UBS Warburg LLC	(a)
10.11	Notice to Distributors regarding Amendment to Agreements of Distributorship, dated as of July 18, 2002 between Herbalife International, Inc. and each Herbalife Distributor	(a)

Table of Contents

Exhibit Number	Description	Reference
10.12	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)
10.13#	Independent Director s Stock Option Plan of WH Holdings (Cayman Islands) Ltd.	(a)
10.14#	Employment Agreement dated as of March 10, 2003 between Carol Hannah and Herbalife International, Inc. and Herbalife International of America, Inc.	(a)
10.15#	Non-Statutory Stock Option Agreement, dated as of March 10, 2003 between WH Holdings (Cayman Islands) Ltd. and Brian Kane	(a)
10.16#	Non-Statutory Stock Option Agreement, dated as of March 10, 2003 between WH Holdings (Cayman Islands) Ltd. and Carol Hannah	(a)
10.17#	WH Holdings (Cayman Islands) Ltd. Stock Incentive Plan, as restated, dated as of November 5, 2003	(a)
10.18#	Side Letter Agreement dated as of March 10, 2003 by and among WH Holdings (Cayman Islands) Ltd., Brian Kane and Carol Hannah and the Shareholders listed therein	(a)
10.19#	Employment Agreement dated as of April 3, 2003 between Michael O. Johnson and Herbalife International, Inc. and Herbalife International of America, Inc.	(a)
10.20#	Non-Statutory Stock Option Agreement, dated as of April 3, 2003 between WH Holdings (Cayman Islands) Ltd. and Michael O. Johnson	(a)
10.21#	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)
10.22#	Form of Non-Statutory Stock Option Agreement (Non-Executive Agreement)	(a)
10.23#	Form of Non-Statutory Stock Option Agreement (Executive Agreement)	(a)
10.24	Indemnity Agreement, dated as of February 9, 2004, among WH Capital Corporation and Gregory Probert	(a)
10.25	Indemnity Agreement, dated as of February 9, 2004, among WH Capital Corporation and Brett R. Chapman	(a)
10.26	Stock Subscription Agreement of WH Capital Corporation, dated as of February 9, 2004, between WH Capital Corporation and WH Holdings (Cayman Islands) Ltd.	(a)
10.27	First Amendment to Amended and Restated WH Holdings (Cayman Islands) Ltd. Stock Incentive Plan, dated November 5, 2003	(a)
10.28#	Separation Agreement and General Release dated May 1, 2004, among Herbalife International, Inc., Herbalife International of America, Inc. and Carol Hannah	(a)
10.29#	Consulting Agreement dated May 1, 2004 among Herbalife International of America, Inc. and Carol Hannah	(a)
10.30	Purchase Agreement, dated March 3, 2004, by and among WH Holdings (Cayman Islands) Ltd., WH Capital Corporation and UBS Securities LLC	(a)
10.31	Registration Rights Agreement, dated as of July 31, 2002, by and among WH Holdings (Cayman Islands) Ltd., Whitney V, L.P., Whitney Strategic Partners V, L.P., WH Investments Ltd., CCG Investments (BVI), L.P., CCG Associates-QP, LLC, CCG Associates-AI, LLC, CCG Investment Fund-AI, L.P., CCG AV, LLC-Series C and CCG AV, LLC-Series E.	(b)
10.32		(b)

	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.	
10.33	Form of Indemnification Agreement between Herbalife Ltd. and the directors and certain officers of Herbalife Ltd.	(c)

Exhibit Number	Description	Reference
10.34#	Herbalife Ltd. 2004 Stock Incentive Plan, effective December 1, 2004	(c)
10.35	Termination Agreement, dated as of December 1, 2004, between Herbalife Ltd., Herbalife International, Inc. and Whitney & Co., LLC.	(d)
10.36	Termination Agreement, dated as of December 1, 2004, between Herbalife Ltd., Herbalife International Inc. and GGC Administration, L.L.C.	(d)
10.37	Termination Agreement, dated as of December 13, 2004, by and among Herbalife Ltd., 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 and CCG CI, LLC.	(d)
10.38	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)
10.39#	Amendment No. 1 to Herbalife Ltd. 2004 Stock Incentive Plan	(e)
10.40#	Form of Stock Bonus Award Agreement	(e)
10.41#	Contract for Services of a Consultant between Herbalife International Luxembourg S.á.R.L. and Brian Kane dated as of October 18, 2004	(f)
10.42#	Compromise Agreement between Herbalife International Luxembourg S.á.R.L. and Brian Kane dated as of October 18, 2004	(f)
10.43#	Employment Agreement Effective as of January 1, 2005 between Herbalife Ltd. and Henry Burdick	(g)
10.44#	Form of 2004 Herbalife Ltd. 2004 Stock Incentive Plan Stock Option Agreement	(h)
10.45#	Form of 2004 Herbalife Ltd. 2004 Stock Incentive Plan Non-Employee Director Stock Option Agreement	(h)
10.46	Service Agreement by and between Herbalife Europe Limited and Wynne Roberts ESQ, dated as of September 6, 2005.	(i)
10.47#	Amendment to employment agreement between Michael O. Johnson and Herbalife International, Inc. and Herbalife International of America, Inc., dated May 15, 2005.	(j)
10.48#	Independent Directors Deferred Compensation and Stock Unit Plan	(k)
10.49#	Independent Directors Stock Unit Award Agreement	(k)
10.50#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement	(l)
10.51#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement	(l)
10.52#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Mr. Michael O. Johnson	(m)
10.53#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Mr. Michael O. Johnson	(m)
10.54#	Amendment to Herbalife Ltd. Independent Directors Deferred Compensation and Stock Unit Plan	(n)
10.55#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Messrs. Gregory Probert, Brett R. Chapman and Richard Goudis	(o)
10.56#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Messrs. Gregory Probert, Brett R. Chapman and Richard Goudis	(o)
10.57#		(p)

	Amended and restated employment agreement effective April 17, 2006 between Herbalife International of America, Inc. and Paul Noack	
10.58#	Summary of Board Committee Compensation	(q)

51

Exhibit Number	Description	Reference
10.59	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 Corporationa, 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.	(r)
10.60	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 Lusembourg 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.	(r)
10.61#	Amended and Restated Independent Directors Deferred Compensation and Stock Unit Plan	(r)
10.62#	Employment Agreement by and between Herbalife Ltd. and Gregory L. Probert dated October 10, 2006	(s)
10.63#	Employment Agreement by and between Herbalife Ltd. and Brett R. Chapman dated October 10, 2006	(s)
10.64#	Stock Unit Agreement by and between Herbalife Ltd. and Gregory L. Probert dated October 10, 2006	(s)
10.65#	Stock Unit Agreement by and between Herbalife Ltd. and Brett R. Chapman dated October 10, 2006	(s)
10.66#	Second Amendment dated October 10, 2006, to Stock Option Agreement by and between Herbalife Ltd. and Gregory L. Probert dated July 31, 2003	(s)
10.67#	Amendment dated October 10, 2006, to Stock Option Agreement by and between Herbalife Ltd. and Gregory L. Probert dated September 1, 2004	(s)
10.68#	Amendment dated October 10, 2006, to Stock Option Agreement by and between Herbalife Ltd. and Gregory L. Probert dated December 1, 2004	(s)
10.69#	Amendment dated October 10, 2006, to Stock Option Agreement by and between Herbalife Ltd. and Gregory L. Probert dated April 27, 2005	(s)
10.70#	Second Amendment dated October 10, 2006, to Stock Option Agreement by and between Herbalife Ltd. and Gregory L. Probert dated October 6, 2003	(s)
10.71#	Amendment dated October 10, 2006, to Stock Option Agreement by and between Herbalife Ltd. and Brett R. Chapman dated September 1, 2004	(s)
10.72#	Amendment dated October 10, 2006, to Stock Option Agreement by and between Herbalife Ltd. and Brett R. Chapman dated December 1, 2004	(s)
10.73#	Amendment dated October 10, 2006, to Stock Option Agreement by and between Herbalife Ltd. and Brett R. Chapman dated April 27, 2005	(s)
10.74#	Employment Agreement by and between Herbalife Ltd. and Richard P. Goudis dated October 24, 2006	(t)
10.75#	Stock Unit Agreement by and between Herbalife Ltd. and Richard P. Goudis dated October 24, 2006	(t)
10.76#	Amendment dated October 24, 2006, to Stock Option Agreement by and between Herbalife Ltd. and Richard P. Goudis dated June 14, 2004	(t)

10.77#	Amendment dated October 24, 2006, to Stock Option Agreement by and between Herbalife Ltd. and Richard P. Goudis dated September 1, 2004	(t)
10.78#	Amendment dated October 24, 2006, to Stock Option Agreement by and between Herbalife Ltd. and Richard P. Goudis dated December 1, 2004	(t)

Exhibit Number	Description	Reference
10.79#	Amendment dated October 24, 2006, to Stock Option Agreement by and between Herbalife Ltd. and Richard P. Goudis dated April 27, 2005	(t)
10.80#	Amendment dated March 26, 2007, to Employment Agreement by and between Herbalife Ltd. and Michael O. Johnson dated April 3, 2003	*
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 March 14, 2005 as an Exhibit to the Company s Annual Report on Form 10-K for the year ended December 31, 2004 and is incorporated herein by reference.

(g) Previously filed on May 13, 2005 as an Exhibit to the Company s Current Report on Form 8-K and is incorporated herein by reference.

(h) Previously filed on June 14, 2005 as an Exhibit to the Company s Current Report on Form 8-K and is incorporated herein by reference.

(i) Previously filed on September 23, 2005 as an Exhibit to the Company s Current Report on Form 8-K and is incorporated herein by reference.

(j) Previously filed on August 3, 2005 as an Exhibit to the Company s current Report on Form 10Q for the quarter ended June 30, 2005 and is incorporated herein by reference.

(k) 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.

(l) 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.

(m) 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.

(n) Previously filed on March 30, 2006 as an Exhibit to the Company s Current Report on Form 8-K and is incorporated herein by reference.

(o) 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.

(p) Previously filed on May 3, 2006 as an Exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 and is incorporated herein by reference.

(q) Previously filed on May 5, 2006 as an Exhibit to the Company s Current Report on Form 8-K and is incorporated herein by reference.

(r) 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.

(s) 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.

(t) 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.

Table of Contents

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/ Richard Goudis

Richard Goudis
Chief Financial Officer

Dated: May 1, 2007

55