

HERBALIFE LTD.
Form 10-K
February 21, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

FOR ANNUAL AND TRANSITION REPORTS

PURSUANT TO SECTIONS 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended December 31, 2011

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

For the transition period from to

Commission file number: 1-32381

HERBALIFE LTD.

(Exact Name of Registrant as Specified in Its Charter)

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Cayman Islands
(State or Other Jurisdiction of

98-0377871
(I.R.S. Employer

Incorporation or Organization)
P.O. Box 309GT

Identification No.)
(Zip Code)

Ugland House, South Church Street

Grand Cayman, Cayman Islands
(Address of Principal Executive Offices)

(213) 745-0500

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class
Common Shares, par value \$0.001 per share

Name of Each Exchange on Which Registered
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

There were 116,273,652 common shares outstanding as of February 15, 2012. The aggregate market value of the Registrant's common shares held by non-affiliates was approximately \$5,688 million as of June 30, 2011, based upon the last reported sales price on the New York Stock

Exchange on that date of \$57.64.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant's fiscal year ended December 31, 2011, are incorporated by reference in Part III of this Annual Report on Form 10-K.

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FORWARD-LOOKING STATEMENTS

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

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

any collateral impact resulting from the ongoing worldwide financial crisis, including the availability of liquidity to us, our customers and our suppliers or the willingness of our customers to purchase products in a difficult economic environment;

our relationship with, and our ability to influence the actions of, our distributors;

improper action by our employees or distributors in violation of applicable law;

adverse publicity associated with our products or network marketing organization;

changing consumer preferences and demands;

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

the competitive nature of our business;

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

legal challenges to our network marketing program;

risks associated with operating internationally and the effect of economic factors, including foreign exchange, inflation, disruptions or conflicts with our third party importers, pricing and currency devaluation risks, especially in countries such as Venezuela;

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uncertainties relating to the application of transfer pricing, duties, value added taxes, and other tax regulations, and changes thereto;

uncertainties relating to interpretation and enforcement of legislation in China governing direct selling;

our inability to obtain the necessary licenses to expand our direct selling business in China;

adverse changes in the Chinese economy, Chinese legal system or Chinese governmental policies;

our dependence on increased penetration of existing markets;

contractual limitations on our ability to expand our business;

our reliance on our information technology infrastructure and outside manufacturers;

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the sufficiency of trademarks and other intellectual property rights;

product concentration;

changes in tax laws, treaties or regulations, or their interpretation;

taxation relating to our distributors;

product liability claims; and

whether we will purchase any of our shares in the open markets or otherwise.

Additional factors that could cause actual results to differ materially from our forward-looking statements are set forth in this Annual Report on Form 10-K, including under the heading Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations and in our Consolidated Financial Statements and the related Notes.

Forward-looking statements in this Annual Report on Form 10-K speak only as of the date hereof, and forward-looking statements in documents attached that are incorporated by reference speak only as of the date of those documents. We do not undertake any obligation to update or release any revisions to any forward-looking statement or to report any events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law.

The Company

Unless otherwise noted, the terms we, our, us, Company and Herbalife refer to Herbalife Ltd. and its subsidiaries. Herbalife is a holding company, with substantially all of its assets consisting of the capital stock of its indirect, wholly-owned subsidiary, Herbalife International.

PART I

**Item 1. BUSINESS
GENERAL**

We are a global network marketing company that sells weight management, nutritional supplement, energy, sports & fitness products and personal care products. We were founded in 1980 by Mark Hughes. We pursue our mission of changing people's lives by providing a financially rewarding business opportunity to distributors and quality products to distributors and customers who seek a healthy lifestyle. We are one of the largest network marketing companies in the world with net sales of approximately \$3.5 billion for the fiscal year ended December 31, 2011. As of December 31, 2011, we sold our products in 79 countries through a network of approximately 2.7 million independent distributors. In China, in order to comply with local laws and regulations, we sell our products through retail stores, sales representatives, sales officers and independent service providers. Independent service providers operate their own business under Chinese law as well as the conditions set forth by us to sell products and provide services to our customers. We believe the quality of our products and the effectiveness of our distribution network, coupled with geographic expansion, and actively engaged distributors, have been the primary reasons for our success throughout our 32-year operating history.

We offer science-based products in four principal categories: weight management, targeted nutrition, energy, sports & fitness and Outer Nutrition. Weight management, targeted nutrition, energy, sports & fitness and Outer Nutrition accounted for 62.5%, 22.8%, 4.9% and 4.3% of our net sales in fiscal year 2011, respectively. The weight management product portfolio includes meal replacement shakes, weight-loss enhancers, appetite suppressors and a variety of healthy snacks. Our collection of targeted nutrition products includes dietary supplements which contain vitamins, minerals and natural ingredients that support total well-being and long-term good health. The energy, sports & fitness category includes energy and isotonic drinks as well as the Herbalife24 line of products to support a healthy active lifestyle. Our Outer Nutrition products

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include skin cleansers, moisturizers and lotions with antioxidants, as well as anti-aging products.

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We believe that the direct-selling channel is ideally suited to marketing our products because sales of weight management, nutrition and personal care products are strengthened by ongoing personal contact and education between retail consumers and their distributors. This personal contact can enhance consumers' nutritional and health education as well as motivate consumers to begin and maintain wellness and weight management programs. In addition, our distributors use our products themselves, and can therefore provide first-hand testimonials of the effectiveness of our products to consumers, which often serve as a powerful sales tool.

We are focused on building and maintaining our distributor network by offering financially rewarding and flexible career opportunities through sales of quality, innovative and efficacious products to health conscious consumers. We believe the income opportunity provided by our network marketing program appeals to a broad cross-section of people throughout the world, particularly those seeking to supplement family income, start a home business or pursue entrepreneurial, full or part-time employment opportunities. Our distributors, who are independent contractors, can profit from selling our products and can also earn royalties and bonuses on sales made by the other distributors whom they recruit to join their sales organizations.

We enable distributors to maximize their potential by providing a broad array of motivational, educational and support services. We motivate our distributors through our performance-based compensation plan, individual recognition, reward programs and promotions, and participation in local, national and international Company-sponsored sales events such as Extravaganzas. We provide educational materials that our distributors can use to enhance recruitment and maximize their sales. We and our distributor leadership conduct thousands of training sessions each year throughout the world to educate and motivate our distributors. These training events teach our distributors not only how to develop invaluable business-building and leadership skills, but also how to differentiate our products to consumers. Our corporate-sponsored training events provide a forum for distributors, who otherwise operate independently, to share ideas with us and each other. In addition, we operate an Internet-based Herbalife Broadcasting Network, which delivers worldwide, educational, motivational and inspirational content, including addresses from our Chief Executive Officer, to our distributors. We further aid our distributors by generating additional demand for our products through traditional marketing and public relations activities, such as television ads, sporting event sponsorships and endorsements.

Our Competitive Strengths

We believe that our success stems from our ability to motivate our distributor network through our marketing plan and provide distributors with a unique go-to-market strategy that supports sustainable daily consumption of our innovative and efficacious products that appeal to consumer preferences for healthy lifestyles. We have been able to achieve sustained and profitable growth by capitalizing on the following competitive strengths:

Distributor Base

As of December 31, 2011, we had approximately 2.7 million distributors, which include approximately 171,000 China sales representatives, sales officers, and independent service providers. Collectively, we refer to this group as distributors. Approximately 548,000 of our 2.7 million distributors have become sales leaders, which are comprised of approximately 501,000 sales leaders in the 78 countries where we use our traditional marketing plan and approximately 47,000 China sales officers and independent service providers operating under our China marketing plan. Collectively, we refer to this group as sales leaders. Due to changes in China's labor laws, effective in the third quarter of 2011, we no longer have sales employees in China as they have been transitioned to sales officers and independent service providers. We segment the distributors who have not attained the sales leader level into three general categories based on their product order patterns: discount buyers, small retailers and potential sales leaders. We define discount buyers as customers who have signed up as distributors to receive a discount on their purchases; small retailers as product users and sales people who generate modest sales to friends and family; and distributors who are proactively developing a business with the intention of qualifying to become a sales leader. For the approximately 548,000 sales leaders in our organization, the marketing plan encourages active participation in the business including building down-line sales organizations of their own, which can serve to increase their income and increase our product sales. Sales leaders contribute significantly to our sales.

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Product Portfolio

We are committed to building distributor and customer loyalty to our brand by providing a diverse portfolio of health-oriented and wellness products. The breadth of our product offerings enables our distributors to sell a comprehensive package of products designed to simplify weight management and daily nutrition. We continue to introduce new products and rigorously review, and if necessary, improve our product formulations, based upon developments in nutrition science or changes in regulation. We believe that the longevity and variety in our product portfolio significantly enhance our distributors' abilities to build their businesses.

Nutrition Science-Based Product Development

We continue to emphasize and make investments in science-based product development in the fields of weight management, nutrition supplement and personal care. We have a growing internal team of scientists dedicated to continually evaluating opportunities to enhance our existing products and to develop new science-based products. These product development efforts are reviewed by prominent doctors and world-renowned scientists who constitute our Nutrition Advisory Board. In addition, we have provided donations to assist in the establishment of the Mark Hughes Cellular and Molecular Lab at UCLA, or the UCLA Lab, and we continue to rely on its expertise. We believe that the UCLA Lab provides opportunities for Herbalife to access cutting-edge science in botanical, herbal and nutrition research. See *Product Development* below for further information on the Nutrition Advisory Board and UCLA lab. In 2007, Herbalife awarded a research grant to the National Center for Natural Products Research at the University of Mississippi School of Pharmacy, or NCNPR. The grant will allow NCNPR scientists to identify and study the biologically active chemicals found in botanicals, which may be used in the development of future dietary supplement and skin care products for Herbalife.

Scalable Business Model

Our business model enables us to grow our business with only moderate investment in our infrastructure and other fixed costs. We require no Company-employed sales force to market and sell our products. We incur no direct incremental cost to add a new distributor in our existing markets, and our distributor compensation varies directly with sales. In addition, our distributors bear the majority of our consumer marketing expenses, and sales leaders sponsor and coordinate a large share of distributor recruiting and training initiatives. Furthermore, we can readily increase production and distribution of our products as a result of having our own manufacturing facilities and our numerous third party manufacturing relationships as well as our global footprint of in-house distribution centers.

Geographic Diversification

We have a proven ability to establish our network marketing organization in new markets. Since our founding 32 years ago, we have expanded our presence into 79 countries as of December 31, 2011. While sales within our local markets may fluctuate due to economic, market and regulatory conditions, competitive pressures, political and social instability or for Company-specific reasons, we believe that our geographic diversity mitigates our financial exposure to any particular market. We opened five new markets during 2011 and our strategic plan includes a goal of opening several new markets during 2012.

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Our Business Strategy

We believe that our network marketing model is the most effective way to sell our products. Our objective is to increase the recruitment, retention, retailing and productivity of our distributor base by pursuing the following strategies:

Product Strategy

We are committed to providing our distributors with unique, innovative products to help them increase retail sales and recruit new distributors. Our product development is focused on four principal categories: weight management; targeted nutrition, including everyday wellness and healthy aging; energy, sports & fitness and Outer Nutrition that capitalize on the mega trends of obesity and anti-aging. We will augment our product portfolio on an on-going basis with additional science-based products and, as appropriate, will bundle products addressing similar health concerns into packages and programs. We maintain a core set of products that are available in key markets around the world. We periodically introduce new upgraded formulations of existing products to continue to improve the efficacy and product differentiation of our product as compared to products that can be found on the retail shelf. To better support distributors by providing alternative price points, we offer both individual serving sizes and larger sizes of our top selling products. Additionally, each year we plan to have launches of products and/or programs, coupled with our major events, to generate continued excitement among our distributors, to add to our core set of products and to support our distributor methods of operation, or DMOs. These launches will generally target specific market segments deemed strategic to us, such as the recent introduction of our Herbalife24 sports products that supports our focus on a healthy, active life style and our branding effort as well. These launches may be specific to certain regions and are not in all instances indicative of a global product launch. To augment the personal testimonials of our distributors and to provide them with independent validation of our product efficacy we successfully completed two sponsored clinical studies in 2008, one sponsored clinical study in 2009, two sponsored clinical studies in 2010, and one sponsored clinical study in 2011. In addition, we have several clinical studies planned for 2012.

Distributor Strategy

We continue to invest in events and promotions as a catalyst to help our distributors improve the effectiveness and productivity of their businesses. We work with our distributor leaders to globalize best-practice business methods to enable our distributors to improve their penetration in existing markets. We refer to these business methods as DMOs and they include such methods as Nutrition Clubs, Lifestyle Centers/Offices, Weight Loss Challenges, The Total Plan, Super and Mega HOM s, Roadshows and product sampling. Under our traditional DMO, distributors typically sell to their customers on a somewhat infrequent basis (e.g. monthly) which provides less opportunity for interaction with their customers. Under a daily consumption DMO, distributors interact with their customers on a more frequent basis which enables the distributors to better educate and advise customers about nutrition and the proper use of the products and helps promote daily usage as well, thereby helping our distributors grow their businesses. We invest in creative product delivery and infrastructure improvements to increase distributor access to product, particularly in daily consumption markets with limited credit card use and poor local delivery services. We offer a variety of internet and mobile based tools for use by our distributors that make it simpler for them to purchase our product, enroll new distributors, manage their organizations productivity and service their customers. And finally, to increase brand awareness we and our distributors have entered into numerous marketing alliances around the world with top athletes and sports teams and rolled out a style guide and brand asset library so that our distributors have access to the Herbalife brand logo for use in their marketing efforts.

We also plan to continue creating more access points in markets with large geographical areas such as the U.S., Russia, India, Mexico and Brazil in order to help support our growth and our daily consumption DMOs. In early 2010, for example, we benefited from initiating a distribution agreement with a large retailer in Mexico. This agreement allows distributors to pick up their product orders at a customer service counters at

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approximately 270 locations in approximately 26 Mexican states as of December 31, 2011. We believe that by leveraging their distribution system, we are providing distributors with significantly better product access. In India, we are testing a similar distribution arrangement with a local retailer to further support the successful adoption of the Nutrition Club DMO. We will continue to evaluate the need to increase sales centers to support our Company's growth.

Infrastructure Strategy

In 2009, we completed the roll-out of an Oracle enterprise-wide technology solution, which has a scalable and stable open architecture platform, to support our business growth and enhance our efficiency and productivity as well as that of our distributors. We continue to leverage the Oracle platform adding new modules to help support our business growth, improve productivity and support our strategic initiatives. In 2011 we implemented Oracle's process manufacturing module in our Lake Forest, California manufacturing facility. Our Suzhou, China manufacturing facility has used this same Oracle module since 2010. In 2012 we plan to implement the same Oracle module in our botanical extraction facility being constructed in Changsha, Hunan, China. In addition, we are continually upgrading our Internet-based marketing and distributor services platform with tools such as BizWorks, MyHerbalife.com, iChange, Herbalife Mobile and other internet based tools. We continue to invest in business intelligence tools to enable better analysis of our business and identify opportunities for growth. In the last two years we introduced both mobile and private social networking tools to make it easier for our distributors to interact with us and their customers while on the move. We will continue the build out these tools so that we can take advantage of the rapid development of mobile technology around the globe.

Our Seed to Feed strategy, which encompasses the entire supply chain, started in August 2009, when we purchased certain assets of Micelle Laboratories, Inc., a Lake Forest, California contract manufacturer of food and nutritional supplements. We purchased these assets in order to strengthen our global manufacturing capabilities and we completed the modifications to this facility in 2011. This strategy expanded with the announcement of a joint venture in Changsha, Hunan, China to build a botanical extraction facility which will provide improved traceability and processing of our botanical raw materials and is expected to be completed and operational in 2012.

We continue to invest in our employees through comprehensive and global organizational development programs including our new employee orientation training, General Manager Training and our Advanced Leadership Program. We also invest in our Employee Wellness program which includes providing access to our products, subsidizing cafeterias and kitchens, providing access to fitness centers and encouraging annual participation in our Health Assessment program. Through this program we attempt to increase the awareness of living a healthy active lifestyle, which also creates a great philosophical connection to our independent distributors.

Product Overview

For 32 years, our products have been designed to help distributors and customers from around the world lose weight, improve their health and experience life-changing results. We have built our heritage on developing unique formulas that blend the best of nature with innovative techniques from nutritional science, appealing to the growing base of consumers seeking differentiated products to support a healthier lifestyle.

As of December 31, 2011, we marketed and sold 138 products encompassing over 4,400 SKUs and currently have approximately 2,000 trademarks worldwide. Our products are often sold as part of a program, and therefore our portfolio is comprised of a series of related products designed to simplify weight management and nutrition for our consumers and maximize our distributors' cross-selling opportunities. These programs target specific consumer market segments, such as women, men, weight-management customers and individuals looking to enhance their overall well-being and support an active, healthy lifestyle.

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The following table summarizes our products by product category.

Product Category	Description	Representative Products
Weight Management (62.5%, 62.1% and 63.0% of net sales for 2011, 2010 and 2009 respectively)	Meal replacement, protein shakes, drink mixes, weight loss enhancers and healthy snacks	Formula 1 Healthy Meal, Herbal Tea Concentrate, Protein Drink Mix, Personalized Protein Powder, <i>Total Control</i> [®] , <i>Prolessa Duo</i> and Protein Bars
Targeted Nutrition (22.8%, 23.0%, and 21.2% of net sales for 2011, 2010 and 2009, respectively)	Dietary and nutritional supplements containing quality herbs, vitamins, minerals and other natural ingredients	<i>Aloe Concentrate</i> , <i>Niteworks</i> [®] , <i>Garden 7</i> [®] phytonutrient supplement, <i>Best Defense</i> [®] for improved immune system, <i>COQ10 Plus</i>
Energy, Sports & Fitness (4.9%, 4.4%, and 4.3% of net sales for 2011, 2010 and 2009, respectively)	Products that support a healthy active lifestyle	<i>Herbalife24</i> product line, <i>Liftoff</i> [®] energy drink, <i>H³O</i> hydration drink
Outer Nutrition (4.3%, 4.7%, and 5.5%, of net sales for 2011, 2010 and 2009, respectively)	Facial skin care, body care, and hair care	<i>Skin Activator</i> [®] anti-aging line, <i>Herbal Aloe Bath and Body Care</i> line, <i>NouriFusion</i> [®] multivitamin skin care line, <i>Radiant C</i> antioxidant skin care line
Literature, Promotional and Other Products (5.5%, 5.8%, and 6.0% of net sales for 2011, 2010 and 2009, respectively)	Sales aids, informational audiotapes, CDs, DVDs and start-up kits	International Business Packs, BizWorks
Weight Management		

Weight Management is our largest product category representing 62.5% of our net sales for the year 2011. Formula 1, our best-selling product line, is a healthy meal with soy protein, fiber, botanicals plus essential vitamins and minerals that is available in various delicious flavors to help support weight management. It has been the centerpiece of our weight management program for 32 years and generated approximately 29% of net sales for the year 2011. We continue to be the worldwide leader in meal replacement shakes. Personalized Protein Powder and Protein Drink Mix are soy and whey protein products designed as boosts to Formula 1 to increase a person's daily protein intake and help them achieve their desired weight and shape. Weight-loss enhancers, including Herbal Tea Concentrate, *Total Control*[®] and *Prolessa Duo*, address specific challenges associated with dieting, such as lack of energy, hunger and food craving, fluid retention, decreased metabolism and digestive challenges, by building energy, boosting metabolism, curbing appetite and helping to promote weight loss. Healthy Snacks, such as bars and soups, are formulated to provide between-meal nutrition and appetite satisfaction. We provide further segmentation of our leading Formula 1 product line with limited edition, seasonal flavors including Orange Cream and Pumpkin-Spice in the U.S. and Toffee-Apple-Cinnamon in Europe, Middle East and Africa, or EMEA region. We also expanded the snack category adding Gourmet Tomato Soup in EMEA region.

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We market numerous dietary and nutritional supplements designed to meet our customers' specific nutritional needs. These supplements contain quality botanicals, vitamins, minerals and other natural ingredients and focus on specific life stages of our customers, including women, men, children and those with health concerns, including heart health, healthy aging, digestive health, or immune solutions. *Niteworks*[®] is a product developed in conjunction with Nobel Laureate in Medicine, Dr. Louis Ignarro, which supports energy, circulatory and vascular health and enhances blood flow to the heart, brain and other vital organs. *Garden 7*[®] designed by Dr. David Heber, head of our Nutrition Advisory Board, is designed to provide the phytonutrient benefits of seven servings of fruits and vegetables and has anti-oxidant and health-boosting properties. *Best Defense*[®] is an effervescent drink that helps boost immunity. In 2011, we further expanded distribution of our successful Active Fiber line by introducing our popular Apple flavored Active Fiber Complex in the South and Central America region. Our globalization efforts focused on top sellers such as Herbal Aloe Mango in the EMEA region; *Niteworks*[®] and Herbalifeline in Asia Pacific, EMEA and South and Central America regions and our Aloe and Tea products in newly opened markets, Georgia, Belarus, Mongolia, Lebanon, and Ghana. As part of our regional strategy, we launched Healthy Eye in two key markets in the Asia Pacific region, Korea and Taiwan. In the North America region, we broadened our fast growing mango flavored Herbal Aloe Concentrate by offering a 1/2 gallon option to better meet the needs of U.S. based Nutrition Clubs. Throughout 2011, we continued to upgrade our targeted nutrition portfolio with improved formulations including a re-launch of 21-Day Cleansing Program in the U.S. and Woman's Choice in the U.S. and Asia Pacific regions.

Energy, Sports & Fitness

We entered into the high growth energy drink category in 2005 with the introduction of *Liftoff*[®], an innovative, effervescent energy drink containing a proprietary blend of B-vitamins, guarana, ginseng, ginkgo and caffeine to increase energy and improve mental clarity for better performance throughout the day. In 2007, we launched H³O[™] Fitness Drink to provide rapid hydration and sustained muscle energy plus antioxidant protection for people living a healthy, active lifestyle. In 2008, we introduced H30 Pro in EMEA to provide an isotonic drink to individuals participating in high activity sports. In 2011, we introduced the Herbalife24 product line in the US and 20 countries throughout EMEA. The Herbalife24 product line is a complete, seven-product program, formulated to meet the nutritional needs of the 24 Hour Athlete[®], whether they be a top professional, or amateur fitness enthusiast. The Herbalife24 product line enables athletes to customize their nutrition program based on personal training and competitive demands throughout the day. The entire line was formulated based on peer-reviewed clinical research, collaboration between leading Herbalife scientists, and the input of professional athletes. Each product is certified and tested for substances banned by professional and collegiate athletic governing bodies.

Outer Nutrition

Our Outer Nutrition products complement our weight management and targeted nutrition products and aim to improve the appearance of the body, skin and hair. These products include skin cleansers, toners, moisturizers, facial masks, shampoos and conditioners, body-wash items and a selection of fragrances for men and women. Our *Herbal Aloe* line is our distributor's introductory line providing distributors with shampoos, conditioners, lotions and soaps that help soothe the skin. *NouriFusion*[®] Multivitamin skin care products are formulated with antioxidant Vitamins A, C and E for a healthy, glowing complexion. We previously launched a full line of anti-aging products as an extension of our successful *Skin Activator*[®] product, an advanced face cream that contains a collagen-building Glucosamine Complex to reduce the appearance of fine lines and wrinkles. In the past few years, we have launched a number of regional products to address local market needs.

Literature, Promotional and Other Products

We also sell literature and promotional materials, including sales aids, informational audiotapes, CDs and DVDs designed to support our distributors' marketing efforts, as well as start-up kits called International

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Business Packs for new distributors. We also offer internet based tools such as BizWorks, a customizable retail website for our distributors to enhance the on-line experience and improve their productivity.

Product Development

We are committed to providing our distributors with unique, innovative, science-based products to help them increase recruiting, retention and retailing. We believe this can be best accomplished in part by introducing new products and by upgrading, reformulating and repackaging existing product lines. Our internal team of scientists and product developers collaborate with our Nutrition Advisory Board to formulate, review and evaluate new product ideas. Once a particular market opportunity has been identified, our scientists along with our marketing and sales teams work closely with distributors to successfully develop and launch the product. Our research and development is performed by in-house staff and outside consultants. For all periods presented, research and development costs were expensed as incurred and were not material.

A progressive product development process was deployed in 2010 to accelerate new product introduction and to improve product launches. Cross-functional teams from Product Marketing, Product Development, Sciences, Licensing, Manufacturing and Finance were formed and assigned to major product initiatives.

The product development process is a stage-gate process based on best in class practices in our industry. The process consists of five stages: identification, feasibility assessment, development, launch, and learn. The project teams obtain approvals from a corporate steering team comprised of key executives in the Company. The process defines each department's roles and responsibilities and sets clear deliverables for each stage. It creates a succinct process from the beginning of the development cycle to the end.

New product ideas are generated and narrowed down to high potential ideas that fill our business needs and conform to our overall strategy. We test the most promising ideas with distributors and customers using a variety of qualitative and quantitative tools. This testing is followed by a feasibility assessment which includes reviewing product and package prototypes, product positioning and messaging, designing process, analyzing manufacturing issues and providing preliminary financial projections of product sales. The next stage is the development phase in which we finalize the formula, process, manufacturing strategy, product positioning, pricing, labeling and other related matters. The fourth stage is the launch phase in which we prepare promotional and sales materials, complete the supply chain plan, create product and financial forecasts, and complete other final launch preparations. After the product is launched, we closely track sales performance and the lessons learned so we can update and improve the product development process. In addition, we have significantly increased our investment in clinical studies and in our science program to substantiate claims and the efficacy of our products.

We continuously reorganize our technical team for greater product development efficiency as well as to carry out related product development strategies both globally and regionally. During 2011, we added new technical and scientific professionals and additional resources to the Company's Nutrition Advisory Board.

In 2010, we launched the Herbalife Nutrition Institute. The Institute is an informational resource dedicated to promoting excellence in the field of nutrition. The Institute's website is our primary communication vehicle, an educational resource for the general public, government agencies, the scientific community, and Herbalife Independent distributors, about good nutrition and basic health. Its mission is to encourage and support research and education on the relationship between good health, balanced nutrition and a healthy active lifestyle. In addition to providing research and education on the website and through sponsored conferences and symposia, the Institute will have associations with major nutrition science organizations.

Part of the Herbalife Nutrition Institute is the Company's Nutrition Advisory Board. The Nutrition Advisory Board is comprised of leading experts around the world in the fields of nutrition and health who educate Herbalife distributors, on the principles of nutrition, physical activity and healthy lifestyle. The Institute and the Nutrition Advisory Board are chaired by David Heber, M.D., Ph.D., director of the Center for Human Nutrition at the University of California, Los Angeles (UCLA).

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We believe that it is important to maintaining our relationships with members of our Nutrition Advisory Board and the editorial board of the Herbalife Nutrition Institute that we recognize the time and effort that they expend on our behalf. Each member of our Nutrition Advisory Board, other than Dr. Heber, receives a monthly retainer of up to \$5,000, plus up to \$3,000 for every day that they appear at a non-southern California distributor event and up to \$2,000 for every day that they need to travel to such events. Members of the editorial board of the Herbalife Nutrition Institute are compensated for their time and efforts by receiving a \$5,000 annual stipend, except Dr. Lou Ignarro. We do pay a consulting firm, with which Dr. Ignarro is affiliated, a royalty on sales of Niteworks®, certain healthy heart products, and other products that we may mutually designate in the future that are, in each case, sold with the aid of Dr. Ignarro's consulting, promotional or endorsement services, with such amounts totaling \$2.9 million, \$2.3 million, and \$1.9 million, in 2011, 2010, and 2009, respectively. Generally, other than the equity awards granted in 2011, 2010 and 2005, Dr. Heber receives no direct compensation from us although we do reimburse him for travel expenses and we do pay to a firm, with which Dr. Heber is affiliated, a quarterly fixed royalty of \$75,000.

We have also made contributions to the UCLA Lab. We have invested in this lab since 2002 with total donations of approximately \$1.5 million which includes donations of lab equipment and software. UCLA agreed that the donations would be used for further research and education in the fields of weight management and botanical dietary supplements. In addition, we have made donations from time to time to UCLA to fund research and educational programs. While our direct relationship with UCLA involves clinical studies and research regarding botanical ingredients, we intend to take full advantage of the expertise at UCLA by committing to support research that will further our understanding of the benefits of phytochemicals. Additionally in 2010, we initiated a botanical identification program with UCLA which is intended to help with the operational activities in our quality labs in China and the U.S. and in our botanical extraction facility in Changsha, Hunan, China once it is completed.

We believe our focus on nutrition and botanical science and our efforts at combining our internal research and development efforts with the scientific expertise of our Nutrition Advisory Board and the educational skills of the Nutrition Advisory Board and the resources of the UCLA Lab should result in meaningful product differentiation and give our distributors and consumers increased confidence in our products.

Network Marketing Program

General

Our products are distributed through a global network marketing organization comprised of approximately 2.7 million independent distributors in 79 countries as of December 31, 2011, including China where, due to regulations, our sales are conducted through Company operated retail stores, sales representatives, sales officers and independent service providers. In China, in the areas where we have a direct selling license, our representatives, officers and independent service providers can sell Herbalife product outside the retail establishments. In addition to helping our distributors achieve their goals of health and wellness through use of our products, we offer our distributors, who are independent contractors, attractive income opportunities. Distributors may earn income on their own sales and can also earn royalties and bonuses on sales made by the distributors in their sales organizations. We believe that our products are particularly well-suited to the network marketing distribution channel because sales of weight management and health and wellness products are strengthened by ongoing personal contact and coaching of retail consumers by distributors. We believe our continued commitment to developing innovative, science-based products will enhance our ability to attract new distributors as well as increase the productivity and retention of existing distributors. Furthermore, our international sponsorship program, which permits distributors to sponsor distributors in other countries where we are licensed to do business and where we have obtained required product approvals, provides a significant advantage to our distributors in developing and growing their businesses.

On July 18, 2002, we entered into an agreement with our distributors that no material changes adverse to the distributors will be made to our marketing plan without their consent and that we will continue to distribute

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Herbalife products exclusively through our independent distributors. We believe that this agreement has strengthened our relationship with our existing distributors, improved our ability to recruit new distributors and generally increased the long-term stability of our business.

Structure of the Network Marketing Program

To become a distributor in most markets, a person must be sponsored by an existing distributor and must purchase an International Business Pack, or IBP. The IBP is a distributor kit available in local languages. The product and literature contents in the kits vary slightly to meet individual market needs. An example is the large size U.S. IBP, which costs \$90.95 and includes a canister of Formula 1 shake mix, two bottles of nutritional supplements, Herbal Concentrate (Tea), *Liftoff*[®] (an energy drink), and Hand Sanitizer, along with a handy tote, booklets describing us, our compensation plan and rules of conduct, various training and promotional materials, distributor applications and a product catalog. The smaller U.S. version costs \$54.95 and includes sample products, a handy tote, and essentially the same print and promotional materials as included in the larger kit version. To become a sales leader, or qualify for a higher level, distributors must achieve specified volumes of product sales or earn certain amounts of royalty overrides during specified time periods and must re-qualify for the levels once each year. To attain sales leader status, a distributor generally must be responsible for sales of products representing at least 4,000 volume points in one month or 2,500 volume points in two consecutive months. An additional optional qualification, introduced globally in October 2009, allows for a distributor to achieve sales leader level by personally placing orders with Herbalife that accumulate to 5,000 volume points within 12 months. China has its own unique marketing program.

Volume points are point values assigned to each of our products that are usually equal in all countries. We assign a Volume Point value to a product when it is first introduced into the market. The specific number of Volume Points assigned to a product is based on a Volume Point to U.S. dollar ratio that we use for the vast majority of new products. Sales leaders may then attain higher levels (consisting of the World Team, the Global Expansion Team, the Millionaire Team, the President's Team, the Chairman's Club and the Founders Circle), and earn increasing amounts of royalty overrides based on sales in their downline organizations and, for members of our Global Expansion Team and above, earn production bonuses on sales in their downline organizations.

The following table sets forth the number of our sales leaders and sales leader retention rates as of each of the following re-qualification periods:

	At the End of February					
	Number of Sales Leaders			Sales Leader Retention Rate		
	2011	2010	2009	2011	2010	2009
North America	72,152	64,668	63,726	48.6%	43.3%	42.2%
Mexico	54,526	47,068	50,099	57.9%	50.4%	45.2%
South & Central America	50,288	51,060	67,876	47.3%	34.1%	32.2%
EMEA	49,696	47,080	53,371	58.6%	51.9%	48.7%
Asia Pacific (excluding China)	90,822	75,635	59,631	38.4%	38.6%	35.1%
Total Sales Leaders	317,484	285,511	294,703	48.9%	43.0%	40.3%
China	30,543	27,415	29,684			
Worldwide Total Sales Leaders	348,027	312,926	324,387			

In February of each year, we remove from the rank of sales leader those individuals who did not satisfy the sales leader qualification requirements during the preceding twelve months. Distributors who meet the sales leader requirements at any time during the year are promoted to sales leader status at that time, including any sales leaders who were removed, but who subsequently re-qualified. For the latest twelve month re-qualification period ending January 2012, approximately 52% of our sales leaders, excluding China, re-qualified. Typically,

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distributors who purchase our product for personal consumption or for short term weight loss or income goals may stay with us for several months to one year while sales leaders who have committed time and effort to build a sales organization generally stay for longer periods. We rely on certifications from the selling distributors as to the amount and source of product sales to other distributors which are not directly verifiable by us. For sales leaders to re-qualify and retain their distributor organization and associated earnings, they need to accumulate 4,000 volume points in one month or 2,500 volume points in each of two consecutive months. In order to promote retailing of our products, any sales leaders who accumulate at least 4,000 volume points in the 12-month period can re-qualify as a sales leader and retain a discount of 50% from suggested retail prices, but will forfeit their distributor organization and associated earnings. Effective the requalification period ending January 2012, we have further enhanced our re-qualification program for any sales leaders who achieve 10,000 volume points or more within the 12 month period to re-qualify and retain a discount of 50% and their distributor organization and associated earnings.

Distributor Earnings

Distributor earnings are derived from several sources. First, distributors may earn profits by purchasing our products at wholesale prices, which are discounted 25% to 50% from suggested retail prices depending on the distributors' level within our distributor network, and selling our products to retail customers or to other distributors. Second, distributors who sponsor other distributors and establish their own sales organizations may earn (1) royalty overrides, up to 15% of product retail sales in the aggregate, (2) production bonuses, up to 7% of product retail sales in the aggregate and (3) the Mark Hughes bonus, up to 1% of product retail sales in the aggregate. Royalty overrides and bonuses together with the distributor allowances represent the potential earnings to distributors of up to approximately 73% of retail sales. Each distributor's success is dependent on two primary factors: (1) the time, effort and commitment a distributor puts into his or her Herbalife business and (2) the product sales made by a distributor and his or her sales organization.

Distributors, with the exception of China, earn the right to receive royalty overrides upon attaining the level of sales leader and above, and production bonuses upon attaining the level of Global Expansion Team and above. Once a distributor becomes a sales leader, he or she has an incentive to qualify, by earning specified amounts of royalty overrides, as a member of the Global Expansion Team, the Millionaire Team or the President's Team, and thereby receives production bonuses of up to 7%. We believe that the right of distributors to earn royalty overrides and production bonuses contributes significantly to our ability to retain our most productive distributors.

Many of our non-sales leader distributors join Herbalife to obtain a discount on our products and become a discount consumer or have a part-time retail income goal in mind. We do not track the retail income of these distributors.

Under the regulations published by the Chinese Government, direct selling companies are limited to the payment of gross compensation to direct sellers of up to a maximum 30% of the revenue they generate through their own sales of products to consumers. We have incurred and will continue to incur substantial ongoing additional costs relating to the inclusion in the China business model of Company operated retail stores, sales representatives, sales officers and independent service providers and Company provided training and certification procedures for sales personnel, features not common elsewhere in our traditional business model.

Distributor Motivation and Training

We believe that motivation and training are key elements in distributor success and that we and our distributor sales leaders have established a consistent schedule of events to support these needs. We and our distributor leadership conduct thousands of training sessions annually on local, regional and global levels to educate and motivate our distributors. Every month, there are hundreds of one-day Success Training Seminars held throughout the world. Annually, in each major territory or region, there is a three-day World Team School that focuses on product and business development and is typically attended by 2,000 to 10,000 distributors. Additionally, we

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host an Extravaganza at which our distributors from the region can come to learn about new products, expand their skills and celebrate their success. In 2011, we held Extravaganzas in Argentina, Colombia, Thailand, Belarus, Spain, Turkey, South Africa, Mexico, China and the United States. In addition to these training sessions, we have our own Herbalife Broadcast Network on the Internet that we use to provide distributors continual training and the most current product and marketing information.

Distributor reward and recognition is a significant factor in motivating our distributors. We invest in regional and worldwide events and promotions to motivate our distributors to achieve and exceed both sales and recruiting goals. An example of our worldwide promotions is the Active World Team Promotion. The Active World Team Promotion provides cash and recognition incentives to distributors who achieve all three requirements for becoming a World Team Member and thus have proven themselves adept at building a well-balanced business. Additionally, our Regional Vacation Promotions provided trips for qualifying distributors to go on vacations or cruises in various locations worldwide.

Geographic Presence

As of December 31, 2011, we conducted business in 79 countries throughout the world. The following chart sets forth the countries in which we operated as of December 31, 2011, organized in the Company's six geographic regions, and the year in which we commenced operations.

Country	Year Entered
North America	
USA	1980
Canada	1982
Jamaica	1999
Aruba	2010
Mexico	1989
South and Central America	
Dominican Republic	1994
Venezuela	1994
Argentina	1994
Brazil	1995
Chile	1997
Panama	2000
Colombia	2001
Bolivia	2004
Costa Rica	2006
Peru	2006
El Salvador	2007
Ecuador	2008
Honduras	2008
Nicaragua	2008
Guatemala	2008
Paraguay	2009
Asia Pacific	
Australia	1983
New Zealand	1988
Japan	1989
Country	Year Entered
Hong Kong	1992
Philippines	1994
Taiwan	1995
South Korea	1996
Thailand	1997
Indonesia	1998
India	1999

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Macau	2002
Singapore	2003
Malaysia	2006
Vietnam	2009
China	2001
EMEA	
United Kingdom	1984
Spain	1989
Israel	1989
France	1990
Germany	1990
Portugal	1992
Czech Republic	1992
Italy	1992
Netherlands	1993
Belgium	1994
Poland	1994
Denmark	1994
Sweden	1994
Russia	1995

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Country	Year Entered
Austria	1995
Switzerland	1995
South Africa	1995
Norway	1995
Finland	1995
Greece	1996
Turkey	1998
Botswana	1998
Lesotho	1998
Namibia	1998
Swaziland	1998
Iceland	1999
Slovak Republic	1999
Cyprus	2000
Ireland	2000
Country	Year Entered
Croatia	2001
Latvia	2002
Ukraine	2002
Estonia	2003
Lithuania	2003
Hungary	2005
Zambia	2007
Romania	2008
Bulgaria	2010
Georgia	2011
Belarus	2011
Lebanon	2011
Mongolia	2011
Ghana	2011

The following table shows net sales by geographic region.

Geographic Region	Net Sales Year Ended December 31,			Percent of Total Net Sales 2011	Number of Countries December 31, 2011
	2011	2010 (In millions)	2009		
North America	\$ 698.6	\$ 614.1	\$ 529.0	20.2%	4
Mexico	436.9	334.0	263.0	12.7%	1
South & Central America	554.4	390.4	366.9	16.0%	16
EMEA	615.2	527.8	504.2	17.8%	43
Asia Pacific	938.6	683.5	509.2	27.2%	14
China	210.8	184.4	152.3	6.1%	1
Worldwide	\$ 3,454.5	\$ 2,734.2	\$ 2,324.6	100.0%	79

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The top six countries worldwide represented approximately 61.6%, 62.3%, and 59.4% of net sales in 2011, 2010, and 2009, respectively. For financial data by segment see Note 10, *Segment Information*, to the Consolidated Financial Statements.

In many instances, after entering a new country, we experience an initial period of rapid sales growth as new distributors are recruited, that is then followed by a sales decline. We believe that a significant factor affecting existing markets is the opening of other new markets within the same geographic region or within the same or similar language or cultural bases. Some distributors tend to focus their attention on the business opportunities provided by these newer markets instead of developing their established sales organizations in existing markets to focus on driving deeper penetration. Additionally, in some instances, we have become aware that certain sales in certain existing markets were attributable to purchasers who distributed our products in countries that had not yet been opened. When these countries were opened, the sales in existing markets shifted to the newly opened markets, resulting in a decline in sales in the existing markets. To the extent we decide to open new markets in the future, we will continue to seek to minimize the impact on distributor focus in existing markets while ensuring that adequate distributor support services and introduction of daily consumption DMOs, along with other Herbalife systems are in place to support growth while maintaining prior sales levels within the region.

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Manufacturing and Distribution

The majority of our weight management, nutritional and personal care products are manufactured for us by third party manufacturing companies. We own proprietary formulations for substantially all of our weight management products and dietary and nutritional supplements. We source our products from multiple manufacturers, with our top three suppliers accounting for approximately 36% of our total worldwide demand. In addition, many of our products can be made available from a secondary vendor if necessary. We work closely with our vendors in an effort to achieve the highest quality standards and product availability. We have established excellent relationships with our contract manufacturers and continue to obtain improvements in product quality and product delivery.

We completed the modifications to our manufacturing facility in Lake Forest, California in the second quarter of 2011 in order to increase capability and capacity. We also self-manufacture weight management, nutritional and personal care products for the China market in our Suzhou, China manufacturing facility. For the full year 2011, we self manufactured approximately 20% of our total worldwide demand. In the current era of increasing regulatory scrutiny we are transforming our supply chain to become more vertically integrated, including building relationships all the way back to the source farms. We have entered into a joint venture to build a botanical extraction facility in Changsha, Hunan, China which will be completed during 2012. We call this initiative Seed to Feed. We also have made significant investments in our own state of the art quality control labs in the U.S. and China at which we routinely test products from our owned facilities and from our contract manufacturers and raw material vendors. Some of our key input materials such as soy and whey proteins, fructose and packaging materials are subject to pricing fluctuations driven by commodities pricing. We are confident that we can mitigate potential cost increases of these materials with our cost reduction program and, when necessary, by raising the prices of our products.

In order to coordinate and manage the manufacturing of our products, we utilize a significant demand planning and forecasting process that is directly tied to our production planning and purchasing systems. Using this sophisticated Oracle-based planning software and process allows us to maintain our inventory at levels that are adequate to support the growth in our business and provide exceptional service to distributors while minimizing working capital and inventory obsolescence.

Our global distribution system features centralized and decentralized distribution and telephone ordering systems coupled with storefront distributor service centers. Our major distribution warehouses have automated pick-to-light systems which consistently deliver high order accuracy and inspection of every shipment before it is sent to delivery. Shipping and processing standards for orders placed are either the same day or the following business day. We are currently upgrading the software and hardware in our largest distribution centers to support future business growth as well as support the ongoing shift to daily consumption DMOs which lead to more frequent and smaller orders.

Our products are distributed to foreign markets either directly from our contract manufacturers or from our Los Angeles, Memphis or Venray, Netherlands distribution centers. Products distributed globally are generally transported by truck, cargo ship or plane to our international markets and are warehoused in either one of our foreign distribution centers or a contracted third party warehouse and distribution center. After the products arrive in a foreign market, distributors purchase the products from the local distribution center or the associated sales center. Generally, the products manufactured in Europe are shipped to a centralized warehouse facility, from which delivery by truck, ship or plane to other international markets occurs.

Product Return and Buy-Back Policies

In most markets, our products include a customer satisfaction guarantee. Under this guarantee any customer who is not satisfied with a Herbalife product for any reason may return it or any unused portion of it within 30 days of purchase to their distributor from whom it was purchased for a full refund from the distributor or credit toward the purchase of another Herbalife product. If they return the products to us on a timely basis, the distributor may obtain replacement product from us for such returned products. In addition, in most jurisdictions,

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we maintain a buy-back program pursuant to which we will repurchase products sold to a distributor. The buyback program has certain terms and conditions that may vary by market, but generally requires a distributor to resign their distributorship and return unused products or sales materials which are unopened and in marketable condition within a twelve month period. We believe this buy-back policy addresses a number of the regulatory and compliance issues pertaining to network marketing, in that it offers monetary protection to distributors who want to exit their Herbalife business. Product returns and buy-back expenses were approximately 0.4%, 0.4%, and 0.5% of retail sales for the years ended December 31, 2011, 2010 and 2009, respectively. The small product return and buy-back percentage was primarily due to the global emphasis on daily consumption DMOs, which provide a more sustainable business foundation for our distributors.

Management Information, Internet and Telecommunication Systems

In order to facilitate our continued growth and support distributor activities, we continually upgrade our applications, infrastructure and telecommunication systems. These systems include: (1) three data centers located in Colorado Springs, Hong Kong, and Venray, Netherlands, which connect our international markets through a dedicated wide area network that provides on-line, real-time computer connectivity and access to our global Oracle Enterprise Resource Planning (ERP) platform as well as legacy operating systems and other key transactional and analytical systems; (2) local area networks of personal computers within our markets, serving our regional administrative staffs; (3) an international e-mail system through which our employees communicate; (4) a standardized Avaya Northern Telecom Meridian telecommunication system in most of our markets; and (5) Internet websites to provide a variety of online services for distributors such as status of qualifications, meeting announcements, product information, application forms, educational materials and, in select markets including the United States, sales ordering capabilities. These systems are designed to provide, among other things, financial and operating data for management, timely and accurate product ordering, royalty override payment processing, inventory management and detailed distributor records. We intend to continue to invest in these systems in order to strengthen our operating platform and support the future growth of our business.

Regulation

General

In both our United States and foreign markets, we are affected by extensive laws, governmental regulations, administrative determinations, court decisions and similar constraints. Such laws, regulations and other constraints exist at the federal, state or local levels in the United States and at all levels of government in foreign jurisdictions, including regulations pertaining to: (1) the formulation, manufacturing, packaging, labeling, distribution, importation, sale and storage of our products; (2) product claims and advertising, including direct claims and advertising by us, as well as claims and advertising by distributors, for which we may be held responsible; (3) our network marketing program; (4) transfer pricing and similar regulations that affect the level of U.S. and foreign taxable income and customs duties; (5) taxation of our independent distributors (which in some instances may impose an obligation on us to collect the taxes and maintain appropriate records); and (6) currency exchange and repatriation.

Products

In the United States, the formulation, manufacturing, packaging, storing, labeling, promotion, advertising, distribution and sale of our products are subject to regulation by various governmental agencies, including (1) the Food and Drug Administration, or FDA, (2) the Federal Trade Commission, or FTC, (3) the Consumer Product Safety Commission, or CPSC, (4) the United States Department of Agriculture, or USDA, (5) the Environmental Protection Agency, or EPA, (6) the United States Postal Service, (7) United States Customs and Border Patrol, and (8) the Drug Enforcement Administration. Our activities also are regulated by various agencies of the states, localities and foreign countries in which our products are manufactured, distributed and sold. The FDA, in particular, regulates the formulation, manufacture and labeling of over-the-counter, or OTC, drugs, conventional foods, dietary supplements, and cosmetics such as those distributed by us. FDA regulations require us and our

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suppliers to meet relevant current good manufacturing practice, or cGMP, regulations for the preparation, packing and storage of foods and OTC drugs. Herbalife has implemented enhancements, modifications and improvements to its manufacturing and corporate quality processes and believes we are compliant with the FDA's cGMP final rule with respect to dietary supplements sold by Herbalife in the United States. The final cGMP rule has resulted in additional costs. See item 1A *Risk Factors* for further discussion regarding the promulgated cGMP regulations. If we were to be found not in compliance with cGMP regulations, it could have a material adverse effect on our results of operations and financial statements.

Most OTC drugs are subject to FDA Monographs that establish labeling and composition requirements for these products. Those of our products which are classified as OTC drugs must comply with these Monographs, and our manufacturers must list all products with the FDA and follow cGMP rules. Our cosmetic products are regulated for safety by the FDA, which requires that ingredients meet industry standards for non-allergenicity and non-toxicity. Performance claims for cosmetics may not be therapeutic.

The U.S. Dietary Supplement Health and Education Act of 1994, or DSHEA, revised the provisions of the Federal Food, Drug and Cosmetic Act, or FFDCFA, concerning the composition and labeling of dietary supplements and, we believe, the revisions are generally favorable to the dietary supplement industry. The legislation created a new statutory class of dietary supplements. This new class includes vitamins, minerals, herbs, amino acids and other dietary substances for human use to supplement the diet, and the legislation grandfathered, with some limitations, dietary ingredients that were on the market before October 15, 1994. A dietary supplement that contains a dietary ingredient that was not on the market before October 15, 1994 will require evidence of a history of use or other evidence of safety establishing that it is reasonably expected to be safe. During July, 2011, the FDA promulgated its New Dietary Ingredient Notification Draft Guidance, or the draft Guidance, representing the agency's current thinking on this subject. On October 13, 2011, Herbalife submitted its comments to the FDA suggesting six ways that it believes would make the draft Guidance more workable for the Company and for the agency while others in the industry have called for the agency to withdraw the draft Guidance. The FDA is evaluating these comments and it is uncertain what form a final Guidance would take. Manufacturers or marketers of dietary supplements in the United States and certain other jurisdictions that make product performance claims, including structure/function claims, must have substantiation in their possession that the statements are truthful and not misleading. Depending on the form of any final Guidance issued by the FDA on the use of New Dietary Ingredients, the Company may be required to substantiate that so-called grandfathered ingredients used in our products were actually used in commerce in food prior to the passage of DSHEA on October 15, 1994. The majority of the products marketed by us in the United States are classified as conventional foods or dietary supplements under the FFDCFA. Internationally, the majority of products marketed by us are classified as foods or food supplements.

In January 2000, the FDA issued a regulation that defines the types of statements that can be made concerning the effect of a dietary supplement on the structure or function of the body pursuant to DSHEA. Under DSHEA, dietary supplement labeling may bear structure or function claims, which are claims that the products affect the structure or function of the body, without prior FDA approval, but with notification to the FDA. They may not bear a claim that they can prevent, treat, cure, mitigate or diagnose disease (a disease claim). The regulation describes how the FDA distinguishes disease claims from structure/function claims. During 2004, the FDA issued guidance, paralleling an earlier guidance from the FTC, defining a manufacturer's obligations to substantiate structure/function claims. The FDA also issued a Structure/Function Claims Small Entity Compliance Guide. In addition, the agency permits companies to use FDA-approved full and qualified health claims for products containing specific ingredients that meet stated requirements.

As a marketer of dietary and nutritional supplements and other products that are ingested by consumers, we are subject to the risk that one or more of the ingredients in our products may become the subject of regulatory action. A number of states restricted the sale of dietary supplements containing botanical sources of ephedrine alkaloids. We stopped sales of dietary supplements containing botanical sources of ephedrine alkaloids due to a shift in consumer preference for ephedra free products and a significant increase in products liability insurance premiums for products containing botanical sources of ephedrine group alkaloids. On December 31, 2002, we ceased sales of *Thermojetics*[®] original green herbal tablets containing ephedrine alkaloids derived from Chinese

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Ma huang, as well as *Thermojetics*[®] green herbal tablets and *Thermojetics*[®] gold herbal tablets (the latter two containing the herb *Sida cordifolia* which is another botanical source of ephedrine alkaloids). On February 6, 2004, the FDA published a rule finding that dietary supplements containing ephedrine alkaloids present an unreasonable risk of illness or injury under conditions of use recommended or suggested in the labeling of the product, or, if no conditions of use are suggested in the labeling, under ordinary conditions of use, and are therefore adulterated.

The FDA's decision to ban ephedra triggered a significant reaction by the national media, some of whom are calling for the repeal or amendment of DSHEA. These media view supposed weaknesses within DSHEA as the underlying reason why ephedra was allowed to remain on the market. We have been advised that DSHEA opponents in Congress may use this anti-DSHEA momentum to advance new legislation during the 112th Congress to amend or repeal DSHEA or to regulate specific product types or the use of specific ingredients. If this should occur we believe that the DSHEA opponents may propose one or more of the following: (1) premarket approval for safety and effectiveness of dietary ingredients; (2) specific premarket review of dietary ingredient stimulants; (3) reversal of the burden of proof standard which now rests on the FDA; and (4) a redefining of dietary ingredient to remove either botanicals or selected classes of ingredients now treated as dietary ingredients.

On December 22, 2007, a law went into effect in the United States mandating the reporting of all serious adverse events occurring within the United States which involve dietary supplements or OTC drugs. We believe that we are in full compliance with this law having promulgated and implemented a worldwide procedure governing adverse event identification, investigation and reporting which is managed by our Global Product Science, Safety and Compliance department in collaboration with our Regulatory Affairs department, our Medical Affairs department and our Distributor Relations Call Centers. As a result of our receipt of adverse event reports, we may from time to time elect, or be required, to remove a product from a market, either temporarily or permanently.

On June 25, 2007, the FDA published its final rule regulating current good manufacturing practices, or cGMP, for dietary supplements. This final rule became effective on August 24, 2007. The final rule requires that companies establish written procedures governing: (1) personnel, (2) plant and equipment cleanliness, (3) lab and testing, (4) packaging and labeling, and (5) distribution. The FDA also required 100 percent identity testing of all incoming raw materials, although an interim final rule enables companies to petition for an exemption from the 100 percent testing requirement if they can demonstrate the existence of an appropriate statistical sampling program. The cGMPs help 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. We have evaluated the final cGMP rule with respect to its potential impact upon the various contract manufacturers that we use to manufacture our products, some of which might not have met the new standards. It is important to note that the final cGMP rule, in an effort to limit disruption, included a three-year phase-in for small businesses. The final cGMP rule has resulted in additional costs. See Item 1A *Risk Factors* for further discussion regarding the promulgated cGMP regulations.

Some of the products marketed by us are considered conventional foods and are currently labeled as such. Within the United States, this category of products is subject to the Nutrition, Labeling and Education Act, or NLEA, and regulations promulgated under the NLEA. The NLEA regulates health claims, ingredient labeling and nutrient content claims characterizing the level of a nutrient in the product. The ingredients added to conventional foods must either be generally recognized as safe by experts, or GRAS, or be approved as food additives under FDA regulations.

In foreign markets, prior to commencing operations and prior to making or permitting sales of our products in the market, we may be required to obtain an approval, license or certification from the relevant country's ministry of health or comparable agency. Where a formal approval, license or certification is not required, we nonetheless seek a favorable opinion of counsel regarding our compliance with applicable laws. Prior to entering a new market in which a formal approval, license or certificate is required, we work extensively with local authorities in order to obtain the requisite approvals. The approval process generally requires us to present each

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product and product ingredient to appropriate regulators and, in some instances, arrange for testing of products by local technicians for ingredient analysis. The approvals may be conditioned on reformulation of our products, or may be unavailable with respect to some products or some ingredients. Product reformulation or the inability to introduce some products or ingredients into a particular market may have an adverse effect on sales. We must also comply with product labeling and packaging regulations that vary from country to country. Our failure to comply with these regulations can result in a product being removed from sale in a particular market, either temporarily or permanently.

In 2005 Herbalife voluntarily elected to withdraw its Sesame & Herb tablet product from the Israeli market. This product, which has been on the market since 1989, was sold only in Israel. Herbalife's voluntary decision to withdraw this product accompanied the initiation of a review by the Israeli Ministry of Health of anecdotal case reports of individuals having varying liver conditions when it was reported that a small number of these individuals had consumed Herbalife products. Herbalife scientists and medical doctors have closely cooperated with the Ministry of Health to facilitate this review. No regulatory action has been taken by the Israeli Ministry of Health or by any of the 25 other regulatory agencies around the world which have looked into related matters.

The FTC, which exercises jurisdiction over the advertising of all of our products, has in the past several years instituted enforcement actions against several dietary supplement companies and against manufacturers of weight loss products generally for false and misleading advertising of some of their products. These enforcement actions have often resulted in consent decrees and monetary payments by the companies involved. In addition, the FTC has increased its scrutiny of the use of testimonials, which we also utilize, as well as the role of expert endorsers and product clinical studies. Although we have not been the target of FTC enforcement action for the advertising of our products, we cannot be sure that the FTC, or comparable foreign agencies, will not question our advertising or other operations in the future. It is unclear whether the FTC will subject our advertisements to increased surveillance to ensure compliance with the principles set forth in its published advertising guidance.

In Europe, where an EU Health Claim regulation is in effect, the European Food Safety Authority, or EFSA, issued opinions following its review of a number of proposed claims dossiers. EFSA's opinions, which have been accepted by the European Commission, will have a limiting effect on the use of certain nutrition-specific claims made for our products. Herbalife is currently seeking regulatory support for its current product claims while preparing for the possibility that based on limited acceptance of our claims by EFSA we may be precluded from continued use of such product claims.

In some countries, regulations applicable to the activities of our distributors also may affect our business because in some countries we are, or regulators may assert that we are, responsible for our distributors' conduct. In these countries, regulators may request or require that we take steps to ensure that our distributors comply with local regulations. The types of regulated conduct include: (1) representations concerning our products; (2) income representations made by us and/or distributors; (3) public media advertisements, which in foreign markets may require prior approval by regulators; and (4) sales of products in markets in which the products have not been approved, licensed or certified for sale.

In some markets, it is possible that improper product claims by distributors could result in our products being reviewed by regulatory authorities and, as a result, being classified or placed into another category as to which stricter regulations are applicable. In addition, we might be required to make labeling changes.

We are unable to predict the nature of any future laws, regulations, interpretations or applications, nor can we predict what effect additional governmental regulations or administrative orders, when and if promulgated, would have on our business in the future. They could, however, require: (1) the reformulation of some products not capable of being reformulated; (2) imposition of additional record keeping requirements; (3) expanded documentation of the properties of some products; (4) expanded or different labeling; (5) additional scientific substantiation regarding product ingredients, safety or usefulness; and/or (6) additional distributor compliance surveillance and enforcement action by us. Any or all of these requirements could have a material adverse effect on our results of operations and financial condition.

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All of our officers and directors are subject to a permanent injunction issued in October 1986 pursuant to the settlement of an action instituted by the California Attorney General, the State Health Director and the Santa Cruz County District Attorney. We consented to the entry of this injunction without in any way admitting the allegations of the complaint. The injunction prevents us and our officers and directors from making specified claims in future advertising of our products and required us to implement some documentation systems with respect to payments to our distributors. At the same time, the injunction does not prevent us from continuing to make specified claims concerning our products that have been made and are being made, provided that we have a reasonable basis for making the claims.

Network Marketing Program

Our network marketing program is subject to a number of federal and state regulations administered by the FTC and various state agencies as well as regulations in foreign markets administered by foreign agencies. Regulations applicable to network marketing organizations generally are directed at ensuring that product sales ultimately are made to consumers and that advancement within our organization is based on sales of the organization's products rather than investments in the organization or other non-retail sales related criteria. For instance, in some markets, there are limits on the extent to which distributors may earn royalty overrides on sales generated by distributors that were not directly sponsored by the distributor. When required by law, we obtain regulatory approval of our network marketing program or, when this approval is not required, the favorable opinion of local counsel as to regulatory compliance. Nevertheless, we remain subject to the risk that, in one or more markets, our marketing system could be found not to be in compliance with applicable regulations. Failure by us to comply with these regulations could have a material adverse effect on our business in a particular market or in general.

On April 12, 2006, the FTC issued a notice of proposed rulemaking which, if implemented in its originally proposed form, would have regulated sellers of business opportunities in the United States. As originally proposed this rule would have applied to us and, if adopted in its originally proposed form, could have adversely affected our U.S. business. On March 18, 2008 the FTC issued a revised proposed rule and, in December, 2011, the FTC issued its final rule. This final rule does not attempt to cover multilevel marketing companies such as Herbalife.

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

We also are subject to the risk of private party challenges to the legality of our network marketing program. For example, in *Webster v. Omnitrition International, Inc.*, 79 F.3d 776 (9th Cir. 1996), the multi-level marketing program of Omnitrition International, Inc., or Omnitrition, was successfully challenged in a class action by Omnitrition distributors who alleged that Omnitrition was operating an illegal pyramid scheme in violation of federal and state laws. We believe that our network marketing program satisfies the standards set forth in the Omnitrition case and other applicable statutes and case law defining a legal network marketing system, in part based upon significant differences between our marketing system and that described in the Omnitrition case.

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Some multi-level marketing programs of other companies have been successfully challenged in the past, while other challenges to multi-level marketing programs of other companies have been defeated. In 2004 Test Ankoop-Test Achat, a Belgian consumer protection organization, sued Herbalife International Belgium, S.V., or HIB, challenging the legality of our network marketing program in Belgium. On November 23, 2011, the Brussels Commercial Court rendered a judgment that HIB is in violation of the Belgian law on Unfair Commercial Practices by establishing, operating or promoting a pyramid scheme where a consumer gives consideration for the opportunity to receive compensation that is derived primarily from the introduction of other consumers into the scheme rather than from the sale or consumption of products. The court ordered cessation of the violation, and a penalty payment of EUR 5,000 per infringement (limited to a total amount of penalty payments of EUR 250,000) starting two months from the official notification of the judgment. HIB has not yet been officially notified of the judgment. The Company believes the trial court's judgment is flawed legally and factually and plans to appeal the judgment. Nonetheless, the Company is exploring various relatively minor clarifications and changes to ensure compliance with the trial court's decision pending the appeal procedure. This or other adverse judicial determinations with respect to our network marketing program, or in proceedings not involving us directly but which challenge the legality of multi-level marketing systems, in Belgium or in any other market in which we operate, could negatively impact our business. We believe that we have meritorious basis to appeal this judgment.

It is an ongoing part of our business to monitor and respond to regulatory and legal developments, including those that may affect our network marketing program. However, the regulatory requirements concerning network marketing programs do not include bright line rules and are inherently fact-based. An adverse judicial determination with respect to our network marketing program could have a material adverse effect to our financial condition and operating results. An adverse determination could: (1) require us to make modifications to our network marketing program, (2) result in negative publicity or (3) have a negative impact on distributor morale. In addition, adverse rulings by courts in any proceedings challenging the legality of multi-level marketing systems, even in those not involving us directly, could have a material adverse effect on our operations.

Transfer Pricing and Similar Regulations

In many countries, including the United States, we are subject to transfer pricing and other tax regulations designed to ensure that appropriate levels of income are reported as earned by our U.S. or local entities and are taxed accordingly. 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.

Although we believe that we are in substantial compliance with all applicable regulations and restrictions, we are subject to the risk that governmental authorities could audit our transfer pricing and related practices and assert that additional taxes are owed. For example, 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, duties, value added taxes, withholding 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 appeal or litigate to reverse the assessments. We have taken advice from our tax advisors and believe that there are substantial defenses to the allegations that additional taxes are owed, and we are vigorously defending against the imposition of additional proposed taxes. The ultimate resolution of these matters may take several years, and the outcome is uncertain.

In the event that the audits or assessments are concluded adversely to us, we may or may not be able to offset or mitigate the consolidated effect of foreign income tax assessments through the use of U.S. foreign tax credits. Because the laws and regulations governing U.S. foreign tax credits are complex and subject to periodic legislative amendment, we cannot be sure that we would in fact be able to take advantage of any foreign tax credits in the future.

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Other Regulations

We also are subject to a variety of other regulations in various foreign markets, including regulations pertaining to social security assessments, employment and severance pay requirements, import/export regulations and antitrust issues. As an example, in many markets, we are substantially restricted in the amount and types of rules and termination criteria that we can impose on distributors without having to pay social security assessments on behalf of the distributors and without incurring severance obligations to terminated distributors. In some countries, we may be subject to these obligations in any event.

Our failure to comply with these regulations could have a material adverse effect on our business in a particular market or in general. Assertions that we failed to comply with regulations or the effect of adverse regulations in one market could adversely affect us in other markets as well by causing increased regulatory scrutiny in those other markets or as a result of the negative publicity generated in those other markets.

Compliance Procedures

As indicated above, Herbalife, our products and our network marketing program are subject, both directly and indirectly through distributors conduct, to numerous federal, state and local regulations, both in the United States and foreign markets. Beginning in 1985, we began to institute formal regulatory compliance measures by developing a system to identify specific complaints against distributors and to remedy any violations of Herbalife's rules by distributors through appropriate sanctions, including warnings, suspensions and, when necessary, terminations. In our manuals, seminars and other training programs and materials, we emphasize that distributors are prohibited from making therapeutic claims for our products.

Our general policy regarding acceptance of distributor applications from individuals who do not reside in one of our markets is to refuse to accept the individual's distributor application.

In order to comply with regulations that apply to both us and our distributors, we conduct considerable research into the applicable regulatory framework prior to entering any new market to identify all necessary licenses and approvals and applicable limitations on our operations in that market. Typically, we conduct this research with the assistance of local legal counsel and other representatives. We devote substantial resources to obtaining the necessary licenses and approvals and bringing our operations into compliance with the applicable limitations. We also research laws applicable to distributor operations and revise or alter our distributor manuals and other training materials and programs to provide distributors with guidelines for operating a business, marketing and distributing