HERBALIFE LTD.
Form 10-Q
July 30, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from to .

Commission file number: 1-32381

HERBALIFE LTD.

(Exact name of registrant as specified in its charter)

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

P.O. Box 309GT

Ugland House, South Church Street

Grand Cayman, Cayman Islands

(Address of principal executive offices) (Zip code)

(213) 745-0500

(Registrant s telephone number, including area code)

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

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

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

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

Number of shares of registrant s common shares outstanding as of July 25, 2012 was 111,842,796

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PART I. FINANCIAL INFORMATION

Item 1. ***FINANCIAL STATEMENTS***

HERBALIFE LTD.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2012	December 31, 2011
	(In thousands, except share and par value amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 286,166	$ 258,775
Receivables, net of allowance for doubtful accounts of $2,800 (2012) and $2,250 (2011)	108,633	89,660
Inventories	262,386	247,696
Prepaid expenses and other current assets	131,919	117,073
Deferred income taxes	56,998	55,615
Total current assets	846,102	768,819
Property, plant and equipment, at cost, net of accumulated depreciation and amortization of $224,071 (2012) and $193,735 (2011)	196,787	193,703
Deferred compensation plan assets	23,119	20,511
Deferred financing costs, net	4,222	4,797
Other assets	43,644	41,125
Marketing related intangibles and other intangible assets, net	311,428	311,764
Goodwill	105,490	105,490
Total assets	$ 1,530,792	$ 1,446,209
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 79,031	$ 57,095
Royalty overrides	206,079	197,756
Accrued compensation	71,131	76,435
Accrued expenses	156,672	152,744
Current portion of long-term debt	763	1,542
Advance sales deposits	36,298	31,702
Income taxes payable	16,356	31,415
Total current liabilities	566,330	548,689
NON-CURRENT LIABILITIES:		
Long-term debt, net of current portion	555,051	202,079
Deferred compensation plan liability	27,118	23,702
Deferred income taxes	72,828	72,348
Other non-current liabilities	38,746	39,203

Total liabilities	1,260,073	886,021
CONTINGENCIES		
SHAREHOLDERS EQUITY:		
Common shares, $0.001 par value; 1.0 billion shares authorized; 111.8 million (2012) and 115.8 million (2011) shares outstanding	112	116
Paid-in-capital in excess of par value	288,050	291,950
Accumulated other comprehensive loss	(42,927)	(37,809)
Retained earnings	25,484	305,931
Total shareholders equity	270,719	560,188
Total liabilities and shareholders equity	$ 1,530,792	$ 1,446,209

See the accompanying notes to unaudited condensed consolidated financial statements.

HERBALIFE LTD.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(In thousands, except per share amounts)			
Product sales	$ 883,068	$ 750,092	$ 1,704,714	$ 1,426,881
Shipping & handling revenues	148,880	129,562	291,409	247,869
Net sales	1,031,948	879,654	1,996,123	1,674,750
Cost of sales	203,737	171,023	399,881	333,816
Gross profit	828,211	708,631	1,596,242	1,340,934
Royalty overrides	335,195	289,232	652,728	553,609
Selling, general & administrative expenses	306,310	266,225	602,703	510,751
Operating income	186,706	153,174	340,811	276,574
Interest expense, net	3,169	855	4,542	3,503
Income before income taxes	183,537	152,319	336,269	273,071
Income taxes	50,169	41,139	94,739	73,872
NET INCOME	$ 133,368	$ 111,180	$ 241,530	$ 199,199
Earnings per share:				
Basic	$ 1.14	$ 0.93	$ 2.08	$ 1.68
Diluted	$ 1.10	$ 0.88	$ 1.98	$ 1.57
Weighted average shares outstanding:				
Basic	116,557	119,007	116,376	118,609
Diluted	121,482	126,617	122,182	126,610
Dividends declared per share	$ 0.30	$ 0.20	$ 0.60	$ 0.33

See the accompanying notes to unaudited condensed consolidated financial statements.

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HERBALIFE LTD.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(In thousands)			
Net income	$ 133,368	$ 111,180	$ 241,530	$ 199,199
Other comprehensive income:				
Foreign currency translation adjustment, net of income taxes	(15,143)	5,256	(3,924)	20,198
Unrealized (loss) gain on derivatives, net of income taxes	528	(98)	(1,194)	171
Total other comprehensive income (loss)	(14,615)	5,158	(5,118)	20,369
Total comprehensive income	$ 118,753	$ 116,338	$ 236,412	$ 219,568

See the accompanying notes to unaudited condensed consolidated financial statements.

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HERBALIFE LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 241,530	$ 199,199
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	36,613	36,657
Excess tax benefits from share-based payment arrangements	(27,212)	(19,544)
Share-based compensation expenses	12,497	11,103
Amortization of discount and deferred financing costs	572	435
Deferred income taxes	(4,896)	671
Unrealized foreign exchange transaction (gain) loss	(4,909)	5,452
Write-off of deferred financing costs		914
Other	120	899
Changes in operating assets and liabilities:		
Receivables	(21,317)	(26,966)
Inventories	(14,476)	(26,489)
Prepaid expenses and other current assets	(9,367)	(6,391)
Other assets	(3,124)	(4,977)
Accounts payable	22,948	19,411
Royalty overrides	7,932	16,873
Accrued expenses and accrued compensation	(3,516)	(2,995)
Advance sales deposits	5,199	26,323
Income taxes	15,433	16,427
Deferred compensation plan liability	3,416	3,645
NET CASH PROVIDED BY OPERATING ACTIVITIES	257,443	250,647
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(39,719)	(44,428)
Proceeds from sale of property, plant and equipment	43	190
Deferred compensation plan assets	(2,609)	(2,055)
NET CASH USED IN INVESTING ACTIVITIES	(42,285)	(46,293)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(70,310)	(38,689)
Borrowings from long-term debt	806,560	390,700
Principal payments on long-term debt	(454,371)	(408,329)
Deferred financing costs		(5,729)
Share repurchases	(505,636)	(115,287)
Excess tax benefits from share-based payment arrangements	27,212	19,544
Proceeds from exercise of stock options and sale of stock under employee stock purchase plan	10,356	8,280
NET CASH USED IN FINANCING ACTIVITIES	(186,189)	(149,510)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(1,578)	9,073

NET CHANGE IN CASH AND CASH EQUIVALENTS	27,391	63,917
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	258,775	190,550
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 286,166	$ 254,467
CASH PAID DURING THE PERIOD		
Interest paid	$ 5,884	$ 4,062
Income taxes paid	$ 86,214	$ 49,738

See the accompanying notes to unaudited condensed consolidated financial statements.

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HERBALIFE LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization

Herbalife Ltd., a Cayman Islands exempt limited liability company, or Herbalife, was incorporated on April 4, 2002. Herbalife Ltd. (and together with its subsidiaries, the Company) is a leading global nutrition company that sells weight management products, nutritional supplements, energy, sports & fitness products and personal care products utilizing network marketing distribution. As of June 30, 2012, the Company sold its products to and through a network of 3.0 million independent distributors, which included 0.2 million in China. In China, the Company currently sells its products through retail stores, sales representatives, sales officers and independent service providers. The Company reports revenue in six geographic regions: North America; Mexico; South and Central America; EMEA, which consists of Europe, the Middle East and Africa; Asia Pacific (excluding China); and China.

2. Significant Accounting Policies

Basis of Presentation

The unaudited interim financial information of the Company has been prepared in accordance with Article 10 of the Securities and Exchange Commission s, or the SEC, Regulation S-X. Accordingly, it does not include all of the information required by generally accepted accounting principles in the U.S., or U.S. GAAP, for complete financial statements. The condensed consolidated balance sheet at December 31, 2011 was derived from the audited financial statements at that date and does not include all the disclosures required by U.S. GAAP. The Company s unaudited condensed consolidated financial statements as of June 30, 2012, and for the three and six months ended June 30, 2012 and 2011, include Herbalife and all of its direct and indirect subsidiaries. In the opinion of management, the accompanying financial information contains all adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company s unaudited condensed consolidated financial statements as of June 30, 2012, and for the three and six months ended June 30, 2012 and 2011. These unaudited condensed consolidated financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2011, or the 2011 10-K. Operating results for the three and six months ended June 30, 2012, are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

Venezuela

Currency restrictions enacted by the Venezuelan government in 2003 have become more restrictive and have impacted the ability of the Company s subsidiary in Venezuela, Herbalife Venezuela, to obtain U.S. dollars in exchange for Venezuelan Bolivars, or Bolivars, at the official foreign exchange rates from the Venezuelan government and its foreign exchange commission, CADIVI. The application and approval processes have been intermittently delayed and the timing and ability to obtain U.S. dollars at the official exchange rates remains uncertain. Effective January 1, 2012, additional laws were enacted that required companies to register with the Registry of Users of the System of Transactions with Securities in Foreign Currency, or RUSITME, prior to transacting with the SITME, the regulated system, which is controlled by the Central Bank of Venezuela. As an alternative exchange mechanism, the Company has participated in certain bond offerings from the Venezuelan government and from Petróleos de Venezuela, S.A., or PDVSA, a Venezuelan state-owned petroleum company, where the Company effectively purchased bonds with its Bolivars and then sold the bonds for U.S. dollars. In other instances, the Company has also used alternative legal exchange mechanisms for currency exchanges.

During the three and six months ended June 30, 2012, the Company recognized $2.0 million and $4.1 million of foreign exchange losses, respectively, as a result of exchanging Bolivars to U.S. dollars using alternative legal exchange mechanisms that were approximately 41% less favorable than the 5.3 Bolivars per U.S. dollar published SITME rate for both periods. During the six months ended June 30, 2012, the Company has exchanged 53.9 million Bolivars for $6.0 million U.S. dollars using these alternative legal exchange mechanisms. As of June 30, 2012, Herbalife Venezuela s net monetary assets and liabilities denominated in Bolivars were approximately $50.4 million, and included approximately $52.6 million in Bolivar denominated cash and cash equivalents. The majority of these Bolivar denominated assets and liabilities were remeasured at the SITME rate. The Company continues to remeasure its Bolivars at the published SITME rate given the limited availability of alternative exchange mechanisms and the uncertainty in the effective exchange rate for alternative exchange mechanisms. These remeasured amounts, including cash and cash equivalents, being reported on the Company s consolidated balance sheet using the published SITME rate may not accurately represent the amount of U.S. dollars that the Company could ultimately realize. Although Venezuela is an important market in the Company s South and Central America region, Herbalife Venezuela s net sales represented approximately 3% and 2% of the Company s

consolidated net sales for the six months ended June 30, 2012 and 2011, respectively, and its total assets represented approximately 5% and 3% of the Company s consolidated total assets as of June 30, 2012 and December 31, 2011, respectively.

See the Company s 2011 10-K for further information on Herbalife Venezuela and Venezuela s highly inflationary economy.

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3. Inventories

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

	June 30, 2012	December 31, 2011
	(In millions)	
Raw materials	$ 22.2	$ 21.7
Work in process	1.9	2.5
Finished goods	238.3	223.5
Total	$ 262.4	$ 247.7

4. Long-Term Debt

Long-term debt consists of the following:

	June 30, 2012	December 31, 2011
	(In millions)	
Borrowings under the senior secured revolving credit facility	$ 555.0	$ 202.0
Capital leases	0.6	1.4
Other debt	0.2	0.2
Total	555.8	203.6
Less: current portion	0.8	1.5
Long-term portion	$ 555.0	$ 202.1

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

In March 2011, the Company used $196.0 million in U.S. dollar borrowings under the Credit Facility to repay all amounts outstanding under the Prior Credit Facility. The Company incurred approximately $5.7 million of debt issuance costs in connection with the Credit Facility. These debt issuance costs were recorded as deferred financing costs on the Company s consolidated balance sheet and are being amortized over the term of the Credit Facility. On June 30, 2012 and December 31, 2011, the weighted average interest rate for borrowings under the Credit Facility was 1.74% and 1.89%, respectively.

The Credit Facility requires the Company to comply with a leverage ratio and an interest coverage ratio. In addition, the Credit Facility contains customary covenants, including covenants that limit or restrict the Company s ability to incur liens, incur indebtedness, make investments, dispose of assets, make certain restricted payments, pay dividends, repurchase its common shares, merge or consolidate and enter into certain transactions with affiliates. As of June 30, 2012 and December 31, 2011, the Company was compliant with its debt covenants under the Credit Facility. The fair value of the Company s Credit Facility approximated its carrying value as of June 30, 2012, due to its variable interest rate which reprices frequently and represents floating market rates. The fair value of the Credit Facility is determined by utilizing Level 2 inputs as defined in Note 12, *Fair Value Measurements*, such as observable market interest rates and yield curves.

During the three months ended March 31, 2012, the Company borrowed $112.0 million and paid a total of $86.0 million under the Credit Facility. During the three months ended June 30, 2012, the Company borrowed $692.0 million primarily to finance the share repurchase agreement described in Note 10, *Shareholders Equity*, and paid a total of $365.0 million under the Credit Facility. As of June 30, 2012 and December 31, 2011, the U.S. dollar amount outstanding under the Credit Facility was $555.0 million and $202.0 million, respectively. There were no outstanding foreign currency borrowings as of June 30, 2012 and December 31, 2011 under the Credit Facility.

Interest expense was $4.5 million and $3.1 million for the three months ended June 30, 2012 and 2011, respectively, and $7.3 million and $6.4 million for the six months ended June 30, 2012 and 2011, respectively. Interest expense for the six months ended June 30, 2011 included a $0.9 million write-off of unamortized deferred financing costs resulting from the extinguishment of the Prior Credit Facility, as discussed above.

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5. Contingencies

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

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

Certain of the Company s subsidiaries have been subject to tax audits by governmental authorities in their respective countries. In certain of these tax audits, governmental authorities are proposing that significant amounts of additional taxes and related interest and penalties are due. The Company and its tax advisors believe that there are substantial defenses to their allegations that additional taxes are owed, and the Company is vigorously contesting the additional proposed taxes and related charges. On May 7, 2010, the Company received an assessment from the Mexican Tax Administration Service in an amount equivalent to approximately $86 million, translated at the period ended spot rate, for various items, the majority of which was Value Added Tax, or VAT, allegedly owed on certain of the Company s products imported into Mexico during the years 2005 and 2006. This assessment is subject to interest and inflationary adjustments. On July 8, 2010, the Company initiated a formal administrative appeal process. On May 13, 2011, the Mexican Tax Administration Service issued a resolution on the Company s administrative appeal. The resolution nullified the assessment. Since the Mexican Tax Administration Service can further review the tax audit findings and re-issue some or all of the original assessment, the Company commenced litigation in the Tax Court of Mexico in August 2011 to dispute the assertions made by the Mexican Tax Administration Service in the case. The Mexican Tax Administration filed a response which was received by the Company in April 2012. The response challenged the assertions that the Company made in its August 2011 filing. The Mexican Tax Administration commenced audits of the Company s Mexican subsidiaries for the period from January to September 2007 and the 2011 year. The tax audits are in the initial stages. Prior to the nullification of the assessment relating to the 2005 and 2006 years the Company entered into agreements with certain insurance companies to allow for the potential issuance of surety bonds in support of its appeal of the assessment. Such surety bonds, if issued, would not affect the availability of the Company s Credit Facility. These arrangements with the insurance companies remain in place in the event that the assessment is re-issued. The Company has not recognized a loss as the Company, based on its analysis and guidance from its advisors, does not believe a loss would be probable if the assessment is re-issued or if any additional assessment is issued. Further, the Company is currently unable to reasonably estimate a possible loss or range of loss that could result from an unfavorable outcome if the assessment was re-issued or any additional assessments were to be issued for these or other periods. The Company believes that it has meritorious defenses if the assessment is re-issued or would have meritorious defenses if any additional assessment is issued.

The Company received an assessment from the Spanish Tax Authority in an amount equivalent to approximately $4.0 million translated at the period ended spot rate, for withholding taxes, interest and penalties related to payments to Spanish distributors for the 2003-2004 period. The Company appealed the assessment to the National Appellate Court (Audiencia Nacional). Based on the ruling of the National Appellate Court, substantially all of the assessment will be nullified, but the Company will begin withholding taxes on payments to Spanish distributors for the 2012 year. If the Spanish Tax Authority raises the same issue in later years, the Company believes that it has meritorious defenses.
The Company has not recognized a loss as the Company does not believe a loss is probable. The Company is currently unable to reasonably estimate a possible loss or range of loss that could result from an unfavorable outcome if additional assessments for other periods were to be issued.

The Company received a tax assessment in September 2009, from the Federal Revenue Office of Brazil in an amount equivalent to approximately $4.2 million U.S. dollars translated at the period ended spot rate, related to withholding/contributions based on payments to the Company s distributors during 2004. The Company has appealed this tax assessment to the Administrative Council of Tax Appeals (2nd level administrative appeal) as it believes it has meritorious defenses and it has not recognized a loss as the Company does not believe a loss is probable. The Company is currently unable to reasonably estimate the amount of the loss that may result from an unfavorable outcome if additional assessments for other periods were to be issued.

The Company received an order from a Rome Labor Court on behalf of the Social Security Authority on March 1, 2012, to pay an amount equivalent to approximately $6.8 million U.S. dollars translated at the period ended spot rate, for social contributions, interest and penalties related to payments to Italian distributors from 2002 through 2005. The Company has filed a writ with the Rome Labor Court appealing the order and the Social Security Authority filed a response brief. At a hearing on July 12, 2012, the Social Security Authority announced its intention to withdraw their claim as well as the order to pay the assessment. A hearing on this matter is scheduled for October 23, 2012.

These matters may take several years to resolve. While the Company believes it has meritorious defenses, it cannot be sure of their ultimate resolution. Although the Company has reserved amounts for certain matters that the Company believes represent the most likely outcome of the

resolution of these related disputes, if the Company is incorrect in the assessment, the Company may have to record additional expenses, when it becomes probable that an increased potential liability is warranted.

6. Segment Information

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

As of June 30, 2012, the Company sold products in 83 countries throughout the world and was organized and managed by geographic regions. The Company aggregates its operating segments, excluding China, into one reporting segment, or the Primary Reporting Segment, as management believes that the Company s operating segments have similar operating characteristics and similar long term operating performance. In making this determination, management believes that the operating segments are similar in the nature of the products sold, the product acquisition process, the types of customers to whom products are sold, the methods used to distribute the products, and the nature of the regulatory environment. China has been identified as a separate reporting segment as it does not meet the criteria for aggregation. The operating information for the Primary Reporting Segment and China, and sales by product line are as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(In millions)			
Net Sales:				
Primary Reporting Segment				
United States	$ 218.1	$ 179.4	$ 422.6	$ 341.6
Mexico	119.5	113.9	236.6	217.8
South Korea	112.5	88.4	205.6	150.5
Others	504.7	446.6	997.3	867.8
Total Primary Reporting Segment	954.8	828.3	1,862.1	1,577.7
China	77.1	51.4	134.0	97.1
Total Net Sales	$ 1,031.9	$ 879.7	$ 1,996.1	$ 1,674.8
Contribution Margin(1)(2):				
Primary Reporting Segment				
United States	$ 93.6	$ 77.7	$ 189.0	$ 146.1
Mexico	49.0	51.0	92.9	91.4
South Korea	55.0	44.3	97.0	71.5
Others	226.1	201.3	443.9	393.0
Total Primary Reporting Segment	423.7	374.3	822.8	702.0
China	69.4	45.1	120.6	85.4
Total Contribution Margin	$ 493.1	$ 419.4	$ 943.4	$ 787.4
Selling, general and administrative expenses(2)	306.3	266.2	602.7	510.8
Interest expense, net	3.2	0.9	4.5	3.5
Income before income taxes	183.6	152.3	336.2	273.1
Income taxes	50.2	41.1	94.7	73.9
Net Income	$ 133.4	$ 111.2	$ 241.5	$ 199.2

Net sales by product line:				
Weight Management	$ 646.8	$ 552.3	$ 1,248.6	$ 1,050.9
Targeted Nutrition	241.0	197.3	465.9	377.5
Energy, Sports and Fitness	52.5	43.4	100.6	78.9
Outer Nutrition	37.7	37.0	74.4	73.6
Literature, promotional and other(3)	53.9	49.7	106.6	93.9
Total Net Sales	$ 1,031.9	$ 879.7	$ 1,996.1	$ 1,674.8
Net sales by geographic region:				
North America	$ 224.7	$ 185.2	$ 435.4	$ 352.2
Mexico	119.5	113.9	236.6	217.8
South and Central America	152.5	130.1	318.0	255.4
EMEA	161.6	162.0	315.6	315.9
Asia Pacific	296.5	237.1	556.5	436.4
China	77.1	51.4	134.0	97.1
Total Net Sales	$ 1,031.9	$ 879.7	$ 1,996.1	$ 1,674.8

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

(2) Compensation to China sales employees and service fees to China independent service providers totaling $33.5 million and $23.7 million for the three months ended June 30, 2012 and 2011, respectively, and totaling $59.3 million and $45.5 million for the six months ended June 30, 2012 and 2011, respectively, are included in selling, general and administrative expenses while distributor compensation for all other countries is included in contribution margin.

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

As of June 30, 2012 and December 31, 2011, total assets for the Company s Primary Reporting Segment were $1,416.0 million and $1,357.4 million, respectively. Total assets for the China segment were $114.8 million and $88.8 million as of June 30, 2012 and December 31, 2011, respectively.

7. Share-Based Compensation

The Company has share-based compensation plans, which are more fully described in Note 9, *Share-Based Compensation*, to the Consolidated Financial Statements in the 2011 10-K. During the six months ended June 30, 2012, the Company granted stock awards subject to continued service, consisting of stock appreciation rights, or SARs, with vesting terms fully described in the 2011 10-K. There were no stock options granted during the six months ended June 30, 2012 and 2011.

For the three months ended June 30, 2012 and 2011, share-based compensation expense amounted to $5.3 million and $5.5 million, respectively. For the six months ended June 30, 2012 and 2011, share-based compensation expense amounted to $12.5 million and $11.1 million, respectively. As of June 30, 2012, the total unrecognized compensation cost related to all non-vested stock awards was $67.4 million and the related weighted-average period over which it is expected to be recognized is approximately 1.8 years.

The following tables summarize the activity under all share-based compensation plans for the six months ended June 30, 2012:

Stock Options & SARs	Awards (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In millions)
Outstanding at December 31, 2011(1)	11,169	$ 22.54	5.5 years	$ 332.8
Granted	2,100	$ 45.07		
Exercised	(1,752)	$ 10.29		
Forfeited	(21)	$ 38.74		
Outstanding at June 30, 2012(1)	11,496	$ 28.50	6.3 years	$ 242.6
Exercisable at June 30, 2012(2)	5,763	$ 18.00	4.4 years	$ 176.0

(1) Includes 1.5 million market condition SARs and 0.9 million market and performance condition SARs that were outstanding as of both June 30, 2012 and December 31, 2011.

(2) Includes 1.5 million market condition SARs that were outstanding and exercisable as of June 30, 2012.

The weighted-average grant date fair value of SARs granted during the three months ended June 30, 2012 and 2011 was $15.27 and $21.42, respectively. The weighted-average grant date fair value of SARs granted during the six months ended June 30, 2012 and 2011 was $15.36 and $21.22, respectively. The total intrinsic value of stock options and SARs exercised during the three months ended June 30, 2012 and 2011 was $24.7 million and $47.1 million, respectively. The total intrinsic value of stock options and SARs exercised during the six months ended June 30, 2012 and 2011 was $94.3 million and $64.0 million, respectively.

Incentive Plan and Independent Directors Stock Units	Shares (In thousands)	Weighted Average Grant Date Fair Value
Outstanding and nonvested December 31, 2011	717.6	$ 12.25
Granted		
Vested	(311.5)	$ 10.06
Forfeited	(0.3)	$ 6.82
Outstanding and nonvested at June 30, 2012	405.8	$ 13.94

The total vesting date fair value of stock units which vested during the three months ended June 30, 2012 and 2011, was $4.5 million and $4.3 million, respectively. The total vesting date fair value of stock units which vested during the six months ended June 30, 2012 and 2011, was $23.0 million and $17.9 million, respectively.

The Company recognizes excess tax benefits associated with share-based compensation to shareholders equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, the Company follows the with-and-without approach. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company, which are also subject to applicable limitations. As of June 30, 2012, and December 31, 2011, the Company had $27.1 million and $20.6 million, respectively, of unrealized excess tax benefits.

8. Income Taxes

Income taxes were $50.2 million and $94.7 million for the three and six months ended June 30, 2012, as compared to $41.1 million and $73.9 million for the same periods in 2011. The effective income tax rate was 27.3% and 28.2% for the three and six months ended June 30, 2012, as compared to 27.0% and 27.1% for the same periods in 2011. The increase in the effective tax rate for the three and six months ended June 30, 2012, as compared to the same periods in 2011, was primarily due to lower net benefits from discrete events partially offset by the impact of changes in the geographic mix of the Company s income.

As of June 30, 2012, the total amount of unrecognized tax benefits, including related interest and penalties was $39.3 million. If the total amount of unrecognized tax benefits was recognized, $32.2 million of unrecognized tax benefits, $4.9 million of interest and $1.2 million of penalties would impact the effective tax rate.

The Company believes that it is reasonably possible that the amount of unrecognized tax benefits could decrease by up to approximately $24.2 million within the next twelve months. Of this possible decrease, $21.4 million would be due to the settlement of audits or resolution of administrative or judicial proceedings. The remaining possible decrease of $2.8 million would be due to the expiration of statute of limitations in various jurisdictions.

9. Derivative Instruments and Hedging Activities

Interest Rate Risk Management

The Company engages in an interest rate hedging strategy for which the hedged transactions are forecasted interest payments on the Company s Credit Facility. The hedged risk is the variability of forecasted interest rate cash flows, where the hedging strategy involves the purchase of interest rate swaps. For the outstanding cash flow hedges on interest rate exposures at June 30, 2012, the maximum length of time over which the Company is hedging certain of these exposures is approximately one year and one month.

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

The Company assesses hedge effectiveness and measures hedge ineffectiveness at least quarterly. During the three and six months ended June 30, 2012 and 2011, the ineffective portion relating to these hedges was immaterial and the hedges remained effective as of June 30, 2012. Consequently, all changes in the fair value of the derivatives are deferred and recorded in other comprehensive income (loss) until the related forecasted transactions are recognized in the consolidated statements of income. The fair value of the interest rate swap agreements are based on third-party quotes. At June 30, 2012 and December 31, 2011, the Company recorded the interest rate swaps as liabilities at their fair value of $3.7 million and $5.1 million, respectively.

Foreign Currency Instruments

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

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The Company designates as cash-flow hedges those foreign currency forward contracts it entered into to hedge forecasted inventory transactions and intercompany management fees that are subject to foreign currency exposures. These contracts allow the Company to buy and sell certain currencies at specified contract rates. Forward contracts are used to hedge forecasted inventory transactions over specific months. Changes in the fair value of these forward contracts, excluding forward points, designated as cash-flow hedges are recorded as a component of accumulated other comprehensive income (loss) within shareholders equity, and are recognized in cost of sales in the consolidated statement of income during the period which approximates the time the hedged inventory is sold. The Company also hedges forecasted intercompany management fees over specific months. Changes in the fair value of these forward contracts designated as cash flow hedges are recorded as a component of accumulated other comprehensive income (loss) within shareholders equity, and are recognized in selling, general and administrative expenses in the consolidated statement of income during the period when the hedged item and underlying transaction affect earnings.

As of June 30, 2012 and December 31, 2011, the aggregate notional amounts of all foreign currency contracts outstanding designated as cash flow hedges were approximately $97.8 million and $64.4 million, respectively. At June 30, 2012, these outstanding contracts were expected to mature over the next twelve months. The Company s derivative financial instruments are recorded on the consolidated balance sheet at fair value based on third-party quotes. As of June 30, 2012, the Company recorded assets at fair value of $2.9 million and liabilities at fair value of $1.7 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. As of December 31, 2011, the Company recorded assets at fair value of $4.4 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. The Company assesses hedge effectiveness and measures hedge ineffectiveness at least quarterly. During the three and six months ended June 30, 2012 and 2011, the ineffective portion relating to these hedges was immaterial and the hedges remained effective as of June 30, 2012 and December 31, 2011.

As of June 30, 2012 and December 31, 2011, the majority of the Company s outstanding foreign currency forward contracts had maturity dates of less than twelve months and fifteen months, respectively, with the majority of freestanding derivatives expiring within one month as of June 30, 2012 and December 31, 2011. There were no foreign currency option contracts outstanding as of June 30, 2012 and December 31, 2011. See Part I, Item 3 *Quantitative and Qualitative Disclosures About Market Risk* in this Quarterly Report on Form 10-Q for foreign currency instruments outstanding as of June 30, 2012, where the Company had aggregate notional amounts of approximately $348.6 million of foreign currency contracts, inclusive of freestanding contracts and contracts designated as cash flow hedges.

Gains and Losses on Derivative Instruments

The following table summarizes gains (losses) relating to derivative instruments recorded in other comprehensive income (loss) during the three and six months ended June 30, 2012 and 2011:

	Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss)			
	For the Three Months Ended		For the Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(In millions)			
Derivatives designated as hedging instruments:				
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	$ 1.5	$ (0.6)	$ (0.2)	$ (2.5)
Interest rate swaps		$ (1.5)	$ (0.4)	$ (1.5)

The following table summarizes gains (losses) relating to derivative instruments recorded to income during the three and six months ended June 30, 2012 and 2011:

	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income			
		For the Three Months Ended		For the Six Months Ended	
		June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
		(In millions)			
Derivatives designated as hedging instruments:					
Foreign exchange currency contracts relating to inventory hedges and intercompany management fee hedges (1)	Selling, general and administrative expenses	$ (0.3)	$ (0.1)	$ (0.2)	

Derivatives not designated as hedging instruments:					
Foreign exchange currency contracts	Selling, general and administrative expenses	$ 0.2	$ (1.8)	$ (10.6)	$ 1.1

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

The following table summarizes gains (losses) relating to derivative instruments reclassified from accumulated other comprehensive loss into income during the three and six months ended June 30, 2012 and 2011:

	Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income			
		For the Three Months Ended		For the Six Months Ended	
		June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
		(In millions)			
Derivatives designated as hedging instruments:					
Foreign exchange currency contracts relating to inventory hedges	Cost of sales	$ 0.2	$ (0.1)	$ 0.2	$ (0.3)
Foreign exchange currency contracts relating to intercompany management fee hedges	Selling, general and administrative expenses	$ 1.3	$ (0.9)	$ 2.5	$ (1.5)
Interest rate swaps	Interest expense, net	$ (0.9)	$ (0.9)	$ (1.8)	$ (1.8)

The Company reports its derivatives at fair value as either assets or liabilities within its condensed consolidated balance sheet. See Note 12, *Fair Value Measurements*, for information on derivative fair values and their condensed consolidated balance sheet location as of June 30, 2012 and December 31, 2011.

10. Shareholders Equity

Changes in shareholders equity for the six months ended June 30, 2012 were as follows (in thousands):

Total shareholders equity as of December 31, 2011	$ 560,188
Net income	241,530
Issuance of common shares from exercise of stock options, SARs, restricted stock grants, warrants, and employee stock purchase plan	10,356
Excess tax benefit from exercise of stock options, SARs and restricted stock grants	27,212
Additional capital from share-based compensation	12,497
Repurchases of common shares	(505,636)
Dividends and dividend equivalents	(70,310)
Foreign currency translation adjustment, net of income taxes	(3,924)
Unrealized loss on derivatives, net of income taxes	(1,194)
Total shareholders equity as of June 30, 2012	$ 270,719

Dividends

The declaration of future dividends is subject to the discretion of the Company s board of directors and will depend upon various factors, including its earnings, financial condition, restrictions imposed by the Credit Facility and the terms of any other indebtedness that may be outstanding, cash requirements, future prospects and other factors deemed relevant by its board of directors. The Credit Facility permits

payments of dividends as long as no default or event of default exists and the consolidated leverage ratio specified in the Credit Facility is not exceeded.

On February 21, 2012, the Company announced that its board of directors approved a cash dividend of $0.30 per common share in an aggregate amount of $35.2 million that was paid to shareholders on March 22, 2012. On April 30, 2012, the Company announced that its board of directors approved a cash dividend of $0.30 per common share in an aggregate amount of $35.1 million that was paid to shareholders on May 30, 2012.

The aggregate amount of dividends declared and paid during the three months ended June 30, 2012 and 2011 were $35.1 million and $23.9 million, respectively. The aggregate amount of dividends declared and paid during the six months ended June 30, 2012 and 2011 were $70.3 million and $38.7 million, respectively.

Share Repurchases

As of June 30, 2012, the Company had a $1 billion share repurchase program that expires on December 2014. The Credit Facility permits the Company to repurchase its common shares as long as no default or event of default exists and the consolidated leverage ratio specified in the Credit Facility is not exceeded. On May 2, 2012, the Company entered into an agreement with Merrill Lynch International to repurchase $427.9 million of its common shares which will complete its current $1 billion share repurchase program by July 2012. Under the terms of the repurchase agreement, the Company paid $427.9 million on May 4, 2012 and the amount is reflected within shareholders equity on the Company s condensed consolidated balance sheet. The Company received 5.3 million of its common shares in June 2012 as described below, and will receive the remainder after completion of the program in July 2012. The total number of common shares ultimately repurchased under the agreement will be determined based generally upon a discounted volume-weighted average share price of the Company s common shares over the course of the program.

During the three months ended March 31, 2012, the Company repurchased approximately 0.7 million of its common shares through open market purchases at an aggregate cost of approximately $50.0 million or an average cost of $67.24 per share. During the three months ended June 30, 2012, the Company repurchased approximately 5.3 million of its common shares through open market purchases under the repurchase agreement described above at an aggregate cost of approximately $239.0 million or an average cost of $45.05 per share. The average cost per share of shares acquired during the three months ended June 30, 2012 under the repurchase agreement may be subject to change based on the final cumulative discounted volume-weighted average share price which will not be determined until the completion of the program in July 2012. As of June 30, 2012, the remaining authorized capacity under both the Company s share repurchase program and repurchase agreement with Merrill Lynch International was approximately $188.9 million which was completed in July 2012 as described in Note 13, *Subsequent Events*.

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

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

11. Earnings Per Share

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands)			
Weighted average shares used in basic computations	116,557	119,007	116,376	118,609
Dilutive effect of exercise of equity grants outstanding	4,925	7,350	5,726	7,748
Dilutive effect of warrants		260	80	253
Weighted average shares used in diluted computations	121,482	126,617	122,182	126,610

There were an aggregate of 2.6 million of equity grants that were outstanding during both the three and six months ended June 30, 2012 and an aggregate of 1.2 million of equity grants that were outstanding during both the three and six months ended June 30, 2011, consisting of stock options, SARs, and stock units, but were not included in the computation of diluted earnings per share because their effect would be anti-dilutive.

12. Fair Value Measurements

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

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

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

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

The Company measures certain assets and liabilities at fair value as discussed throughout the notes to its consolidated financial statements. Foreign exchange currency contracts and interest rate swaps are valued using standard calculations and models. Foreign exchange currency contracts are valued primarily based on inputs such as observable forward rates, spot rates and foreign currency exchange rates at the reporting period ended date. Interest rate swaps are valued primarily based on inputs such as LIBOR and swap yield curves at the reporting period ended date. Assets or liabilities that have recurring measurements and are measured at fair value consisted of Level 2 derivatives and are shown below at their gross values at June 30, 2012, and December 31, 2011:

Fair Value Measurements at Reporting Date

	Derivative Balance Sheet Location	Significant Other Observable Inputs (Level 2) Fair Value at June 30, 2012	Significant Other Observable Inputs (Level 2) Fair Value at December 31, 2011
		(in millions)	
ASSETS:			
Derivatives designated as cash flow hedging instruments:			
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	Prepaid expenses and other current assets	$ 2.9	$ 4.4
Derivatives not designated as cash flow hedging instruments:			
Foreign exchange currency contracts	Prepaid expenses and other current assets	$ 1.0	$ 0.8
		$ 3.9	$ 5.2
LIABILITIES:			
Derivatives designated as cash flow hedging instruments:			
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	Accrued expenses	$ 1.7	
Interest rate swaps	Accrued expenses	$ 3.7	$ 5.1
Derivatives not designated as hedging instruments:			
Foreign exchange currency contracts	Accrued expenses	$ 1.8	$ 0.7
		$ 7.2	$ 5.8

13. Subsequent Events

On July 26, 2012, the Company amended its Credit Facility and entered into a $500 million term loan with a syndicate of financial institutions as lenders, or the Term Loan. The Term Loan is in addition to the Company s current revolving credit facility, and matures on March 9, 2016. The

Company used the majority of its proceeds from the Term Loan to pay down its revolving credit facility. The Company will make regular scheduled payments for the Term Loan consisting of both principal and interest components. Based on the Company s consolidated leverage ratio, the Term Loan bears interest at either LIBOR plus the applicable margin between 1.50% and 2.50% or the base rate plus the applicable margin between 0.50% and 1.50% which are the same terms as the Company s revolving credit facility as described in Note 4, *Long-Term Debt*. The Company incurred approximately $4.5 million of debt issuance costs in connection with the Term Loan. The debt issuance costs will be recorded as deferred financing costs on the Company s consolidated balance sheet and will be amortized over the life of the Term Loan.

On July 27, 2012, the Company completed its current $1 billion share repurchase program. The Company repurchased 3.9 million of its common shares using its remaining $188.9 million under the share repurchase agreement with Merrill Lynch International. The final cumulative discounted volume-weighted average share price was $46.37 per share. See Note 10, *Shareholders Equity* for further description of the Company s share repurchase program and its share repurchase agreement with Merrill Lynch International.

On July 30, 2012, the Company announced that its board of directors authorized a new $1 billion share repurchase program that will expire on June 30, 2017 and that will allow the Company to repurchase its common shares, at such times and prices as determined by the Company s management as market conditions warrant.

On July 30, 2012, the Company announced that its board of directors approved a cash dividend of $0.30 per common share, payable on August 30, 2012 to shareholders of record as of August 14, 2012.

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

Overview

We are a leading global nutrition company that sells weight management products, nutritional supplements, energy, sports & fitness products and personal care products utilizing network marketing distribution. As of June 30, 2012, we sold our products to and through a network of 3.0 million independent distributors, which included 0.2 million in China. In China, we currently sell our products through retail stores, sales representatives, sales officers and independent service providers. We pursue our mission of changing people s lives by providing a financially rewarding business opportunity to distributors and quality products to distributors and their customers who seek a healthy lifestyle. We believe the quality of our products and the effectiveness of our distribution network, coupled with geographic expansion, have been the primary reasons for our success throughout our 32-year operating history. As of June 30, 2012, we sold our products in 83 countries.

Our sales are generated primarily from distributor purchases that are for reasons other than any requirements to earn multi-level compensation under the company s marketing plan. The majority of our distributors have not sponsored another distributor and do not earn compensation relating to products sales made by or to other distributors. We believe these distributors have joined the network for reasons other than participating in our multi-level compensation plan such as personal consumption and reselling products to others.

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

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

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

We report revenue from our six regions:

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

Volume Points by Geographic Region

A key non-financial measure we focus on is Volume Points on a Royalty Basis, or Volume Points, which is essentially our weighted average measure of product sales volume. Volume Points, which are unaffected by exchange rates or price changes, are used by management as a proxy

for sales trends because in general, an increase in Volume Points in a particular geographic region or country indicates an increase in our local currency net sales while a decrease in Volume Points in a particular geographic region or country indicates a decrease in our local currency net sales.

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. If a product is available in different quantities then the various sizes will have different Volume Point values. If a new product is not introduced in or otherwise expected to be sold in the U.S., we will determine the Volume Point value for that product based on a review of various factors in the regions and countries in which we will market the product, including the Volume Point to local currency ratio of existing products in the relevant countries. In general, once assigned, a Volume Point value is consistent in each region and country and does not change from year to year. The reason Volume Points are used in the manner described above is that we use Volume Points for distributor qualification and recognition purposes and therefore we attempt to keep Volume Points for a similar or like product consistent on a global basis. However, because Volume Points are a function of value rather than product type or size, they are not a reliable measure for product mix. As an example, an increase in Volume Points in a specific country or region could mean a significant increase in sales of less expensive products or a marginal increase in sales of expensive products.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	% Change	2012	2011	% Change
			(Volume Points in millions)			
North America	305.0	259.0	17.8%	603.4	502.0	20.2%
Mexico	203.9	174.1	17.1%	395.3	338.6	16.7%
South & Central America	167.2	129.1	29.5%	331.9	254.2	30.6%
EMEA	154.5	136.9	12.9%	300.3	274.9	9.2%
Asia Pacific (excluding China)	313.8	243.8	28.7%	587.6	442.5	32.8%
China	57.7	37.6	53.5%	99.1	70.4	40.8%
Worldwide	1,202.1	980.5	22.6%	2,317.6	1,882.6	23.1%

Average Active Sales Leaders by Geographic Region

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	% Change	2012	2011	% Change
North America	65,828	55,920	17.7%	64,180	54,234	18.3%
Mexico	55,969	46,365	20.7%	54,322	44,422	22.3%
South & Central America	41,966	33,064	26.9%	41,290	32,017	29.0%
EMEA	42,972	37,624	14.2%	42,152	36,792	14.6%
Asia Pacific (excluding China)	61,329	45,501	34.8%	58,517	43,006	36.1%
China	11,949	8,375	42.7%	10,740	7,824	37.3%
Worldwide(1)	269,974	218,224	23.7%	261,147	211,630	23.4%

(1) Worldwide Average Active Sales Leaders may not equal the sum of the Average Active Sales Leaders in each region due to the calculation being an average of Sales Leaders active in a period, not a summation, and the fact that some sales leaders are active in more than one region but are counted only once in the worldwide amount.

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

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

Sales Leaders Statistics (Excluding China)	2012	2011
	(In thousands)	
January 1 total sales leaders	501.3	434.2
January & February new sales leaders	34.8	28.9
Demoted sales leaders (did not re-qualify)	(151.3)	(144.8)
Other sales leaders (resigned, etc)	(0.8)	(0.8)
End of February total sales leaders	384.0	317.5

The distributor statistics below further highlight the calculation for retention.

Sales Leaders Retention (Excluding China)	**2012**	**2011**
	(In thousands)	
Sales leaders needed to re-qualify	314.9	283.2
Demoted sales leaders (did not re-qualify)	(151.3)	(144.8)
Total re-qualified	163.6	138.4
Retention rate	52.0%	48.9%

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

	Number of Sales Leaders		Sales Leaders Retention Rate	
	2012	2011	2012	2011
North America	79,150	72,152	51.1%	48.6%
Mexico	67,959	54,526	59.2%	57.9%
South & Central America	65,653	50,288	55.7%	47.3%
EMEA	55,121	49,696	61.5%	58.6%
Asia Pacific (excluding China)	116,158	90,822	40.2%	38.4%
Total Sales Leaders	384,041	317,484	52.0%	48.9%
China	26,262	30,543		
Worldwide Total Sales Leaders	410,303	348,027		

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

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

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

Presentation

Retail sales represent the gross sales amounts on our invoices to distributors before distributor allowances, as defined below, and *net sales,* which reflect distributor allowances and shipping and handling revenues, represent what we collect and recognize as net sales in our financial statements. We discuss retail sales because of its fundamental role in our compensation systems, internal controls and operations, including its role as the basis upon which distributor discounts, royalties and bonuses are awarded. In addition, it is used as the basis for certain information included in daily and monthly reports reviewed by our management. However, such a measure is not in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. Retail sales should not be considered in isolation from, nor as a substitute for, net sales and other consolidated income or cash flow statement data prepared in accordance with U.S. GAAP, or as a measure of profitability or liquidity. A reconciliation of net sales to retail sales is presented below under Results of Operations. *Product sales* represent the actual product purchase price paid to us by our distributors, after giving effect to distributor discounts referred to as distributor allowances, which approximate 50% of retail sales prices. Distributor allowances as a percentage of retail sales may vary by country depending upon regulatory restrictions that limit or otherwise restrict distributor allowances. We also offer reduced distributor allowances with respect to certain products worldwide.

Our international operations have provided and will continue to provide a significant portion of our total net sales. As a result, total net sales will continue to be affected by fluctuations in the U.S. dollar against foreign currencies. In order to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency fluctuations, in addition to comparing the percent change in net sales

from one period to another in U.S. dollars, we also compare the percent change in net sales from one period to another period using *net sales in local currency* disclosure. Net sales in local currency is not a U.S. GAAP financial measure. Net sales in local currency removes from net sales in U.S. dollars the impact of changes in exchange rates between the U.S. dollar and the functional currencies of our foreign subsidiaries, by translating the current period net sales into U.S. dollars using the same foreign currency exchange rates that were used to translate the net sales for the previous comparable period. We believe presenting net sales in local currency is useful to investors because it allows a more meaningful comparison of net sales of our foreign operations from period to period. However, net sales in local currency measures should not be considered in isolation or as an alternative to net sales in U.S. dollars measures that reflect current period exchange rates, or to other financial measures calculated and presented in accordance with U.S. GAAP.

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

Royalty overrides are our most significant expense and consist of:

- royalty overrides and production bonuses which total approximately 15% and 7%, respectively, of the retail sales of weight management, targeted nutrition, energy, sports & fitness, Outer Nutrition and promotional products;

- the Mark Hughes bonus payable to some of our most senior distributors in the aggregate amount of up to 1% of retail sales of weight management, targeted nutrition, energy, sports & fitness, Outer Nutrition products and promotional products; and

- other discretionary incentive cash bonuses to qualifying distributors.

Royalty overrides are generally earned based on retail sales and provide potential earnings to distributors of up to 23% of retail sales or approximately 33% of our net sales. Royalty overrides are generally compensation to distributors for their services in managing the development, retention and improved productivity of their sales organizations and are paid to several levels of distributors on each sale. Due to restrictions on direct selling in China, our sales employees in China, prior to the transfer into independent service providers, were compensated with wages, bonuses and benefits and our independent service providers in China are compensated with service fees instead of the distributor allowances and royalty overrides utilized in our traditional marketing program. Compensation to China sales employees, sales officers and independent service providers are included in selling, general and administrative expenses. Because of local country regulatory constraints, we may be required to modify our typical distributor incentive plans as described above. We also pay reduced royalty overrides with respect to certain products worldwide. Consequently, the total royalty override percentage may vary over time.

Royalty overrides together with distributor allowances of up to 50% of retail sales prices represent the potential earnings to distributors of up to approximately 73% of retail sales.

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

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

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

Summary Financial Results

Net sales for the three and six months ended June 30, 2012 were $1,031.9 million and $1,996.1 million, respectively. Net sales increased $152.3 million, or 17.3%, and $321.4 million, or 19.2%, for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales for the three and six months ended June 30, 2012 increased 25.4% and 24.9%, respectively, as compared to the same periods in 2011. The increase in net sales was primarily due to the continued successful adoption and operation of daily consumption DMOs; increased distributor engagement as reflected by record 2012 sales leader retention and an increase in average active sales leaders; branding activities and increased distributor recruiting.

Net income for the three and six months ended June 30, 2012 was $133.4 million, or $1.10 per diluted share, and $241.5 million, or $1.98 per diluted share, respectively. Net income increased $22.2 million, or 20.0%, and $42.3 million, or 21.3%, for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. The increase for the three and six months ended June 30, 2012 was

primarily due to higher contribution margin driven by the net sales growth discussed above, partially offset by higher selling, general and administrative expenses to support the growth of our business and higher income taxes.

Net income for the six months ended June 30, 2011 included a $0.9 million pre-tax ($0.7 million post-tax) additional interest expense from the write-off of unamortized deferred financing costs resulting from the debt refinancing arrangement in March 2011. See Note 4, *Long Term Debt*, to the Condensed Consolidated Financial Statements for further information on our debt refinancing.

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Results of Operations

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

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

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Operations:				
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	19.7	19.4	20.0	19.9
Gross profit	80.3	80.6	80.0	80.1
Royalty overrides(1)	32.5	32.9	32.7	33.1
Selling, general and administrative expenses(1)	29.7	30.3	30.2	30.5
Operating income	18.1	17.4	17.1	16.5
Interest expense, net	0.3	0.1	0.2	0.2
Income before income taxes	17.8	17.3	16.9	16.3
Income taxes	4.9	4.7	4.8	4.4
Net income	12.9%	12.6%	12.1%	11.9%

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

Net Sales

The following chart reconciles retail sales to net sales:

Sales by Geographic Region

	Three Months Ended June 30,										
	2012					2011					
	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Income	Net Sales	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	Change in Net Sales
	(Dollars in millions)										
North America	$ 356.2	$ (169.6)	$ 186.6	$ 38.1	$ 224.7	$ 294.2	$ (139.9)	$ 154.3	$ 30.9	$ 185.2	21.3%
Mexico	193.2	(94.3)	98.9	20.6	119.5	183.9	(89.7)	94.2	19.7	113.9	4.9%
South & Central America	251.4	(120.6)	130.8	21.7	152.5	212.0	(100.3)	111.7	18.4	130.1	17.2%
EMEA	261.2	(126.0)	135.2	26.4	161.6	261.5	(126.0)	135.5	26.5	162.0	(0.2)%

Asia Pacific	464.2	(209.8)	254.4	42.1	296.5	370.5	(167.5)	203.0	34.1	237.1	25.1%
China	94.1	(17.0)	77.1		77.1	58.6	(7.2)	51.4		51.4	50.0%
Worldwide	$ 1,620.3	$ (737.3)	$ 883.0	$ 148.9	$ 1,031.9	$ 1,380.7	$ (630.6)	$ 750.1	$ 129.6	$ 879.7	17.3%

	Six Months Ended June 30,										
	2012					2011					
	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Income	Net Sales	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	Change in Net Sales
	(Dollars in millions)										
North America	$ 689.5	$ (327.8)	$ 361.7	$ 73.7	$ 435.4	$ 560.0	$ (266.9)	$ 293.1	$ 59.1	$ 352.2	23.6%
Mexico	382.5	(186.7)	195.8	40.8	236.6	351.9	(171.7)	180.2	37.6	217.8	8.6%
South & Central America	523.7	(250.7)	273.0	45.0	318.0	417.6	(198.5)	219.1	36.3	255.4	24.5%
EMEA	510.0	(246.0)	264.0	51.6	315.6	509.8	(245.4)	264.4	51.5	315.9	(0.1)%
Asia Pacific	870.3	(394.1)	476.2	80.3	556.5	684.8	(311.8)	373.0	63.4	436.4	27.5%
China	161.4	(27.4)	134.0		134.0	109.4	(12.3)	97.1		97.1	38.0%
Worldwide	$ 3,137.4	$ (1,432.7)	$ 1,704.7	$ 291.4	$ 1,996.1	$ 2.633.5	$ (1.206.6)	$ 1.426.9	$ 247.9	$ 1,674.8	19.2%

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

The factors described above have helped distributors increase their business, which in turn helps drive Volume Point growth in our business, and thus, net sales growth. The discussion below of net sales by geographic region further details some of the specific drivers of growth of our business and causes of sales fluctuations during the three and six months ended June 30, 2012 as compared to the same periods in 2011, as well as the unique growth or contraction factors specific to certain geographic regions or significant countries within a region. We believe that the correct business foundation, coupled with ongoing training and promotional initiatives, is required to increase recruiting and retention of distributors and retailing of our products. The correct business foundation includes strong country management that works closely with the distributor leadership, actively engaged and unified distributor leadership, a broad product line that appeals to local consumer needs, a favorable regulatory environment, a scalable and stable technology platform and an attractive distributor marketing plan. Initiatives, such as Success Training Seminars, Leadership Development Weekends, Promotional Events and regional Extravaganzas are integral components of developing a highly motivated and educated distributor sales organization that will work toward increasing the recruitment and retention of distributors.

We anticipate that our strategy will continue to include creating and maintaining growth within existing markets while expanding into new markets. In addition, new ideas and DMOs are being generated in many of our regional markets and are globalized where applicable, through the combined efforts of distributors, country management or regional and corporate management. While we support a number of different DMOs, one of the more popular DMOs is the daily consumption DMO. Under our traditional DMO, a distributor typically sells to its customers on a somewhat infrequent basis (e.g., monthly) which provides fewer opportunities for interaction with their customers. Under a daily consumption DMO, a distributor interacts with its customers on a more frequent basis which enables the distributor to better educate and advise customers about nutrition and the proper use of the products and helps promote daily usage as well, thereby helping the distributor grow his or her business. Specific examples of DMOs include the Club concept, Premium Herbalife Opportunity Meetings, the Healthy Breakfast concept, and the Internet/Sampling and Weight Loss Challenge. Management s strategy is to review the applicability of expanding successful country initiatives throughout a region, and where appropriate, financially support the globalization of these initiatives.

North America

The North America region reported net sales of $224.7 million and $435.4 million for the three and six months ended June 30, 2012, respectively. Net sales increased $39.5 million, or 21.3%, and $83.2 million, or 23.6%, for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales increased 21.5% and 23.7% for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. The overall increase in net sales in the region was a result of net sales growth in the U.S. of $38.8 million, or 21.6%, and $81.1 million, or 23.7%, for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011.

In the U.S. we continue to see the success of our distributors converting their business focus toward daily consumption DMOs, especially the Nutrition Club.

Average active sales leaders in the region increased 17.7% and 18.3% for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. Average active sales leaders in the U.S. increased 17.6% and 18.3% for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. Total sales leaders in the region increased 10.8% as of June 30, 2012 compared to June 30, 2011.

The region hosted General Market Leadership Development Weekends in April 2012 with approximately 5,000 attendees and Latin Market Leadership Development Weekends in June with approximately 13,000 attendees.

Mexico

The Mexico region reported net sales of $119.5 million and $236.6 million for the three and six months ended June 30, 2012, respectively. Net sales for the three and six months ended June 30, 2012 increased $5.6 million, or 4.9%, and $18.8 million, or 8.6%, respectively, as compared to the same periods in 2011. In local currency, net sales for the three and six months ended June 30, 2012 increased 21.1% and 21.2%, respectively, as compared to the same periods in 2011. The fluctuation of foreign currency rates had an unfavorable impact of $18.5 million and $27.3 million on net sales for the three and six months ended June 30, 2012, respectively.

The growth in net sales is primarily the result of increased distributor engagement as well as the continued success of the Nutrition Club DMO. One of the recent growth drivers in Mexico has been the ongoing transition from home clubs to commercial clubs by many distributors, which are able to generate higher volumes of sales through the servicing of more customers and longer operating hours. In addition, since the beginning of 2010, we have significantly increased our product access through an expanded distribution network throughout the country and added regional sales staff to increase our field support for distributors in their local towns, cities and states, in an attempt to more deeply penetrate this important market.

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Average active sales leaders in Mexico increased 20.7% and 22.3% for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. Total sales leaders in Mexico increased 21.3% as of June 30, 2012, compared to June 30, 2011.

The region hosted Leadership Weekends in May 2012 in two cities with approximately 15,000 attendees.

South and Central America

The South and Central America region reported net sales of $152.5 million and $318.0 million for the three and six months ended June 30, 2012, respectively. Net sales increased $22.4 million, or 17.2%, and $62.6 million, or 24.5%, for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales increased 29.4% and 32.5% for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. The fluctuation of foreign currency rates had a $15.7 million and $20.3 million unfavorable impact on net sales for the three and six months ended June 30, 2012, respectively. The increase in net sales for the three and six months ended June 30, 2012 was due to net sales increases in most of the countries in the region led by Venezuela. This growth was primarily driven by the adoption and expansion of the Nutrition Club and other daily consumption DMOs throughout the region.

Net sales in Brazil decreased $4.4 million, or 6.0%, and increased $8.6 million, or 6.0%, for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales increased 15.2% and 20.1% for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. The increase in local currency net sales was primarily the result of the successful ongoing adoption of Nutrition Clubs and other daily consumption DMOs. We also had price increases of approximately 5% and 5.5% in July 2011 and March 2012, respectively, which contributed to the increased sales. The fluctuation of foreign currency rates had a $15.5 million and $20.3 million unfavorable impact on net sales in Brazil for the three and six months ended June 30, 2012, respectively.

Net sales in Venezuela increased $16.4 million, or 128.2%, and $29.2 million, or 119.9%, for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. The overall sales growth was primarily due to increased distributor engagement and growth in the Nutrition Club DMO. We also had price increases of 4.5%, and 9.5% in August 2011, and January 2012, respectively, which contributed to the increase in sales. There was no exchange rate impact to sales for either the three or six months ended June 30, 2012 as compared to the same periods in 2011 as the 5.3 Venezuelan Bolivars to U.S. dollar exchange rate for which we remeasure sales in Venezuela did not change during either of those comparative periods. See *Liquidity and Capital Resources Working Capital and Operating Activities* below for further discussion of currency exchange rate issues in Venezuela.

Average active sales leaders in the region increased 26.9% and 29.0% for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. Total sales leaders in the region increased 27.2% as of June 30, 2012 compared to June 30, 2011.

In May 2012, the region held three Extravaganzas in Brazil with approximately 13,000 attendees.

EMEA

The EMEA region reported net sales of $161.6 million and $315.6 million for the three and six months ended June 30, 2012, respectively. Net sales was relatively flat for the three and six months ended June 30, 2012 as compared to the same periods in 2011. In local currency, net sales increased 11.1% and 7.9% for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. The fluctuation of foreign currency rates had an unfavorable impact on net sales of $18.4 million and $25.4 million for the three and six months ended June 30, 2012, respectively.

Net sales in Italy decreased $7.6 million, or 22.1%, and $12.7 million, or 19.4%, for the three and six months ended June 30, 2012, respectively as compared to the same periods in 2011. In local currency, net sales decreased 12.9% for both the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. The decline in Italy is driven by a decrease in recruitment. While too early to know for certain, indicators suggest that the market may be beginning to embrace daily consumption DMOs which generally cause short to medium term declines in the business.

Net sales in Russia increased $7.0 million, or 39.3%, and $10.8 million, or 29.8%, for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales increased 54.0% and 38.9% for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. The increase in Russia was driven by the ongoing adoption of the Commercial Nutrition Club, additional sales centers which have increased access to our products and improving brand image including the sponsorship of FC Spartak Moscow football club.

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Net sales in Spain decreased $0.2 million, or 1.5%, and increased $0.4 million, or 1.7%, for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales in Spain increased 10.4% and 10.2% for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. The increase in Spain was mainly due to the positive effect of increased distributor engagement and recruitment which was aided by our sponsorship of FC Barcelona.

Average active sales leaders in the region increased 14.2% and 14.6% for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. Total sales leaders in the region increased 7.3% as of June 30, 2012 compared to June 30, 2011.

Asia Pacific

The Asia Pacific region, which excludes China, reported net sales of $296.5 million and $556.5 million for the three and six months ended June 30, 2012, respectively. Net sales increased $59.4 million, or 25.1%, and $120.1 million, or 27.5%, for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales increased 33.5% for both the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. The fluctuation of foreign currency rates had an unfavorable impact of $20.0 million and $26.1 million on net sales for the three and six months ended June 30, 2012, respectively. The increase in net sales for the three and six months ended June 30, 2012 reflected growth in substantially all the countries in the region.

Net sales in South Korea increased $24.0 million, or 27.2%, and $55.0 million, or 36.6%, for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales increased 35.3% and 42.0% for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. The increase in net sales was primarily driven by the successful adoption and operation of the Nutrition Club and other daily consumption DMOs along with the Mega and Premium Herbalife Opportunity Meetings. The fluctuation of foreign currency rates had an unfavorable impact on net sales of $7.2 million and $8.1 million for the three and six months ended June 30, 2012, respectively.

Net sales in Taiwan increased $0.9 million, or 2.3%, and decreased $2.9 million, or 3.8%, for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales increased 5.0% and decreased 1.8% for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. The fluctuation of foreign currency rates had an unfavorable impact on net sales of $1.1 million and $1.5 million for the three and six months ended June 30, 2012, respectively.

Net sales in Malaysia increased $11.2 million, or 52.4%, and $19.9 million, or 49.6%, for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales increased 57.1% and 52.3% for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. The increase in net sales was primarily driven by the continued success of the Road Show DMO and Mega Herbalife Opportunity Meetings which generated positive distributor momentum, increased recruiting and increased activity in Nutrition Clubs. The fluctuation of foreign currency rates had an unfavorable impact on net sales of $1.0 million and $1.1 million for the three and six months ended June 30, 2012, respectively.

Net sales in India increased $3.4 million, or 12.0%, and $12.0 million, or 21.7%, for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales increased 34.8% and 40.5% for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. The increase in net sales for the three and six months ended June 30, 2012 was primarily driven by increased product access and the successful adoption of the daily consumption DMOs, especially the Nutrition Club. The fluctuation of foreign currency rates had an unfavorable impact on net sales of $6.5 million and $10.4 million for the three and six months ended June 30, 2012, respectively.

Net sales in Indonesia increased $13.5 million, or 100.3%, and $24.1 million, or 102.5%, for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales increased 116.5% and 113.7% for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. The fluctuation of foreign currency rates had an unfavorable impact on net sales of $2.2 million and $2.6 million for the three and six months ended June 30, 2012, respectively. The primary catalyst driving the sales increase in Indonesia was the growth in Nutrition Clubs.

Average active sales leaders in the region increased 34.8% and 36.1% for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. Total sales leaders in the region increased 26.6% as of June 30, 2012 compared to June 30, 2011.

In May 2012, the region hosted two regional extravaganzas, in South Korea and Singapore, with approximately 19,800 and 24,800 attendees, respectively.

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China

Net sales in China were $77.1 million and $134.0 million for the three and six months ended June 30, 2012, respectively. Net sales increased $25.7 million, or 50.0%, and $36.9 million, or 38.0%, for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. In local currency, net sales increased 46.1% and 33.6% for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. The fluctuation of foreign currency rates had a favorable impact of $2.0 million and $4.4 million on net sales for the three and six months ended June 30, 2012, respectively.

The current focus in China is to expand the Nutrition Club DMO to enhance the emphasis on daily consumption DMOs. We believe that the Nutrition Club concept is slowly starting to gain traction. While we believe the Nutrition Club DMO has potential to expand throughout China, this process will most likely build gradually over the next few years.

Average active sales leaders in China increased 42.7% and 37.3% for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. Total sales leaders in China decreased 3.8% as of June 30, 2012 compared to June 30, 2011. We believe that the increase in distributor engagement as reflected in the average active sales leader numbers is indicative of the market transitioning to daily consumption DMOs.

In April 2012, the region hosted its annual China Extraordinary Tour (Honors) with approximately 12,800 attendees.

As of June 30, 2012, we were operating 68 retail stores in 29 provinces in China. During May 2012, we received direct selling licenses for 8 additional provinces in China, bringing the total provinces covered by our direct selling licenses to 24 out of the 29 provinces in which we operate as of June 30, 2012. We continue to seek additional provincial licenses where appropriate.

Sales by Product Category

	Three Months Ended June 30,										
	2012					2011					
	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	Retail Sales	Distributor Allowance	Product Sales	Handling & Freight Income	Net Sales	% Change in Net Sales
	(In millions)										
Weight Management	$ 1,040.2	$ (489.1)	$ 551.1	$ 95.7	$646.8	$ 890.4	$ (421.5)	$ 468.9	$ 83.4	$ 552.3	17.1%
Targeted Nutrition	387.9	(182.5)	205.4	35.6	241.0	317.9	(150.4)	167.5	29.8	197.3	22.1%
Energy, Sports and Fitness	84.4	(39.7)	44.7	7.8	52.5	69.8	(33.0)	36.8	6.6	43.4	21.0%
Outer Nutrition	60.7	(28.5)	32.2	5.5	37.7	59.6	(28.2)	31.4	5.6	37.0	1.9%
Literature, Promotional and Other	47.1	2.5	49.6	4.3	53.9	43.0	2.5	45.5	4.2	49.7	8.5%
Total	$ 1,620.3	$ (737.3)	$ 883.0	$ 148.9	$1,031.9	$ 1,380.7	$ (630.6)	$ 750.1	$ 129.6	$ 879.7	17.3%

	Six Months Ended June 30,										
	2012					2011					
	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	Retail Sales	Distributor Allowance	Product Sales	Handling & Freight Income	Net Sales	% Change in Net Sales
	(In millions)										
Weight Management	$ 2,011.9	$ (950.2)	$ 1,061.7	$							