HERBALIFE LTD.
Form 10-Q
May 03, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the quarterly period ended March 31, 2006**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 1-32381

HERBALIFE LTD.
(Exact name of registrant as specified in its charter)

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

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

(310) 410-9600*
(Registrant s telephone number, including area code)

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

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

Number of shares of registrant s common shares outstanding as of April 27, 2006 was 70,197,359.

* C/O Chief Financial Officer of Herbalife International, Inc.

HERBALIFE LTD.

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Filed with the Quarterly Report of the Company on Form 10-Q
For the Three Months ended March 31, 2006

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PART I. FINANCIAL INFORMATION

Item 1. ***FINANCIAL STATEMENTS***

HERBALIFE LTD.

CONSOLIDATED BALANCE SHEETS

	December 31, 2005	March 31, 2006 (Unaudited)
	(In thousands, except share amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 88,248	$ 109,221
Receivables, net of allowance for doubtful accounts of $4,678 (2005) and $5,218 (2006)	37,266	45,829
Inventories	109,785	106,042
Prepaid expenses and other current assets	40,667	51,579
Deferred income taxes	23,585	21,935
Total current assets	299,551	334,606
Property, at cost, net of accumulated depreciation and amortization of $30,819 (2005) and $36,996 (2006)	64,946	70,853
Deferred compensation plan assets	13,149	15,772
Other assets	7,510	10,122
Deferred financing costs, net of accumulated amortization of $3,749 (2005) and $4,084 (2006)	3,531	3,196
Marketing related intangibles	310,000	310,000
Product certification, product formulae and other intangible assets, net of accumulated amortization of $17,792 (2005) and $18,567 (2006)	4,908	4,133
Goodwill	134,206	129,484
TOTAL	$ 837,801	$ 878,166
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 39,156	$ 32,509
Royalty overrides	87,401	90,495
Accrued compensation	32,570	28,580
Accrued expenses	93,597	102,251

Current portion of long term debt	9,816	8,512
Advance sales deposits	10,874	16,964
Income taxes payable	12,043	12,129
Total current liabilities	285,457	291,440
NON-CURRENT LIABILITIES:		
Long term debt, net of current portion	253,276	242,531
Deferred compensation	15,145	15,675
Deferred income taxes	112,714	112,989
Other non-current liabilities	2,321	3,253
Total liabilities	668,913	665,888
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS EQUITY:		
Preference shares, $0.002 par value, 7.5 million shares authorized and unissued		
Common shares, $0.002 par value, 175 million shares authorized, 69.9 million (2005) and 70.0 million (2006) shares issued and outstanding	140	140
Treasury shares, at cost	(210)	(210)
Paid-in-capital in excess of par value	89,524	94,255
Accumulated other comprehensive income	605	569
Retained earnings	78,829	117,524
Total shareholders equity	168,888	212,278
TOTAL	$ 837,801	$ 878,166

See the accompanying notes to consolidated financial statements

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HERBALIFE LTD.

CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended	
	March 31, 2005	March 31, 2006
	(Unaudited) (In thousands, except per share amounts)	
Product sales	$ 320,224	$ 393,604
Handling & freight income	51,836	62,184
Net sales	372,060	455,788
Cost of sales	75,737	91,366
Gross profit	296,323	364,422
Royalty overrides	135,168	165,298
Selling, general & administrative expenses	110,029	135,044
Operating income	51,126	64,080
Interest expense, net	22,202	6,015
Income before income taxes	28,924	58,065
Income taxes	15,648	19,369
NET INCOME	$ 13,276	$ 38,696
Earnings per share:		
Basic	$ 0.19	$ 0.55
Diluted	$ 0.19	$ 0.53
Weighted average shares outstanding:		
Basic	68,643	69,947
Diluted	71,714	73,451

See the accompanying notes to consolidated financial statements

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HERBALIFE, LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	March 31, 2005	March 31, 2006
	(Unaudited) (In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	13,276	38,696
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,077	7,064
Excess tax benefits from share-based payment arrangements		(1,491)
Amortization of discount and deferred financing costs	388	286
Deferred income taxes	6,401	4,544
Unrealized foreign exchange loss (gain)	2,062	(537)
Write-off of deferred financing costs and unamortized discounts	3,779	181
Other	1,982	2,385
Changes in operating assets and liabilities:		
Receivables	(11,400)	(7,637)
Inventories	358	4,886
Prepaid expenses and other current assets	(9,265)	(11,156)
Accounts payable	5,165	(7,492)
Royalty overrides	822	2,389
Accrued expenses and accrued compensation	(7,303)	4,349
Advance sales deposits	5,675	5,926
Income taxes payable	3,773	3,201
Deferred compensation liability	(698)	530
NET CASH PROVIDED BY OPERATING ACTIVITIES	25,092	46,124
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(4,377)	(12,083)
Proceeds from sale of property	57	46
Changes in other assets	(643)	(2,407)
Deferred compensation plan assets	(579)	(2,623)
NET CASH USED IN INVESTING ACTIVITIES	(5,542)	(17,067)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings from long-term debt	22	
Principal payments on long-term debt	(113,232)	(12,286)
Exercise of stock options	131	806
Excess tax benefits from share-based payment arrangements		1,491
Other	(371)	

NET CASH USED IN FINANCING ACTIVITIES		(113,450)		(9,989)
EFFECT OF EXCHANGE RATE CHANGES ON CASH		(3,933)		1,905
NET CHANGE IN CASH AND CASH EQUIVALENTS		(97,833)		20,973
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		201,577		88,248
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	103,744		109,221
CASH PAID FOR:				
Interest	$	14,900		1,673
Income taxes	$	5,390		13,046
NON-CASH ACTIVITIES:				
Acquisitions of property through capital leases	$	62	$	100

See the accompanying notes to consolidated financial statements

HERBALIFE LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Herbalife Ltd., a Cayman Islands exempted limited liability company (Herbalife or the Company), incorporated on April 4, 2002, and its direct and indirect wholly-owned subsidiaries, WH Intermediate Holdings Ltd., a Cayman Islands company (WH Intermediate), WH Luxembourg Holdings S.à.R.L., a Luxembourg unipersonal limited liability company (Lux Holdings), WH Luxembourg CM S.à.R.L., a Luxembourg unipersonal limited liability company, and WH Acquisition Corp., a Nevada corporation (WH Acquisition), were formed on behalf of Whitney & Co., LLC (Whitney) and Golden Gate Private Equity, Inc. (Golden Gate), in order to acquire Herbalife International, Inc., a Nevada corporation, and its subsidiaries (Herbalife International) on July 31, 2002 (the Acquisition). Herbalife and its subsidiaries are referred to collectively herein as the Company.

IPO Recapitalization

On December 16, 2004, Herbalife completed an initial public offering of its common shares (the IPO), as part of a series of recapitalization transactions, including:

- a tender offer for $159.8 million of the outstanding 113/4% senior subordinated notes due 2010 (the 113/4% Notes), issued by Herbalife International;

- the replacement of Herbalife International s existing $205.0 million senior credit facility with a new $225.0 million senior credit facility;

- the payment of a $139.8 million special cash dividend to the pre-IPO shareholders of Herbalife; and

- the amendment of Herbalife s Memorandum and Articles of Association to: (1) effect a 1:2 reverse stock split of Herbalife s common shares; (2) increase Herbalife s authorized common shares to 500 million shares; and (3) increase Herbalife s authorized preference shares to 7.5 million shares, all of which took effect on December 1, 2004.

As a planned continuation of the IPO recapitalization, Herbalife exercised a contract provision in December 2004 to redeem 40%, or $110.0 million principal value (excluding a premium of $10.5 million), of the 91/2% notes due 2011, (the 91/2% Notes). After the required notice period, this redemption was completed on February 4, 2005. The redemption premium of $10.5 million and the write-off of deferred financing fees of $3.7 million associated with this redemption are included in interest expense in the first quarter of 2005.

In connection with the IPO and the recapitalization, the Company incurred $24.7 million in fees and expenses of which $19.8 million were associated with the IPO (included in equity) and $4.9 million were associated with the establishment of the new credit facility (included in deferred financing costs).

Secondary Offering

On December 19, 2005, Herbalife completed a secondary public offering of 13 million common shares held by certain existing shareholders. The selling shareholders received all net proceeds from the sale of common shares sold in this offering. Accordingly, Herbalife did not receive any proceeds from the sale of common shares.

2. Basis of Presentation

The unaudited interim financial information of the Company has been prepared in accordance with Article 10 of the Securities and Exchange Commission s Regulation S-X. Accordingly, it does not include all of the information required by generally accepted accounting principles for complete financial statements. The Company s financial statements as of and for the three months ended March 31, 2006 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 financial

HERBALIFE LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

statements as of March 31, 2006 and for the three months ended March 31, 2005 and March 31, 2006. Operating results for the three months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

New Accounting Pronouncements

Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment (SFAS No. 123R), which generally requires, among other things, that all employee share-based compensation be measured using a fair value method and that the resulting compensation cost be recognized in the financial statements. The Company selected the modified prospective method of adoption. Under this method, compensation expense that the Company recognized for the three months ended March 31, 2006 included: (a) compensation expense for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123), and (b) compensation expense for all share-based payments granted on or after January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. Results for prior periods were not restated. See Note 8 to the consolidated financial statements for more details on stock based compensation.

Reclassifications

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

3. Transactions with related parties

In 2004, Whitney acquired a 50 percent indirect ownership interest in Shuster Laboratories, Inc. (Shuster), a provider of product testing and formula development for Herbalife. Herbalife s total purchases from Shuster for the three months ended March 31, 2005 and 2006 were $17,000 and $0, respectively.

In 2004, Whitney acquired a 50 percent indirect ownership interest in TBA Entertainment (TBA), a provider of creative services to Herbalife. For the three months ended March 31, 2005 a payment of $4,577,000 was made to TBA for services relating to the 25th Anniversary Extravaganza, of which the majority were reimbursements of Extravaganza expenses paid to third parties. For the three months ended March 31, 2006, no payments were made to TBA.

In 2004, Golden Gate acquired a 47 percent ownership interest in Leiner Health Products Inc. (Leiner), a nutritional manufacturer and supplier of certain Herbalife products. Total purchases by Herbalife from Leiner during the three months ended March 31, 2005 and 2006 were $111,000 and $0, respectively.

In January 2005, Whitney, together with its affiliates, acquired a 77 percent ownership interest in Stauber Performance Ingredients (Stauber), a value-added distributor of bulk specialty nutraceutical ingredients. Total purchases by Herbalife from Stauber for the three months ended March 31, 2005 and 2006 were $100,000 and $3,000, respectively.

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HERBALIFE LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Long-Term Debt

Long-term debt consists of the following:

	As of			
	December 31, 2005		March 31, 2006	
	(Dollars in millions)			
113/4% Notes	$	0.1	$	0.1
Borrowings under senior credit facility		89.8		79.8
91/2% Notes, net of unamortized discounts of $3.5 million (2006) and $3.7 million (2005)		161.3		161.5
Capital leases		5.4		4.7
Other debt		6.5		4.9
		263.1		251.0
Less: current portion		9.8		8.5
	$	253.3	$	242.5

In March 2006, the Company made a prepayment to the term loan borrowings under the senior credit facility of $9.8 million. Consequently, the Company expensed $0.2 million of related unamortized deferred financing costs in the first quarter of 2006.

5. Contingencies

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

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

the actions of its independent distributors and is seeking damages and injunctive relief. The Company believes that it has meritorious defenses to the suit.

Herbalife International and certain of its distributors have been named as defendants in a class action lawsuit filed July 16, 2003, in the Circuit Court of Ohio County in the State of West Virginia *(Mey v. Herbalife International, Inc., et al)*. On April 21, 2006, the court granted plaintiff s motion for class certification in West Virginia. The complaint alleges that certain telemarketing practices of certain Herbalife International distributors violate the Telephone Consumer Protection Act, or TCPA, and seeks to hold Herbalife International vicariously liable for the practices of its distributors. More specifically, the plaintiffs complaint alleges that several of Herbalife International s distributors used pre-recorded telephone messages and autodialers to contact prospective customers in violation of the TCPA s prohibition of such practices. Herbalife International s distributors are independent contractors and if any such distributors in fact violated the TCPA they also violated Herbalife s policies, which

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HERBALIFE LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

require its distributors to comply with all applicable federal, state and local laws. The Company believes that it has meritorious defenses to the suit.

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

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

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

6. Comprehensive Income

	Three Months Ended	
	March 31, 2005	March 31, 2006
Net income	$ 13.3	$ 38.7
Unrealized gain on derivative instruments	0.5	0.1
Foreign currency translation adjustment	0.1	(0.1)
Comprehensive income	$ 13.9	$ 38.7

7. Segment Information

The Company is a network marketing company that sells a wide range of weight management products, nutritional supplements and personal care products within one industry segment as defined under SFAS 131, Disclosures about Segments of an Enterprise and Related Information. The Company s products are manufactured by third party providers and then sold to independent distributors who sell Herbalife products to retail consumers or other distributors.

The Company sells products in 62 countries throughout the world and is organized and managed by geographic region. The Company elected to aggregate its operating segments into one reporting segment, as management believes that the Company s operating segments have similar operating characteristics and similar long term operating performance. In making this determination, management believes that the operating segments are similar with regard to the nature of the products sold, the product acquisition process, the types of customers products are sold to, the methods used to distribute the products, and the nature of the regulatory environment.

Revenues reflect sales of products to distributors based on the distributors geographic location. Sales attributed to the United States is the same as reported in the geographic operating information.

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HERBALIFE LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company s geographic operating information and sales by product line are as follows:

	Three Months Ended	
	March 31, 2005	March 31, 2006
	(In millions)	
Net sales:		
United States	$ 67.0	$ 81.4
Mexico	37.4	83.5
Others	267.7	290.9
Total Net sales	$ 372.1	$ 455.8
Operating margin(1):		
United States	$ 25.1	$ 27.8
Mexico	16.1	37.3
Others	119.9	134.0
Total Operating margin	$ 161.1	$ 199.1
Selling, general and administrative expense	110.0	135.0
Interest expense, net	22.2	6.1
Income before income taxes	28.9	58.0
Income taxes	15.6	19.3
Net Income	$ 13.3	$ 38.7
Net sales by product line:		
Weight management	$ 151.8	$ 190.2
Inner nutrition	160.0	200.6
Outer Nutrition®	42.6	40.9
Literature, promotional and other(2)	17.7	24.1
Total Net Sales	$ 372.1	$ 455.8
Net sales by geographic region:		
Americas	$ 140.6	$ 224.1
Europe	144.6	141.5
Asia/Pacific Rim (excluding Japan)	60.0	68.0
Japan	26.9	22.2

Total Net Sales	$ 372.1	$ 455.8

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

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

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HERBALIFE LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	As of			
	December 31, 2005		March 31, 2006	
	(In millions)			
Total Assets:				
United States	$	520.1	$	562.5
Mexico		52.5		48.0
Others		265.2		267.7
Total Assets	$	837.8	$	878.2

8. Stock Based Compensation

The Company has six stock-based compensation plans which are the WH Holdings (Cayman Islands) Ltd. Stock Incentive Plan (Management Plan), the WH Holdings (Cayman Islands) Ltd. Independent Directors Stock Incentive Plan (Independent Directors Plan), the Herbalife Ltd. 2004 Incentive Plan (2004 Stock Incentive Plan), the 2005 Stock Incentive Plan (2005 Stock Incentive Plan), the Herbalife Ltd. Executive Incentive Plan (Executive Incentive Plan) and the Herbalife Ltd. Independent Directors Deferred Compensation and Stock Unit Plan (Independent Director Stock Unit Plan). The Management Plan provides for the grant of options to purchase common shares of Herbalife to members of the Company s management. The Independent Directors Plan provides for the grant of options to purchase common shares of Herbalife to the Company s independent directors. The 2004 Stock Incentive Plan is intended to replace the Management Plan and the Independent Directors Plan. No additional awards will be made under either the Management Plan or the Independent Directors Plan. However, the shares remaining available for issuance under these plans were absorbed by and became available for issuance under the 2004 Stock Incentive Plan. The 2005 Stock Incentive Plan authorizes the issuance of 4,000,000 common shares pursuant to awards, plus any shares that remain available for issuance under the 2004 Stock Incentive Plan. The terms of the 2005 Stock Incentive Plan are substantially similar to the terms of the 2004 Stock Incentive Plan. The purpose of the Executive Incentive Plan is to govern the award and payment of annual bonuses to certain company executives. The purpose of the Independent Directors Stock Unit Plan is to facilitate equity ownership in the Company by its independent directors through the award of stock units and to allow for deferral by the independent directors of compensation realized in connection with such stock units. The Company s stock compensation awards outstanding as of March 31, 2006 include stock options, stock appreciation rights (SARS) and stock units.

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

transition method, stock-based compensation cost for the first quarter of 2006 includes (a) compensation cost for all share-based awards granted prior to, but not yet vested as of, January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123; and (b) compensation cost for all share-based awards granted subsequent to January 1, 2006 based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R.

SFAS No. 123R also requires the Company to estimate forfeitures in calculating the expense relating to share-based compensation as opposed to recognizing forfeitures as an expense reduction as they occur. The adjustment to

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HERBALIFE LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

apply estimated forfeitures to previously recognized share-based compensation was considered immaterial and as such was not classified as a cumulative effect of a change of in accounting principle.

The Company records compensation expense over the requisite service period which is equal to the vesting period. For awards granted prior to January 1, 2006, compensation expense is recognized on a graded-vesting basis over the vesting term. For awards granted on or after January 1, 2006, compensation expense is recognized on a straight-line basis over the vesting term. For the three months ended March 31, 2005 and 2006, stock-based compensation expense was included in selling, general and administrative expenses in the amount of $1.8 million and $2.4 million, respectively, as well as related income tax benefits recognized in earnings in the amount of $0.7 million and $1.0 million, respectively.

As of March 31, 2006, the total unrecognized compensation cost related to nonvested stock awards was $28.2 million and the related weighted-average period over which it is expected to be recognized is approximately 2.3 years.

As a result of the adoption of SFAS No. 123R, the Company s net income for the three months ended March 31, 2006 was $1.3 million lower than it would have been under the Company s previous accounting method for share-based compensation. Basic and diluted net earnings per common share for the three months ended March 31, 2006 were negatively impacted by the change in accounting method by $0.02 and $0.01 per share, respectively. Prior to the Company s adoption of SFAS No. 123R, benefits of tax deductions in excess of recognized compensation costs were reported as operating cash inflows. SFAS No. 123R requires that these excess tax benefits be recorded as a financing cash inflow rather than as a reduction of taxes paid. For the three months ended March 31, 2006, tax benefits of $1.7 million were generated from option exercises.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provision of SFAS No. 123 to options granted under the Company s stock-based compensation plans for the three months ended March 31, 2005. For purposes of this pro forma disclosure, the value of the options is estimated using the Black-Scholes-Merton option-pricing model and amortized to expense using a graded vesting schedule with forfeitures recognized as they occur.

		Three Months Ended March 31, 2005 (In millions)
Net income as reported	$	13.3
Add: Stock-based employee compensation expense included in reported net income, net of tax		1.1
Less: Stock-based employee compensation expense determined under fair value based methods for all awards, net of tax		(2.4)
Pro forma net income	$	12.0
Basic earnings per share		
As reported	$	0.19

Pro forma	$	0.17
Diluted earnings per share		
As reported	$	0.19
Pro forma	$	0.17

The Company s stock-based compensation plans provide for grants of stock options, stock appreciation rights, restricted stock and stock units (collectively called the awards). Stock options typically vest quarterly over a five-year period beginning on the grant date, and certain stock option grants vest over a period of less than five years. SARS vest quarterly over a five-year period beginning on the grant date. The contractual term of stock options and SARS is ten years. Stock unit awards under the 2005 Incentive Plan (Incentive Plan Stock Units) vest annually over a three year period which is equal to the contractual term. Stock unit awards under the Independent Directors

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HERBALIFE LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock Unit Plan (Independent Director Stock Units) vest at a 25% rate on each of April 15, July 15 and October 15 of the calendar year in which the award is granted and January 15 of the calendar year following the year in which the award is granted. Unless otherwise determined at the time of grant, the value of each stock unit shall be equal to one common share of Herbalife.

The fair value of each award is estimated on the date of grant using the Black-Scholes-Merton option-pricing model based on the assumptions in the following tables. The expected term of the award is based on observed historical exercise patterns. Because of the very limited historical data all groups of employees have been determined to have similar historical exercise patterns for valuation purposes. The expected volatility of stock awards is primarily based upon on the historical volatility of the Company s common stock and, due to the limited period of public trading data for its common stock, it is also validated against the volatility rates of a peer group of companies. The risk free interest rate is based on the implied yield on a U.S. Treasury zero-coupon issue with a remaining term equal to the expected term of the award. The dividend yield reflects that the Company has not paid any cash dividends since inception. The following table summarizes the weighted average assumptions used in the calculation of fair market value for the three months ended March 31, 2005 and 2006.

	Stock Options Three Months Ended March 31,		SARS Three Months Ended March 31,		Incentive Plan Stock Units Three Months Ended March 31,		Independent Directors Stock Units Three Months Ended March 31,	
	2005	2006	2005	2006	2005	2006	2005	2006
Expected volatility	32.75%	37.03%		38.62%		38.62%		37.20%
Dividends yield	zero	zero		zero		zero		zero
Expected term	6.3 years	6.3 years		6.3 years		2.5 years		3.0 years
Risk-free interest rate	3.78%	3.94%		4.45%		3.84%		3.41%

The following tables summarize the activity under the stock-based compensation plans for the three months ended March 31, 2006:

Stock Options & SARS	Shares (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In millions)
Outstanding at December 31, 2005	10,197	$ 12.30		

Granted	811		32.81				
Exercised	(155)		5.19				
Forfeited	(75)		4.52				
Outstanding at March 31, 2006	10,778	$	14.00	8.0 years	$	213.1
Exercisable at March 31, 2006	4,228	$	10.69	8.0 years	$	97.6

Incentive Plan and Independent Directors Stock Units	**Shares (In thousands)**		**Weighted Average Grant Date Fair Value**		**Aggregate Fair Value (In millions)**
Outstanding and nonvested at December 31, 2005		$		$	
Granted	102.8		32.62		3.3
Vested	(4.4)		31.81		(0.1)
Outstanding and nonvested at March 31, 2006	98.4	$	32.66	$	3.2

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The weighted-average grant date fair value of stock awards granted during the three months ended March 31, 2005 and 2006 was $6.41 and $17.06, respectively. The total intrinsic value of stock awards exercised during the three months ended March 31, 2005 and 2006 was $0.4 million and $4.3 million, respectively.

9. Derivative Instruments and Hedging Activities

The Company designates certain derivatives as cash flow hedges. The Company engages in a foreign exchange hedging strategy for which the hedged transactions are forecasted foreign currency denominated intercompany transactions. The hedged risk is the variability of the forecasted foreign currency cash flows where the hedging strategy involves the purchase of average rate options. The Company also engages in an interest rate hedging strategy for which the hedged transactions are forecasted interest payments on the Company s variable rate term loan. The hedged risk is the variability of forecasted interest rate cash flows, where the hedging strategy involves the purchase of interest rate swaps. As of December 31, 2005, and March 31, 2006, the Company did not have any outstanding cash flow hedges on foreign exchange exposure. For the outstanding cash flow hedges on interest rate exposures at December 31, 2005 and March 31, 2006, the maximum length of time over which the Company is hedging these exposures is approximately three years. The interest rate swap outstanding as of December 31, 2005, and March 31, 2006 was accounted for under the shortcut method, as defined by SFAS No. 133, which assumes the hedge to be perfectly effective. Consequently, all changes in the fair value of the derivative are deferred and recorded in other comprehensive income (OCI) until the related forecasted transaction is recognized in the consolidated statements of income. The estimated net amount of existing gains expected to be reclassified into earnings over the next three years, which related to cash flow hedge, is $0.1 million.

The Company designates certain derivatives as free standing derivatives for which hedge accounting does not apply. The changes in the fair market value of the derivatives are recorded in the Company s statements of income. The Company purchases average rate put options, which give the Company the right, but not the obligation, to sell foreign currency at a specified exchange rate (strike rate). These contracts provide protection in the event the foreign currency weakens beyond the strike rate. The Company also uses foreign currency forward contracts, which give the Company the obligation to buy or sell foreign currency at a specified time and rate. The contracts are used to protect against changes in the functional currency equivalent value of inter-company or third party nonfunctional currency payables and receivables. In December of 2005, the Company entered into a short term interest rate cap agreement, which is not designated under hedge accounting. The cap provides protection in the event the three month LIBOR rate were to increase beyond 4.75%, and is in place, along with the interest rate swap, to fulfill the Company s obligation to hedge at least 25% of the term debt notional amount. The fair values of the option, forward contracts and interest rate cap are based on third-party bank quotes.

Item 2. *Management s Discussion And Analysis Of Financial Condition And Results Of Operations*

Overview

We are a global network marketing company that sells weight management, nutritional supplement and personal care products. We pursue our mission of changing people s lives by providing a financially rewarding business opportunity to distributors and quality products to distributors and customers who seek a healthy lifestyle. We are one of the largest network marketing companies in the world with net sales of approximately $1.6 billion for the year ended December 31, 2005. We sell our products in 62 countries through a network of over one million independent distributors except in China, where we currently use a retail business model with employed sales representatives because of regulatory restrictions on direct selling. 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 26-year operating history.

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

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

The opportunities and challenges upon which we are most focused are driving retailing of our product, recruitment and retention of distributors and improving distributor productivity, entering new markets, further penetrating existing markets, pursuing local distributor initiatives, introducing new products, developing niche market segments and further investing in our infrastructure.

A key non-financial measure we focus on is Volume Points on a Royalty Basis (hereafter Volume Points), which is essentially our weighted unit measure of product sales volume. It is a useful measure for us, as it excludes the impact of foreign currency fluctuations and ignores the differences generated by varying retail pricing across geographic markets. In general, an increase in Volume Points in a particular region or country directionally indicates an increase in local currency net sales.

Volume Points by Geographic Region

	For the Three Months Ended March 31,		
	2005	**2006**	**% Change**
	(Volume points in millions)		
The Americas	224.5	337.0	50.1%
Europe	144.9	148.9	2.8%
Asia/Pacific Rim	72.4	77.1	6.5%
Japan	18.8	17.0	(9.5)%
Worldwide	460.6	580.0	25.9%

Another key non-financial measure on which we focus on is the number of distributors qualified as supervisors under our compensation system. Distributors qualify for supervisor status based on their Volume Points.

The growth in the number of supervisors is a general indicator of the level of distributor recruitment, which generally drives net sales in a particular country or region. Our compensation system requires each supervisor to re-qualify for such status each year, prior to February. There is significant variation in the number of supervisors from the fourth quarter to the first quarter of any given year due to the timing of the re-qualification process. This fluctuation is normal and consistent, does not reflect a dramatic underlying change in the business in comparing these two sequential quarters, and will become more meaningful period to period throughout the year.

The following tables show trends in the number of supervisors over the reporting period by region, and fluctuations within each notable country are discussed in the appropriate net sales section below where pertinent.

Number of Supervisors by Geographic Region as of Reporting Period

	As of March 31,		
	2005	**2006**	**% Change**

The Americas	94,270	133,192	41.3%
Europe	68,810	69,537	1.1%
Asia/Pacific Rim	40,588	46,427	14.4%
Japan	10,165	10,080	(0.8)%
Worldwide	213,833	259,236	21.2%

Number of Supervisors by Geographic Region as of Requalification Period

	As of February,		
	2005	2006	% Change
The Americas	87,925	124,233	41.3%
Europe	65,104	66,103	1.5%
Asia/Pacific Rim	38,524	43,517	13.0%
Japan	9,547	9,719	1.8%
Worldwide	201,100	243,572	21.1%

Supervisors must re-qualify annually. The requalification period covers the twelve months starting in February and ending the following January. For the twelve month requalification period ended January 2006, 41.5% of our supervisors requalified, up from 39.7% a year ago. The number of supervisors by geographic region as of the reporting dates will normally be higher than the number of supervisors by geographic region as of the requalification period because supervisors who do not re-qualify during the relevant twelve-month period will be dropped from the rank of supervisor in February. Since supervisors purchase most of our products for resale to other distributors and consumers, comparisons of supervisor totals on a year-to-year, same period basis are good indicators of our recruitment and retention efforts in different geographic regions.

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

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

Presentation

Retail Sales represent the gross sales amounts on our invoices to distributors before distributor allowances (as defined below), and net sales , which reflects distribution allowances and handling and freight income, is what the Company collects and recognizes as net sales in its financial statements. We discuss Retail Sales because of its fundamental role in our compensation systems, internal controls and operations, including its role as the basis upon which distributor discounts, royalties and bonuses are awarded. In addition, information in daily and monthly reports reviewed by our management relies on Retail Sales data. However, such a measure is not in accordance with Generally Accepted Accounting Principles in the U.S. (GAAP). You should not consider Retail Sales in isolation from, nor is it a substitute for, net sales and other consolidated income or cash flow statement data prepared in accordance with GAAP, or as a measure of profitability or liquidity. A reconciliation of net sales to Retail Sales is presented below.

Product sales represent the actual product purchase price paid to us by our distributors, after giving effect to distributor discounts referred to as distributor allowances, which approximate 50% of retail sales prices. Distributor allowances as a percentage of sales may vary by country depending upon regulatory restrictions that limit or otherwise restrict distributor allowances.

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

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Royalty Overrides are our most significant expense and consist of:

- royalty overrides, or commissions, and bonuses, which total approximately 15% and 7%, respectively, of the Retail Sales of weight management, inner nutrition, Outer Nutrition® and promotional products;
- the Mark Hughes Bonus payable to some of our most senior distributors in the aggregate amount of up to 1% of Retail Sales of weight management, inner nutrition, Outer Nutrition® and promotional products; and
- other discretionary incentive cash bonuses to qualifying distributors.

Royalty Overrides are generally earned based on Retail Sales, and approximate in the aggregate about 22% of Retail Sales or approximately 35% of our net sales. Royalty Overrides together with distributor allowances represent the potential earnings to distributors of up to approximately 73% of Retail Sales. The compensation to distributors is generally for the development, retention and improved productivity of their distributor sales organizations and is paid to several levels of distributors on each sale. Because of local country regulatory constraints, we may be required to modify our typical distributor incentive plans as described above. Because of restrictions on direct selling in China, our full-time employed sales representatives in China are compensated with wages, bonuses and benefits instead of the distributors earnings distributor allowances and royalty overrides. Consequently, the total distributor discount percentage may vary over time. We also offer reduced distributor allowances and pay reduced royalty overrides with respect to certain products worldwide.

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

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

113/4% Notes refers to Herbalife International s 113/4% senior subordinated notes due 2010. 91/2% Notes refers to our 91/2% notes due 2011.

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

Summary Financial Results

For the three months ended March 31, 2006, net sales increased by 22.5% as compared to the same period in 2005, primarily driven by increases in the Americas and Asia/Pacific Rim, partially offset by decreases in Japan and Europe. The increased sales in the first quarter of 2006 reflected the continued sales momentum generated from the successful promotions in 2005 and the enthusiasm and unity within our distributor organization.

Net income increased for the three months ended March 31, 2006 to $38.7 million, or $0.53 per diluted share, from $13.3 million, or $0.19 per diluted share for the same period in 2005. Excluding the impact of a $3.7 million tax benefit resulting from an international income tax settlement in the first quarter of 2006 and $14.2 million of

recapitalization expenses incurred in the first quarter of 2005 associated with the $110.0 million clawback of our 91/2% Notes, net income increased 27.3%. The net income increase was due to net sales growth, lower interest and income tax expense, partially offset by higher labor, promotional and professional fee expenses. Overall, the appreciation of foreign currencies had a $2.2 million favorable impact on net results for the three months ended March 31, 2006.

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Results of Operations

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

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

	Three Months Ended	
	March 31, 2005	March 31, 2006
Operations:		
Net sales	100.0%	100.0%
Cost of sales	20.4	20.1
Gross profit	79.6	79.9
Royalty overrides	36.3	36.3
Selling, general & admin expenses	29.6	29.6
Operating income	13.7	14.0
Interest expense	6.0	1.3
Income before income taxes	7.8	12.7
Income taxes	4.2	4.2
Net income	3.6	8.5

Three months ended March 31, 2006 compared to three months ended March 31, 2005

Net Sales

The following chart reconciles Retail Sales to net sales:

Sales by Geographic Region

	Three Months Ended March 31,										
	2005					2006					
	Retail Sales	Distributor Allowance	Product Sales	Handling & Freight Income	Net Sales	Retail Sales	Distributor Allowance	Product Sales	Handling & Freight Income	Net Sales	Chan[g] in Ne[t] Sale[s]
	(Dollars in millions)										
[A]mericas	$ 231.2	$ (111.3)	$ 119.9	$ 20.7	$ 140.6	$ 372.6	$ (180.1)	$ 192.5	$ 31.6	$ 224.1	59

pe	236.5	(112.8)	123.7	20.9	144.6	232.3	(111.3)	121.0	20.5	141.5	(2
Pacific Rim	99.0	(46.1)	52.9	7.1	60.0	107.9	(47.3)	60.6	7.4	68.0	13
ı	46.3	(22.6)	23.7	3.2	26.9	38.3	(18.8)	19.5	2.7	22.2	(17
	$ 613.0	$ (292.8)	$ 320.2	$ 51.9	$ 372.1	$ 751.1	$ (357.5)	$ 393.6	$ 62.2	$ 455.8	22

Changes in net sales are directly associated with the recruiting, retention and retailing of our distributor force, the quality and completeness of the product offerings that the distributor force has to sell and the number of countries in which we operate. Management s role, both in-country and at the corporate level is to provide distributors with a competitive and broad product line, encourage strong teamwork and leadership among the Chairman s Club and President s Team distributors and offer leading edge business tools to make doing business with Herbalife simple. Management uses the marketing program coupled with educational and motivational tools to incentivize distributors to drive recruiting, retention and retailing which in turn affect net sales. Such tools include corporate sales events Extravaganzas and World Team Schools where large groups of distributors gather, thus

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allowing them to network with other distributors, learn recruiting, retention and retailing techniques from our leading distributors, and become more familiar with how to market and sell our products and business opportunities. Accordingly, management believes that these development and motivation programs can increase the productivity of the supervisor network. The expenses for such programs are included in selling, general & administrative expenses. Sales are driven by several factors including the number and productivity of distributor leaders who continually build, educate and motivate their respective distribution and sales organizations. We also use product event and non-event promotions to motivate distributors to increase recruiting, retention and retailing activities. These promotions have ranged from our 2003 laptop computer promotion to vacations or other qualifying events for distributors that meet certain selling and recruiting goals. The costs of these promotions are included in selling, general, & administrative expenses.

The factors described above have driven growth in our business. The following net sales by geographic region discussion further details some of the above factors and describes unique growth factors specific to certain major countries. The Company believes that the correct foundation, coupled with ongoing training and promotional initiatives is required to increase recruiting and retention of distributors and retailing of the product. The correct foundation includes strong country management that works closely with the 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 marketing plan. Initiatives such as Success Training Seminars, World Team Schools, Promotional Events and regional Extravaganzas are integral components of developing a highly motivated and educated distributor sales organization that will work toward increasing the recruitment and retention of distributors.

The Company s strategy will continue to include generating and maintaining growth within existing markets. We expect to increase spending in selling, general & administrative expenses to maintain or stimulate sales growth, while making strategic investments in new initiatives. In addition, new ideas are being generated in our regional markets, either by distributors, country management or corporate management. Examples are the Nutrition Clubs in Mexico and the Total Plan in Brazil and GenerationH (GenH) in the U.S., as described in the net sales discussion below. Management s strategy is to review the applicability of expanding successful country initiatives throughout a region and/or globally where appropriate and financially support the globalization of these initiatives.

The Americas

Net sales in The Americas increased $83.5 million, or 59.4%, for the three months ended March 31, 2006, as compared to 2005. In local currency, net sales increased by 51.6% for the three months ended March 31, 2006, as compared to 2005. The fluctuation of foreign currency rates had a favorable impact of $11.0 million on net sales for three months ended March 31, 2006. The overall increase was a result of net sales growth in Mexico, Brazil and U.S. of $46.1 million, $12.1 million and $14.4 million, respectively, or 123.2%, 51.8%, and 21.5%, respectively, for the three months ended March 31, 2006.

The net sales growth trend in Mexico reflects the continued emphasis on distributor and customer retention programs such as the Nutrition Clubs, which are an innovative way by which distributors are retailing our products to new customers, some of whom may eventually become distributors of our products. The costs to set up a Nutrition Club are generally nominal, and are borne solely by the distributor. Our distributors are operating over 25,000 Nutrition Clubs in Mexico. During the first quarter we opened an additional sales center in Mexico City and held a Presidents Team Tour attended by approximately 9,000 distributors. In the second quarter of 2006 we plan to move our local headquarter and main warehouse to a new location to better support the increased sales. In connection with the relocation we expect to invest approximately $2.4 million in leasehold improvements, equipment and technology hardware.

The net sales growth trend in Brazil is a result of the expansion of the Total Plan, strong distributor leadership, a highly effective country management team and a good product portfolio. The Total Plan is a low cost lead generating method where distributors use our personal care line of products and offer consultations to obtain referrals. This concept specifically supports our retailing and recruiting initiatives and has been a catalyst for growth in Brazil. In December 2005, Brazil held its 10th Anniversary Event, with over 10,000 distributors in attendance. At this event, new products (Firm Cell, Radiant C Scrub, Cleanser and Body Lotion) were launched that further support

the Total Plan, reinforcing our objective to increase the recruitment, retailing and retention by distributors. A demonstration of our online distributor tool, BizWorks, was also provided to highlight the benefits of real time organizational volume reports as a means to improve efficiency for distributors. The positive momentum from this event has continued into the first quarter of 2006.

Net sales growth in the U.S. is a result of the numerous steps taken in 2004, 2005 and the first quarter of 2006 to improve the business in the U.S., including the establishment of a dedicated U.S. country management team; branding efforts such as sponsorship of the JP Morgan Chase tennis tournament, the AVP Volleyball Tour, the Nautica Malibu Triathlon and the 2006 Amgen Tour of California bicycle race; various new promotions including the 2006 Active World Team promotion and the 2006 President Team Challenge; and various new product introductions in late 2005. These steps have helped maintain the positive net sales growth during the first quarter of 2006. It is our plan to open two new sales centers in the U.S. during the second half of 2006 to further support the overall sales growth and in particular to stimulate sales within the vicinity of the new sales centers.

We believe that 2006 sales in the Americas region should continue its positive year over year growth primarily as a result of the expected continuation of the strong momentum in Mexico, Brazil, and the U.S.

Europe

Net sales in Europe decreased $3.1 million, or 2.2%, for the three months ended March 31, 2006, as compared to 2005. In local currency, net sales increased 5.5% for the three months ended March 31, 2006, as compared to 2005. The fluctuation of foreign currency rates had an unfavorable impact on net sales of $11.1 million for the three months ended March 31, 2006. Germany, Netherlands and Switzerland continue to experience sales declines of 20.8%, 23.8% and 25.0%, respectively, while France and Italy increased net sales by 29.6% and 8.0%, respectively, for the three months ended March 31, 2006, as compared to 2005. During the quarter we re-located our call centers to Italy, France and the Netherlands in an effort to improve service and support to distributors, who previously were serviced out of the United Kingdom. During this process we also opened our first sales center in the Netherlands.

The decline in the Netherlands has been primarily driven by lower recruiting of new distributors. A reconstituted distributor strategy group, working closely with regional management is focused on initiatives to reverse that trend. New distributor business tools and the sponsorship of the Rotterdam Marathon are direct results of these efforts.

In Germany and Switzerland, a newly constituted strategy group is focusing on turnaround initiatives, both on business activity as well as brand building. Recent in-country trainings by top distributors on key initiatives such as the Total Plan have evolved from this group.

While progress is being made, the turnaround is expected to be slow in all three of the above markets, and net sales for 2006 are expected to be slightly below the level of 2005 for these countries.

The net sales increases in Italy and France are primarily due to a well balanced performance across distributor retailing, recruiting and retention efforts, a united distributor leadership working closely with the local management, and a program focus on the Total Plan as referred to above. In addition, in France there is an increasing emphasis on good health and nutrition, which is supported and promoted by local nutritionists.

We believe that 2006 sales in Europe should continue the positive year over year growth as measured in local currencies, partly due to our global and local branding initiatives, such as sponsoring the London Triathlon, the Belgium Gezond Wandeldag Fun Run and the Madrid Triathlon, which are intended to continually improve our corporate and brand reputation in the market and our introduction of new products into the region, such as *Liftoff*[tm], scheduled for launch during the second and third quarters of 2006. In addition, with the recent changes to our

management teams, both regionally and locally, we expect to formulate and implement a new strategy to improve the declining markets in Europe and continue positive growth trends in others.

Asia/Pacific Rim

Net sales in Asia/Pacific Rim increased $8.0 million, or 13.3%, for the three months ended March 31, 2006, as compared to 2005. In local currency, net sales increased 13.6% for the three months ended March 31, 2006, as

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compared to 2005. The fluctuation of foreign currency rates had a $0.2 million unfavorable impact on net sales for the three months ended March 31, 2006. The overall increase was attributable mainly to increases in South Korea, China and the opening of Malaysia in February 2006.

Net sales in South Korea increased $3.5 million, or 35.4%, for the three months ended March 31, 2006, as compared to 2005. This continued improvement in 2006 was a result of positive momentum from the local events including leadership weekends and a unified focus by Korea s country and distributor leadership. Also, during the first quarter of 2006 we made some modifications to the local distributor compensation plan, which we expect to have a positive impact on recruiting in 2006.

Net sales in China increased $4.0 million to $4.3 million for the three months ended March 31, 2006, as compared to 2005. Since March of 2005 we have opened 19 retail stores in 9 provinces throughout China. We expect to increase the number of stores to cover approximately 20 provinces before the end of 2006.

Malaysia opened in February 2006 with over 10,000 attendees at various opening events. Net sales for the three months ended March 31, 2006 was $3.9 million.

Net sales in Taiwan decreased $3.5 million, or 14.7%, for the three months ended March 31, 2006, as compared to 2005. The decrease was primarily attributed to the local distributor leadership and some of their key members directed their focus on the opening of Malaysia and the emerging business opportunity in China.

Overall, we believe that additional promotions, various branding initiatives including the sponsorship of several healthy lifestyle events in the region, the opening of Malaysia, the further expansion into the Chinese market, the expansion of Nutrition Clubs within the region and new product introduction, should continue the region s positive year over year growth.

Japan

Net sales in Japan decreased $4.7 million, or 17.5%, for the three months ended March 31, 2006, as compared to 2005. In local currency, net sales in Japan decreased 7.4% for the three months ended March 31, 2006, as compared to 2005. The fluctuation of foreign currency rates had an unfavorable $2.7 million impact on net sales for the three months ended March 31, 2006. After two consecutive quarters of year over year sales growth as measured in local currencies, the current quarter decline was primarily due to the introduction of Shapeworks™ in the first quarter of 2005 and the timing of certain promotions. Such promotions and significant product introductions were not repeated in 2006. The number of new distributors and the supervisor retention rate are improving when compared to the same period last year. The improved retention rate was caused by a shift in distributors taking advantage of the modified re-qualification criteria, a criteria we believe will lead to increased future sales and exceed the immediate negative impact on sales.

Sales by Product Category

	Three Months Ended March 31,										
	2005					2006					
	Retail Sales	Distributor Allowance	Product Sales	Handling & Freight Income	Net Sales	Retail Sales	Distributor Allowance	Product Sales	Handling & Freight Income	Net Sales	% Cha in

											Nc Sal
	(Dollars in millions)										
t Management	$ 256.7	$ (126.6)	$ 130.1	$ 21.7	$ 151.8	$ 322.5	$ (159.0)	$ 163.5	$ 26.7	$ 190.2	2
Nutrition	270.6	(133.5)	137.1	22.9	160.0	340.2	(167.8)	172.4	28.2	200.6	2
Nutrition®	72.0	(35.5)	36.5	6.1	42.6	69.4	(34.2)	35.2	5.7	40.9	(
ure, tional and	13.7	2.8	16.5	1.2	17.7	19.0	3.5	22.5	1.6	24.1	3
	$ 613.0	$ (292.8)	$ 320.2	$ 51.9	$ 372.1	$ 751.1	$ (357.5)	$ 393.6	$ 62.2	$ 455.8	2

Our increased emphasis on the science of weight management and nutrition during the past two years, illustrated by our assembly of the Scientific Advisory Board and the Medical Advisory Board, has resulted in product introductions such as *Niteworks*tm and *Garden 7*tm and the introduction of *ShapeWorks*tm, a personalized meal replacement program. Due to the launch these new products together with the continued positive sales

momentum discussed above, net sales of weight management products and Inner Nutrition® products increased at a higher rate than net sales of inner nutrition products. Literature, Promotional and Other, which is net of product buy-backs and returns in all product categories, increased due to a decrease in returns and refunds. We expect shifts within these categories from time to time as we launch new products.

Gross Profit

Gross profit was $364.4 million for the three months ended March 31, 2006, as compared to $296.3 million in the same period of 2005. As a percentage of net sales, gross profit for the three months ended March 31, 2006 increased slightly from 79.6% to 80.0%, as compared to the same period of 2005. Generally, gross profit percentages do not vary significantly as a percentage of sales other than due to ongoing cost reduction initiatives and provisions for slow moving and obsolete inventory. Additionally, we believe that we have the ability to mitigate price increases by raising the prices of our products or shifting product sourcing to alternative manufacturers.

Royalty Overrides

Royalty Overrides as a percentage of net sales were 36.3% for the three months ended March 31, 2006 and March 31, 2005. Generally, this ratio varies slightly from period to period due to changes in the mix of products and countries because full Royalty Overrides are not paid on certain products or in certain countries. Due to the structure of our global compensation plan, we do not expect to see significant fluctuations in Royalty Overrides as a percent of net sales.

Selling, General, & Administrative Expenses

Selling, General, & Administrative expenses as a percentage of net sales were 29.6% for the three months ended March 31, 2006 and March 31, 2005, respectively.

For the three months ended March 31, 2006, Selling, General & Administrative expenses increased $25.0 million to $135.0 million from $110.0 million in the same period of 2005. The increase included $11.0 million in higher salaries and benefits, due primarily to normal merit increases, higher employee bonuses, higher stock based compensation expenses, increases related to the strengthening of the management team regionally and in the U.S.; higher compensation costs associated with employee sales representatives in China; and $5.6 million in additional professional fees primarily associated with our technology infrastructure and legal expenses; and $3.9 million in additional sales event expenses related primarily to the Chile Extravaganza and Herbalife Honors, our most prestigious award ceremony.

We expect 2006 Selling, General & Administrative expenses to increase over 2005 levels, reflecting general salary merit increases and the on-going investments in our five key strategies distributor, direct-to-consumer, product development, China, and infrastructure strategies. Although as a percentage of net sales, these expenses should be slightly down from 2005 levels.

Net Interest Expense

Net interest expense was $6.0 million for the three months ended March 31, 2006, as compared to $22.2 million in the same period of 2005 reflecting the lower level of debt, from the redemption of 40% or $110 million principal amount of the 91/2% Notes completed in February 2005.

Income Taxes

Income taxes were $19.4 million for the three months ended March 31, 2006, as compared to $15.6 million in the same period of 2005. As a percentage of pre-tax income, the effective income tax rate was 33.4% for the three months ended March 31, 2006, as compared to 54.1% in the same period of 2005. The decrease in the effective tax rate for the three months ended March 31, 2006 as compared to 2005 was caused primarily by the higher pre-tax income, the impact of non-deductible recapitalization charges in the three months ended March 31, 2005 and the settlement of an international tax audit in the three months ended March 31, 2006. Excluding the impact of the

recapitalization expenses and the completion of the international tax audit, the effective tax rate would have been approximately 39.7% and 37% for the three months ended March 31, 2006 and March 31, 2005, respectively.

Foreign Currency Fluctuations

Currency fluctuations had a favorable impact of $2.2 million on net results for the three months ended March 31, 2006, when compared to what current year net results would have been using last year s foreign exchange rates. For the three months ended March 31, 2006, the regional effects of currency fluctuations were an unfavorable impact of $1.4 million in Europe, an unfavorable impact of $0.2 million in Asia/Pacific Rim, a favorable impact of $3.1 million in The Americas, and a favorable impact of $0.7 million in Japan.

Net Results

Net income for the three months ended March 31, 2006 was $38.7 million, or $0.53 per diluted share, up from $13.3 million, or $0.19 per diluted share for the same period of 2005. Excluding the impact of a $3.7 million tax benefit resulting from an international income tax settlement in the first quarter of 2006 and $14.2 million of recapitalization expenses incurred in the first quarter of 2005 associated with the $110.0 million clawback of our 91/2% Notes, net income increased 27.3%. The increase in net income was due to the net sales growth, lower interest and income tax expense, partially offset by higher labor, promotional and professional fee expenses. Overall, the appreciation of foreign currencies had a $2.2 million favorable impact on net results for the three months ended March 31, 2006.

Liquidity and Capital Resources

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

For the three months ended March 31, 2006, we generated $46.1 million from operating cash flows, as compared to $25.1 million for the three months ended March 31, 2005. The increase in cash generated from operations reflected an increase in net income of $25.4 million, which was primarily driven by a 22.5% growth in net sales and a decrease in interest paid of $13.2 million, partially offset by an increase in income taxes paid of $7.7 million and the timing of the Mark Hughes Bonus payment. In 2006, we made $24.6 million of Mark Hughes Bonus payments in March 2006. In 2005, the Mark Hughes Bonus payments were paid in April 2005.

Capital expenditures, including capital leases, for the three months ended March 31, 2006 were $12.2 million, as compared to $4.4 million for the same period in 2005. The majority of these expenditures represented investments in management information systems, the development of the Company s direct-to-consumer platform, and the expansion of our facilities in China. We expect to incur capital expenditures of up to $45 million in 2006.

2005 and 2006 are investment years for us in China as we expand our business there. The operating loss in China for 2005 was $2.2 million and we currently anticipate to fund an operating loss of approximately $10.0 million in 2006, in addition to total capital expenditures and working capital of up to $15.0 million for the planned build-out of retail stores, our offices and the expansion of the capabilities of our manufacturing facility. In 2005 we invested approximately $4.5 million in capital expenditures in China.

In December 2004, Herbalife completed an initial public offering in connection with which several recapitalization transactions were completed, including the tender for all of the outstanding 113/4% Notes, of which 99.9% accepted

the tender offer, and a replacement of the existing term loan and revolving credit facility with a new $225.0 million senior credit facility. In addition, we redeemed $110 million principal amount excluding discounts or 40% of our outstanding 91/2% Notes in February of 2005 for the cash amount of $124.1 million, including a premium of $10.5 million and accrued interest of $3.6 million. Interest expense in 2005 includes the redemption amount of $14.2 million, which represents $10.5 million of premium and $3.7 million of write off of deferred financing cost and discount.

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The $225.0 million senior credit facility consists of a senior secured revolving credit facility with total availability of up to $25.0 million and a senior secured term loan facility in an aggregate principal amount of $200.0 million. The revolver is available until December 21, 2009. The revolver bears interest at LIBOR plus 2%. In April 2005 the senior credit facility was amended whereby the interest rate was reduced from LIBOR plus 21/4% to LIBOR plus 13/4%. In addition, the amount payable in connection with a partial or full refinancing of the loan within the first year of the amendment shall equal 101% of the principal amount. In August 2005, the senior credit facility was amended to permit the purchase, repurchase or redemption of up to $50.0 million aggregate principal amount of the 91/2% Notes due 2011. There were no repurchases of the 91/2% Notes in 2005 and 2006. In March 2006, we prepaid $9.8 million of our senior credit facility resulting in approximately $0.2 million additional interest expense from write-off of deferred financing fees. With regard to the term loan we are obligated to pay $0.2 million every quarter until September 30, 2010 and the remaining principal amount on December 21, 2010.

The senior credit facility and the 91/2% Notes include customary covenants that restrict, among other things, the ability to incur additional debt, pay dividends or make certain other restricted payments, incur liens, merge or sell all or substantially all of our assets, or enter into various transactions with affiliates. Additionally, the senior credit facility includes covenants relating to the maintenance of certain leverage, fixed charge coverage, and interest coverage ratios, and requirements to make early payments to the extent of excess cash flow, as defined therein.

The following summarizes our contractual obligations including interest at March 31, 2006 and the effect such obligations are expected to have on our liquidity and cash flows in future periods:

	Payments Due by Period						
	Total	2006	2007	2008	2009	2010	2011 & Thereafter
				(In millions)			
Senior Secured Term Loan	$ 103.9	$ 4.5	$ 6.0	$ 5.9	$ 5.9	$ 81.6	$
113/4% Notes	0.2					0.2	
91/2% Notes	251.2	15.7	15.7	15.7	15.7	15.7	172.7
Capital Lease	4.8	2.7	1.9	0.2			
Other debt	5.0	4.1	0.9				
Operating leases	76.6	13.3	11.4	8.0	7.1	7.0	29.8
Total	$ 441.7	$ 40.3	$ 35.9	$ 29.8	$ 28.7	$ 104.5	$ 202.5

As of March 31, 2006, we had positive working capital of $43.2 million. Cash and cash equivalents were $109.2 million at March 31, 2006, compared to $88.2 million at December 31, 2005.

We expect that cash and funds provided from operations and available borrowings under our new revolving credit facility will provide sufficient working capital to operate our business, to make expected capital expenditures and to meet foreseeable liquidity requirements, including debt service on the 91/2% Notes and the new senior credit facility. There can be no assurance, however, that our business will service our debt, including our outstanding notes, or fund our other liquidity needs.

The majority of our purchases from suppliers are generally made in U.S. dollars, while sales to Herbalife distributors generally are made in local currencies. Consequently, strengthening of the U.S. dollar versus a foreign currency can have a negative impact on operating margins and can generate transaction losses on intercompany transactions. For

discussion of our foreign exchange contracts and other hedging arrangements, see the quantitative and qualitative disclosures about market risks described below.

Contingencies

We are from time to time engaged in routine litigation. We regularly review all pending litigation matters in which we are involved and establish reserves deemed appropriate by management for these litigation matters when a probable loss estimate can be made.

Herbalife International and certain of its independent distributors have been named as defendants in a purported class action lawsuit filed February 17, 2005, in the Superior Court of California, County of San Francisco,

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

Herbalife International and certain of its distributors have been named as defendants in a class action lawsuit filed July 16, 2003, in the Circuit Court of Ohio County in the State of West Virginia *(Mey v. Herbalife International, Inc., et al)*. On April 21, 2006, the court granted plaintiff s motion for class certification in West Virginia. The complaint alleges that certain telemarketing practices of certain Herbalife International distributors violate the Telephone Consumer Protection Act, or TCPA, and seeks to hold Herbalife International vicariously liable for the practices of its distributors. More specifically, the plaintiffs complaint alleges that several of Herbalife International s distributors used pre-recorded telephone messages and autodialers to contact prospective customers in violation of the TCPA s prohibition of such practices. Herbalife International s distributors are independent contractors and if any such distributors in fact violated the TCPA they also violated Herbalife s policies, which require its distributors to comply with all applicable federal, state and local laws. The Company believes that it has meritorious defenses to the suit.

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

Certain of our 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. We and our tax advisors believe that there are substantial defenses to their allegations that additional taxes are owed, and we are vigorously contesting the additional proposed taxes and related charges.

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

Critical Accounting Policies

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

We are a network marketing company that sells a wide range of weight management products, nutritional supplements and personal care products within one industry segment as defined under SFAS 131, Disclosures about Segments of an Enterprise and Related Information. Our products are manufactured by third party providers and then sold to independent distributors who sell Herbalife products to retail consumers or other distributors.

We sell products in 62 countries throughout the world and is organized and managed by geographic region. In the first quarter of 2003, we elected to aggregate our operating segments into one reporting segment, as management believes that our operating segments have similar operating characteristics and similar long term operating performance. In making this determination, management believes that the operating segments are similar in the nature of the products sold, the product acquisition process, the types of customers products are sold to, the methods used to distribute the products, and the nature of the regulatory environment.

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

Allowances for product returns primarily in connection with our buyback program are provided at the time the product is shipped. This accrual is based upon historic return rates for each country, which vary from zero to approximately 5.0% of retail sales, and the relevant return pattern, which reflects anticipated returns to be received over a period of up to 12 months following the original sale. Historically, product returns and buybacks have not been significant. Product returns and buybacks were approximately 0.9% and 0.9% for the three months ended March 31, 2005 and 2006 respectively. No material changes in estimates have been recognized for the three months ended March 31, 2005 and 2006.

We record reserves against our inventory to provide for estimated obsolete or unsalable inventory based on assumptions about future demand for our products and market conditions. If future demand and market conditions are less favorable than management s assumptions, additional reserves could be required. Likewise, favorable future demand and market conditions could positively impact future operating results if previously reserved for inventory is sold. We reserved for obsolete and slow moving inventory totaling $8.0 million, and $9.6 million as of December 31, 2005 and March 31, 2006, respectively.

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

Goodwill and other intangibles not subject to amortization are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset s fair value. This determination is made at the reporting unit level and consists of two steps. First, the Company determines the fair value of a reporting unit and compares it to its carrying amount.

Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit s goodwill and other intangibles over the implied fair value. The implied fair value is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS No. 141, *Business Combinations*. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill and other intangibles. As of March 31, 2006, we had

goodwill of approximately $129.5 million, and marketing franchise of $310.0 million. No write-downs have been recognized for the three months ended March 31, 2005. For the three months ended March 31, 2006, goodwill was reduced by $4.7 million due primarily to the effect of the settlement of an international tax audit related to the pre-acquisition period.

Contingencies are accounted for in accordance with SFAS 5, Accounting for Contingencies. SFAS 5 requires that we record an estimated loss from a loss contingency when information available prior to issuance of our

financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Accounting for contingencies such as legal and income tax matters requires us to use judgment. Many of these legal and tax contingencies can take years to be resolved. Generally, as the time period increases over which the uncertainties are resolved, the likelihood of changes to the estimate of the ultimate outcome increases.

Deferred income tax assets have been established for net operating loss carryforwards of certain foreign subsidiaries and have been reduced by a valuation allowance to reflect them at amounts estimated to be ultimately recognized. The net operating loss carryforwards expire in varying amounts over a future period of time. Realization of the income tax carryforwards is dependent on generating sufficient taxable income prior to expiration of the carryforwards. Although realization is not assured, we believe it is more likely than not that the net carrying value of the income tax carryforwards will be realized. The amount of the income tax carryforwards that is considered realizable, however, could change if estimates of future taxable income during the carryforward period are adjusted.

We account for stock-based compensation in accordance with SFAS No. 123R, *Share-Based Payment.* Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. Determining the fair value of share-based awards at the grant date requires judgment, including estimating out stock price volatility and employee stock award exercise behaviors. Our expected volatility is primarily based upon on the historical volatility of Herbalife s common stock and, but due to the limited period of public trading data for its common stock, it is also validated against the volatility of a company peer group. The expected life of awards is based on observed historical exercise patterns, which can vary over time. As stock-based compensation expense recognized in the Consolidated Statement of Income is based on awards ultimately expected to vest, the amount of expense has been reduced for estimated forfeitures. SFAS No. 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience.

New Accounting Pronouncements

Effective January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment (SFAS No. 123R), which generally requires, among other things, that all employee share-based compensation be measured using a fair value method and that the resulting compensation cost be recognized in the financial statements. We selected the modified prospective method of adoption. Under this method, compensation expense that we recognized for the three months ended March 31, 2006 included: (a) compensation expense for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, Accounting for Stock-Based Compensation, and (b) compensation expense for all share-based payments granted on or after January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. Results for prior periods were not restated. See Note 8 to the consolidated financial statements for more details on stock based compensation.

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

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

We have adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133, as amended and interpreted, established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in

hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair-value hedge, the changes in the fair value of the derivative and the underlying hedged item are recognized concurrently in earnings. If the derivative is designated as a cash-flow hedge, changes in the fair value of the derivative are recorded in other comprehensive income (OCI) and are recognized in the

statement of operations when the hedged item affects earnings. SFAS No. 133 defined new requirements for designation and documentation of hedging relationships as well as ongoing effectiveness assessments in order to use hedge accounting. For a derivative that does not qualify as a hedge, changes in fair value are recognized concurrently in earnings.

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

Foreign Exchange Risk

We enter into foreign exchange derivatives in the ordinary course of business primarily to reduce exposure to currency fluctuations attributable to inter-company transactions and translation of local currency revenue. Most of these foreign exchange contracts are designated as cash flow hedges for forecasted transactions.

We purchase average rate put options, which give us the right, but not the obligation, to sell foreign currency at a specified exchange rate (strike rate). These contracts provide protection in the event that the foreign currency weakens beyond the option strike rate.

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

Foreign Currency	**Coverage (In millions)**	**Average Strike Price**	**Fair Value (In millions)**	**Maturity Date**
Purchase Puts (Company may sell peso/buy USD)				
Mexican peso	$ 19.5	10.54 10.82	$ 0.5	Apr-Jun 2006
Mexican peso	$ 19.5	10.61 10.86	$ 0.6	Jul-Sep 2006
Mexican peso	$ 18.5	10.69 10.94	$ 0.7	Oct-Dec 2006
	$ 57.5		$ 1.8	
Purchase Puts (Company may sell real/buy USD)				
Brazilian real	$ 7.5	2.19 2.41	$ 0.1	Apr-Jun 2006
Brazilian real	$ 6.0	2.24 2.38	$ 0.2	Jul-Sep 2006
Brazilian real	$ 5.0	2.28 2.37	$ 0.2	Oct-Dec 2006
	$ 18.5		$ 0.5	
Purchase Puts (Company may sell won/buy USD)				
Korean won	$ 3.8	972.65 993.80	$ 0.0	Apr-Jun 2006
Korean won	$ 3.8	981.50 993.00	$ 0.1	Jul-Sep 2006
Korean won	$ 3.8	980.75 992.25	$ 0.1	Oct-Dec 2006
	$ 11.4		$ 0.2	

Purchase Puts (Company may sell pounds/buy USD)							
British pound	$	0.8	1.785	1.788	$	0.0	Apr-Jun 2006
	$	0.8			$	0.0	
Purchase Puts (Company may sell rand/buy USD)							
South African rand	$	1.5	6.11	6.13	$	0.0	Apr-Jun 2006
	$	1.5			$	0.0	
Purchase Puts (Company may sell Taiwan dollar/buy USD)							
Taiwan Dollar	$	2.0	31.56	31.78	$	0.0	Apr-Jun 2006
Taiwan Dollar	$	2.5	31.23	31.39	$	0.1	Jul-Sep 2006
Taiwan Dollar	$	3.0	30.98	31.25	$	0.1	Oct-Dec 2006
	$	7.5			$	0.2	

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Foreign exchange forward contracts are used to hedge advances between subsidiaries. The objective of these contracts is to neutralize the impact of foreign currency movements on the subsidiary s operating results. The fair value of forward contracts is based on third-party bank quotes.

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

Foreign Currency	Contract Date	Forward Position (In millions)	Maturity Date	Contract Rate	Fair Value (In millions)
At March 31, 2006					
Buy USD sell SEK	03/29/06	$ 2.4	04/30/06	7.82	$ 2.4
Buy USD sell EUR	03/29/06	$ 0.9	04/30/06	1.20	$ 0.9
Buy USD sell GBP	03/29/06	$ 3.1	04/30/06	1.73	$ 3.1
Buy TRY sell USD	03/29/06	$ 3.0	04/30/06	1.36	$ 3.0
Buy KRW sell USD	03/29/06	$ 6.0	04/30/06	976.90	$ 6.0
Buy JPY sell USD	03/29/06	$ 4.1	04/30/06	117.27	$ 4.1
Buy CNY sell USD	03/29/06	$ 5.0	04/30/06	8.00	$ 5.0
Buy INR sell USD	03/29/06	$ 5.3	04/30/06	44.81	$ 5.3
Buy TRY sell USD	03/30/06	$ 1.1	04/27/06	1.36	$ 1.1
Buy EUR sell USD	03/29/06	$ 15.9	04/30/06	1.20	$ 16.0
Buy USD sell EUR	03/29/06	$ 10.8	04/30/06	1.20	$ 10.9
Buy USD sell EUR	03/31/06	$ 13.4	04/30/06	1.21	$ 13.3
Buy EUR sell USD	03/29/06	$ 12.1	04/30/06	1.21	$ 12.1
Buy CAD sell EUR	03/29/06	$ 1.6	04/30/06	1.41	$ 1.547
Buy NZD sell EUR	03/29/06	$ 0.6	04/30/06	1.99	$ 0.616
Buy TWD sell EUR	03/28/06	$ 5.0	04/30/06	39.16	$ 5.028
Buy NOK sell EUR	03/29/06	$ 1.5	04/30/06	7.98	$ 1.533
Buy DKK sell EUR	03/29/06	$ 1.3	04/30/06	7.46	$ 1.305
Buy PLN sell EUR	03/29/06	$ 0.8	04/30/06	3.95	$ 0.776
Buy EUR sell USD	03/29/06	$ 17.5	04/30/06	1.21	$ 17.6
Buy USD sell EUR	03/29/06	$ 0.8	04/30/06	1.20	$ 0.8
Buy HUF sell EUR	03/29/06	$ 0.9	04/30/06	266.91	$ 0.9
Buy EUR sell HUF	03/30/06	$ 0.2	04/30/06	265.63	$ 0.2
Buy EUR sell USD	03/29/06	$ 12.9	04/30/06	1.20	$ 13.0
Buy EUR sell SEK	03/29/06	$ 0.6	04/30/06	9.42	$ 0.6
Buy YEN sell CHF	03/29/06	$ 22.8	04/30/06	89.80	$ 22.7
Buy EUR sell GBP	03/29/06	$ 0.8	04/30/06	0.69	$ 0.9

All our foreign subsidiaries, excluding those operating in hyper-inflationary environments, designate their local currencies as their functional currency. At March 31, 2006, the total amount of our foreign subsidiary cash was 71.7 million, of which $2.0 million was invested in U.S. dollars.

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Interest Rate Risk

We use interest rate swaps to hedge the interest rate exposure on the variable interest rate associated with our senior credit facility. They provide protection in the event the LIBOR rates fluctuate. Interest rate swaps are designated as cash flow hedges. The table below describes the interest rate swap that was outstanding:

Interest Rate	National Amount (In millions)	Average Rate	Fair Value (In millions)	Maturity Date
At March 31, 2006				
Interest rate swap	$ 20.0	4.27%	$ 0.33	01/28/2008

The table below presents principal cash flows and interest rates by maturity dates and the fair values of our borrowings as of March 31, 2006. Fair values for fixed rate borrowings have been determined based on recent market trade values. The fair values for variable rate borrowings approximate their carrying value. Variable interest rates disclosed represent the rates on the borrowings at March 31, 2006. Interest rate risk related to our capital leases is not significant.

	Expected Maturity Date							
	2006	2007	2008	2009	2010	Thereafter	Total	Fair Value
Long-term Debt								
Fixed Rate (in millions)	$				$ 0.1	$	$ 0.1	$ 0.1
Average Interest Rate							11.75%	
Variable Rate (in millions)	$ 0.6	$ 0.8	$ 0.8	$ 0.8	$ 76.8	$	$ 79.8	$ 79.8
Average Interest Rate							6.46%	
Fixed Rate (in millions)						$ 165.0	$ 165.0	$ 176.6
Average Interest Rate							9.5%	

Under the $200.0 million term loan, the Company is obligated to enter into (for a minimum of three years after December 21, 2004) an interest rate hedge for up to 25% of the aggregate principal amount of the term loan. On February 24, 2005 the Company entered into an interest rate swap, as discussed above, to fulfill this obligation.

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

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

Changes in Internal Control Over Financial Reporting. There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the

last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

FORWARD LOOKING STATEMENTS

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

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

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

adverse publicity associated with our products or network marketing organization;

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

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

risk of improper action by Chinese employees or international distributors in violation of Chinese law;

changing consumer preferences and demands;

the competitive nature of our business;

regulatory matters governing our products, including potential governmental or regulatory actions concerning the safety or efficacy of our products, and network marketing program;

risks associated with operating internationally, including foreign exchange risks;

our dependence on increased penetration of existing markets;

contractual limitations on our ability to expand our business;

our reliance on our information technology infrastructure and outside manufacturers;

the sufficiency of trademarks and other intellectual property rights;

product concentration;

our reliance on our management team;

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

taxation relating to our distributors; and

product liability claims.

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

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

PART II. OTHER INFORMATION

Item 1. *LEGAL PROCEEDINGS*

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

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Item 1.a *RISK FACTORS*

Our failure to establish and maintain distributor relationships for any reason could negatively impact sales of our products and harm our financial condition and operating results.

We distribute our products exclusively through over one million independent distributors, and we depend upon them directly for substantially all of our sales. To increase our revenue, we must increase the number of, or the productivity of, our distributors. Accordingly, our success depends in significant part upon our ability to recruit, retain and motivate a large base of distributors. There is a high rate of turnover among our distributors, a characteristic of the network marketing business. The loss of a significant number of distributors for any reason could negatively impact sales of our products and could impair our ability to attract new distributors. In our efforts to attract and retain distributors, we compete with other network marketing organizations, including those in the weight management product, dietary and nutritional supplement and personal care and cosmetic product industries. Our operating results could be harmed if our existing and new business opportunities and products do not generate sufficient interest to retain existing distributors and attract new distributors.

In light of the high year-over-year rate of turnover in our distributor base, we have our supervisors requalify annually in order to help us maintain a more accurate count of their numbers. For the latest twelve month re-qualification period ending January 2006, 41.5% of our supervisors re-qualified. Distributors who purchase our product for personal consumption or for short-term income goals may stay with us for several months to one year. Supervisors who have committed time and effort to build a sales organization will generally stay for longer periods. Distributors have highly variable levels of training, skills and capabilities. The turnover rate of our distributors, and our operating results, can be adversely impacted if we and our senior distributor leadership do not provide the necessary mentoring, training and business support tools for new distributors to become successful sales people in a short period of time.

We estimate that, of our over one million independent distributors, we had approximately 244,000 supervisors after requalifications in February 2006. These supervisors, together with their downline sales organizations, account for substantially all of our revenues. Our distributors, including our supervisors, may voluntarily terminate their distributor agreements with us at any time. The loss of a group of leading supervisors, together with their downline sales organizations, or the loss of a significant number of distributors for any reason, could negatively impact sales of our products, impair our ability to attract new distributors and harm our financial condition and operating results.

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

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

Extensive federal, state and local laws regulate our business, our products and our network marketing program. Because we have expanded into foreign countries, our policies and procedures for our independent distributors differ due to the different legal requirements of each country in which we do business. While we have implemented distributor policies and procedures designed to govern distributor conduct and to protect the goodwill associated with Herbalife trademarks and tradenames, it can be difficult to enforce these policies and procedures because of the large number of distributors and their independent status. Violations by our distributors of applicable law or of our policies

and procedures in dealing with customers could reflect negatively on our products and operations, and harm our business reputation. In addition, it is possible that a court could hold us civilly or criminally accountable based on vicarious liability because of the actions of our independent distributors. If any of these events occur, the value of an investment in our common shares could be impaired. For example, in *Mey v. Herbalife International, et al*, the plaintiff seeks to hold the Company vicariously liable for actions of certain of its distributors, each of whom is an independent contractor. While the Company vigorously denies such distributors were acting as agents of the

Company, and although the court specifically did not rule on the question of vicarious liability, on April 21, 2006 it did grant the plaintiff s motion to certify the case as a class action. We believe that we have meritorious defenses and will continue to vigorously defend this lawsuit.

Adverse publicity associated with our products, ingredients or network marketing program, or those of similar companies, could harm our financial condition and operating results.

The size of our distribution force and the results of our operations may be significantly affected by the public s perception of our Company and similar companies. This perception is dependent upon opinions concerning:

- the safety and quality of our products and ingredients;
- the safety and quality of similar products and ingredients distributed by other companies;
- our distributors;
- our network marketing program; and
- the direct selling business generally.

Adverse publicity concerning any actual or purported failure of our Company or our distributors to comply with applicable laws and regulations regarding product claims and advertising, good manufacturing practices, the regulation of our network marketing program, the licensing of our products for sale in our target markets or other aspects of our business, whether or not resulting in enforcement actions or the imposition of penalties, could have an adverse effect on the goodwill of our Company and could negatively affect our ability to attract, motivate and retain distributors, which would negatively impact our ability to generate revenue. We cannot ensure that all distributors will comply with applicable legal requirements relating to the advertising, labeling, licensing or distribution of our products.

In addition, our distributors and consumers perception of the safety and quality of our products and ingredients as well as similar products and ingredients distributed by other companies can be significantly influenced by national media attention, publicized scientific research or findings, widespread product liability claims and other publicity concerning our products or ingredients or similar products and ingredients distributed by other companies. Adverse publicity, whether or not accurate or resulting from consumers use or misuse of our products, that associates consumption of our products or ingredients or any similar products or ingredients with illness or other adverse effects, questions the benefits of our or similar products or claims that any such products are ineffective, inappropriately labeled or have inaccurate instructions as to their use, could negatively impact our reputation or the market demand for our products.

Adverse publicity relating to us, our products or our operations, including our network marketing program or the attractiveness or viability of the financial opportunities provided thereby, has had, and could again have, a negative effect on our ability to attract, motivate and retain distributors. In the mid-1980 s, our products and marketing program became the subject of regulatory scrutiny in the United States, resulting in large part from claims and representations made about our products by our distributors, including impermissible therapeutic claims. The resulting adverse publicity caused a rapid, substantial loss of distributors in the United States and a corresponding reduction in sales beginning in 1985. We expect that negative publicity will, from time to time, continue to negatively impact our business in particular markets.

Our failure to appropriately respond to changing consumer preferences and demand for new products or product enhancements could significantly harm our distributor and customer relationships and product sales and harm our

financial condition and operating results and cause the loss or reduction in the value of your investment in our common shares.

Our business is subject to changing consumer trends and preferences, especially with respect to weight management products. Our continued success depends in part on our ability to anticipate and respond to these changes, and we may not respond in a timely or commercially appropriate manner to such changes. Furthermore, the nutritional supplement industry is characterized by rapid and frequent changes in demand for products and new product introductions and enhancements. Our failure to accurately predict these trends could negatively impact

consumer opinion of our products, which in turn could harm our customer and distributor relationships and cause the loss of sales. The success of our new product offerings and enhancements depends upon a number of factors, including our ability to:

accurately anticipate customer needs;

innovate and develop new products or product enhancements that meet these needs;

successfully commercialize new products or product enhancements in a timely manner;

price our products competitively;

manufacture and deliver our products in sufficient volumes and in a timely manner; and

differentiate our product offerings from those of our competitors.

If we do not introduce new products or make enhancements to meet the changing needs of our customers in a timely manner, some of our products could be rendered obsolete, which could negatively impact our revenues, financial condition and operating results.

Due to the high level of competition in our industry, we might fail to retain our customers and distributors, which would harm our financial condition and operating results.

The business of marketing weight management and nutrition products is highly competitive and sensitive to the introduction of new products or weight management plans, including various prescription drugs, which may rapidly capture a significant share of the market. These market segments include numerous manufacturers, distributors, marketers, retailers and physicians that actively compete for the business of consumers both in the United States and abroad. In addition, we anticipate that we will be subject to increasing competition in the future from sellers that utilize electronic commerce. Some of these competitors have longer operating histories, significantly greater financial, technical, product development, marketing and sales resources, greater name recognition, larger established customer bases and better-developed distribution channels than we do. Our present or future competitors may be able to develop products that are comparable or superior to those we offer, adapt more quickly than we do to new technologies, evolving industry trends and standards or customer requirements, or devote greater resources to the development, promotion and sale of their products than we do. For example, if our competitors develop other diet or weight loss treatments that prove to be more effective than our products, demand for our products could be reduced. Accordingly, we may not be able to compete effectively in our markets and competition may intensify.

We are also subject to significant competition for the recruitment of distributors from other network marketing organizations, including those that market weight management products, dietary and nutritional supplements and personal care products as well as other types of products. We compete for global customers and distributors with regard to weight management, nutritional supplement and personal care products. Our competitors include both direct selling companies such as NuSkin Enterprises, Nature s Sunshine, Alticor/Amway, Melaleuca, Avon Products, Oriflame, and Mary Kay, as well as retail establishments such as Weight Watchers, Jenny Craig, General Nutrition Centers, Wal-Mart and retail pharmacies. In addition, because the industry in which we operate is not particularly capital intensive or otherwise subject to high barriers to entry, it is relatively easy for new competitors to emerge who will compete with us for our distributors and customers. In addition, the fact that our distributors may easily enter and exit our network marketing program contributes to the level of competition that we face. For example, a distributor can enter or exit our network marketing system with relative ease at any time without facing a significant investment or loss of capital because (1) we have a low upfront financial cost (generally $50 to $75) to become a Herbalife

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

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

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

Governmental regulations in countries where we plan to commence or expand operations may prevent or delay entry into those markets. In addition, our ability to sustain satisfactory levels of sales in our markets is dependent in significant part on our ability to introduce additional products into such markets. However, governmental regulations in our markets, both domestic and international, can delay or prevent the introduction, or require the reformulation or withdrawal, of certain of our products. For example, during the third quarter of 1995, we received inquiries from certain governmental agencies within Germany and Portugal regarding our product, *Thermojetics® Instant Herbal Beverage*, relating to the caffeine content of the product and the status of the product as an instant tea, which was disfavored by regulators, versus a beverage. Although we initially suspended the product sale in Germany and Portugal at the request of the regulators, we successfully reintroduced it once regulatory issues were satisfactorily resolved. Any such regulatory action, whether or not it results in a final determination adverse to us, could create negative publicity, with detrimental effects on the motivation and recruitment of distributors and, consequently, on sales.

On March 7, 2003, the FDA proposed a new regulation to require current good manufacturing practices affecting the manufacture, packing, and holding of dietary supplements. The proposed regulation would establish standards to ensure that dietary supplements and dietary ingredients are not adulterated with contaminants or impurities, and are labeled to accurately reflect the active ingredients and other ingredients in the products. It also includes proposed requirements for designing and constructing physical plants, establishing quality control procedures, and testing manufactured dietary ingredients and dietary supplements, as well as proposed requirements for maintaining records and for handling consumer complaints related to cGMPs. We are evaluating this proposal with respect to its potential impact upon the various contract manufacturers that we use to manufacturer our products, some of whom might not meet the new standards. It is important to note that the proposed regulation, in an effort to limit disruption, includes a three-year phase-in for small businesses of any final regulation that is issued. This will mean that some of our contract manufacturers will not be fully impacted by the proposed regulation until at least 2008. However, the proposed regulation can be expected to result in additional costs and possibly the need to seek alternate suppliers.

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

Our network marketing program is subject to a number of federal and state regulations administered by the Federal Trade Commission and various state agencies in the United States as well as regulations on direct selling in foreign

markets administered by foreign agencies. We are subject to the risk that, in one or more markets, our network marketing program could be found not to be in compliance with applicable law or regulations. Regulations applicable to network marketing organizations generally are directed at preventing fraudulent or deceptive schemes, often referred to as pyramid or chain sales schemes, by ensuring that product sales ultimately

are made to consumers and that advancement within an organization is based on sales of the organization s products rather than investments in the organization or other non-retail sales-related criteria. The regulatory requirements concerning network marketing programs do not include bright line rules and are inherently fact-based, and thus, even in jurisdictions where we believe that our network marketing program is in full compliance with applicable laws or regulations governing network marketing systems, we are subject to the risk that these laws or regulations or the enforcement or interpretation of these laws and regulations by governmental agencies or courts can change. The failure of our network marketing program to comply with current or newly adopted regulations could negatively impact our business in a particular market or in general.

We are also subject to the risk of private party challenges to the legality of our network marketing program. The multi-level marketing programs of other companies have been successfully challenged in the past, and in a current lawsuit, allegations have been made challenging the legality of our network marketing program in Belgium. Test Ankoop-Test Achat, a Belgian consumer protection organization, sued Herbalife International Belgium, S.V., or HIB, on August 26, 2004, alleging that HIB violated Article 84 of the Belgian Fair Trade Practices Act by engaging in pyramid selling, *i.e.*, establishing a network of professional or non-professional sales people who hope to make a profit more through the expansion of that network rather than through the sale of products to end-consumers. The plaintiff is seeking a payment of 25,000 (equal to approximately $30,000 as of March 31, 2006) per purported violation as well as costs of the trial. For the year ended December 31, 2005, our net sales in Belgium were approximately $15.9 million. Currently, the lawsuit is in the pleading stage. The plaintiffs filed their initial brief on September 27, 2005. An adverse judicial determination with respect to our network marketing program, or in proceedings not involving us directly but which challenge the legality of multi-level marketing systems, in Belgium or in any other market in which we operate, could negatively impact our business.

A substantial portion of our business is conducted in foreign markets, exposing us to the risks of trade or foreign exchange restrictions, increased tariffs, foreign currency fluctuations and similar risks associated with foreign operations.

Approximately 82% of our net sales for the three months ended March 31, 2006, were generated outside the United States, exposing our business to risks associated with foreign operations. For example, a foreign government may impose trade or foreign exchange restrictions or increased tariffs, which could negatively impact our operations. We are also exposed to risks associated with foreign currency fluctuations. For instance, purchases from suppliers are generally made in U.S. dollars while sales to distributors are generally made in local currencies. Accordingly, strengthening of the U.S. dollar versus a foreign currency could have a negative impact on us. Although we engage in transactions to protect against risks associated with foreign currency fluctuations, we cannot be certain any hedging activity will effectively reduce our exchange rate exposure. Our operations in some markets also may be adversely affected by political, economic and social instability in foreign countries. As we continue to focus on expanding our existing international operations, these and other risks associated with international operations may increase, which could harm our financial condition and operating results.

Our expansion in China is subject to general, as well as industry-specific, economic, political and legal developments in China, and requires that we utilize a different business model from that we use elsewhere in the world.

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

have a material adverse effect on our business in China.

In August 2005, China published regulations governing direct selling (effective December 1, 2005) and prohibiting pyramid promotional schemes (effective November 1, 2005) and a number of administrative methods and proclamations were issued in proposal form in September 2005. When final, effective and applicable to us, these regulations will require us to use a business model different from that which we offer in other markets. To

allow us to operate in advance of the effectiveness of these new regulations, as well as to operate once those regulations are implemented, we have created and introduced a model specifically for China. In China, we have Company-operated retail stores that sell through employed sales management personnel to customers and preferred customers. We provide training and certification procedures for sales personnel in China. Once the regulations are effective, we also expect to sell through independent direct sellers. These features are not common to the business model we employ elsewhere in the world. The direct selling regulations require us to apply for approval to conduct a direct selling enterprise in China. There can be no assurance that we will be able to obtain that license. Additionally, although certain regulations have been published, others are pending, and there is uncertainty regarding the interpretation and enforcement of such regulations. The regulatory environment in China is evolving, and officials in the Chinese government often exercise discretion in deciding how to interpret and apply regulations. As such, we have worked closely with governmental agencies and advisors in interpreting both the existing regulations and the new regulations. However, we cannot be certain that our business model will be deemed by national or local Chinese regulatory authorities to be compliant with these or other more general regulations. In the past, the Chinese government has rigorously monitored the direct selling market in China, and has taken serious action against companies that the government believed were engaging in activities they regarded to be in violation of applicable law, including shutting down their businesses and imposing substantial fines. As a result, there can be no guarantee that the Chinese government s interpretation and application of the existing and new regulations will not negatively impact our business in China, result in regulatory investigations or lead to fines or penalties.

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

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

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

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

If we fail to further penetrate existing markets or successfully expand our business into new markets, then the growth in sales of our products, along with our operating results, could be negatively impacted and investors could lose all or part of their investment in our common shares.

The success of our business is to a large extent contingent on our ability to continue to grow by entering new markets and further penetrating existing markets. Our ability to further penetrate existing markets in which we compete or to

successfully expand our business into additional countries in Eastern Europe, Southeast Asia, South America or elsewhere, to the extent we believe that we have identified attractive geographic expansion opportunities in the future, is subject to numerous factors, many of which are out of our control.

In addition, government regulations in both our domestic and international markets can delay or prevent the introduction, or require the reformulation or withdrawal, of some of our products, which could negatively impact our business, financial condition and results of operations. Also, our ability to increase market penetration in certain

countries may be limited by the finite number of persons in a given country inclined to pursue a direct selling business opportunity. Moreover, our growth will depend upon improved training and other activities that enhance distributor retention in our markets. We cannot assure you that our efforts to increase our market penetration and distributor retention in existing markets will be successful. Thus, if we are unable to continue to expand into new markets or further penetrate existing markets, our operating results would suffer and the market value of our common shares could decline.

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

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

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

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

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

Our ability to timely provide products to our distributors and their customers, and services to our distributors, depends on the integrity of our information technology system, which we are in the process of upgrading, including the reliability of software and services supplied by our vendors. We are implementing an Oracle enterprise-wide technology solution, a scalable and stable open architecture platform, to enhance our and our distributors efficiency and productivity. In addition, we are upgrading our internet-based marketing and distributor services platform, *MyHerbalife.com.* We expect these initiatives to be substantially complete by 2008.

The most important aspect of our information technology infrastructure is the system through which we record and track distributor sales, volume points, royalty overrides, bonuses and other incentives. We have encountered, and may

encounter in the future, errors in our software or our enterprise network, or inadequacies in the software and services supplied by our vendors, although to date none of these errors or inadequacies has had a meaningful negative impact on our business. Any such errors or inadequacies that we may encounter in the future may result in substantial interruptions to our services and may damage our relationships with, or cause us to lose, our distributors if the errors or inadequacies impair our ability to track sales and pay royalty overrides, bonuses and other incentives,

which would harm our financial condition and operating results. Such errors may be expensive or difficult to correct in a timely manner, and we may have little or no control over whether any inadequacies in software or services supplied to us by third parties are corrected, if at all.

Since we rely on independent third parties for the manufacture and supply of our products, if these third parties fail to reliably supply products to us at required levels of quality, then our financial condition and operating results would be harmed.

All of our products are manufactured by outside companies, except for a small amount of products manufactured in our own manufacturing facility in China. We cannot assure you that our outside manufacturers will continue to reliably supply products to us at the levels of quality, or the quantities, we require, especially after the FDA imposes cGMPs regulations.

Our supply contracts generally have a two-year term. Except for force majeure events, such as natural disasters and other acts of God, and non-performance by Herbalife, our manufacturers generally cannot unilaterally terminate these contracts. These contracts can generally be extended by us at the end of the relevant time period and we have exercised this right in the past. Globally we have over 40 suppliers of our products. For our major products, we have both primary and secondary suppliers. Our major suppliers include Nature s Bounty for protein powders, Fine Foods (Italy) for protein powders and nutritional supplements, PharmaChem Labs for teas and *Niteworks*tm and JB Labs for fiber. In the event any of our third-party manufacturers were to become unable or unwilling to continue to provide us with products in required volumes and at suitable quality levels, we would be required to identify and obtain acceptable replacement manufacturing sources. There is no assurance that we would be able to obtain alternative manufacturing sources on a timely basis. An extended interruption in the supply of products would result in the loss of sales. In addition, any actual or perceived degradation of product quality as a result of reliance on third party manufacturers may have an adverse effect on sales or result in increased product returns and buybacks.

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

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

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

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

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

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

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

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

Additionally, third parties may claim that products we have independently developed infringe upon their intellectual property rights. For example, in two related lawsuits that are currently pending in California, Unither Pharma, Inc. and others are alleging that sales by Herbalife International of (1) its *Niteworks*tm and Prelox Blue products and (2) its former products Woman s Advantage with DHEA and Optimum Performance infringe on patents that are licensed to or owned by those parties, and are seeking unspecified damages, attorneys fees and injunctive relief from the Company. Although we believe that we have meritorious defenses to, and are vigorously defending against, these allegations, there can be no assurance that one or more of our products will not be found to infringe upon the intellectual property rights of these parties or others.

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

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

Our Formula 1 meal replacement product constitutes a significant portion of our sales, accounting for approximately 27%, 22%, and 23% of retail sales for the fiscal years ended December 31, 2005, 2004 and 2003, respectively. If consumer demand for this product decreases significantly or we cease offering this product without a suitable replacement, then our financial condition and operating results would be harmed.

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

We depend on the continued services of our Chief Executive Officer, Michael O. Johnson, and our current senior management team and the relationships that they have developed with our senior distributor leadership, especially in light of the high level of turnover in our former senior management team, and the resulting need to reestablish good working relationships with our senior distributor leadership, after the death of our founder in May

of 2000. Although we have entered into employment agreements with many members of our senior management team, and do not believe that any of them are planning to leave or retire in the near term, we cannot assure you that our senior managers will remain with us. The loss or departure of any member of our senior management team could negatively impact our distributor relations and operating results. If any of these executives do not remain with us, our business could suffer. The loss of such key personnel could negatively impact our ability to implement our business strategy, and our continued success will also be dependent upon our ability to retain existing, and attract additional, qualified personnel to meet our needs. We currently do not maintain key person life insurance with respect to our senior management team.

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

Our 91/2% Notes and senior credit facility contain numerous financial and operating covenants that restrict our and our subsidiaries ability to, among other things:

- pay dividends, redeem share capital or capital stock and make other restricted payments and investments;
- incur additional debt or issue preferred shares;
- allow the imposition of dividend or other distribution restrictions on our subsidiaries;
- create liens on our and our subsidiaries assets;
- engage in transactions with affiliates;
- guarantee other indebtedness; and
- merge, consolidate or sell all or substantially all of our assets and the assets of our subsidiaries.

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

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

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

amount that we believe represents the most likely outcome of the resolution of these disputes, but if we are incorrect in our assessment we may have to pay the full amount asserted. Ultimate resolution of these matters may take several years, and the outcome is uncertain. If the United States Internal Revenue Service or the taxing authorities of any other jurisdiction were to successfully challenge our transfer pricing practices, we could become subject to higher taxes and our earnings would be adversely affected.

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

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

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

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

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

A few of our shareholders collectively exert significant influence over us and have the power to cause the approval or rejection of all shareholder actions and may take actions that conflict with your interests.

As of February 1, 2006, affiliates of Whitney and Golden Gate Capital own approximately 41.5% of the voting power of our share capital. Accordingly, the Equity Sponsors collectively will have the power to exert significant influence over us and the approval or rejection of any matter on which the shareholders may vote, including the election of

directors, amendment of our memorandum and articles of association and approval of significant corporate transactions and they will have significant control over our management and policies. This influence over corporate actions may also delay, deter or prevent transactions that would result in a change of control. Moreover, the Equity Sponsors may have interests that conflict with yours.

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We are subject to, among other things, the attestation requirements regarding the effectiveness of internal control over financial reporting. These requirements have increased our compliance costs, and failure to comply in a timely manner could adversely affect the value of our securities.

We are required to comply with various corporate governance and financial reporting requirements under the Sarbanes-Oxley Act of 2002, as well as new rules and regulations adopted by the Commission, the Public Company Accounting Oversight Board and the NYSE. In particular, we are required to include management and auditor reports on the effectiveness of internal control over financial reporting as part of our annual report on Form 10-K for the year ended December 31, 2006, pursuant to Section 404 of the Sarbanes-Oxley Act. We expect to continue to spend significant amounts of time and money on compliance with these rules. Our failure to correct any noted weaknesses in internal controls over financial reporting could result in the disclosure of material weaknesses which could have a material adverse effect upon the market value of our stock.

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

Our corporate affairs are governed by our amended and restated memorandum and articles of association, by the Companies Law (2004 Revision) and the common law of the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as under statutes or judicial precedent in existence in jurisdictions in the United States. Therefore, shareholders may have more difficulty in protecting their interests in the face of actions by our management, directors or controlling shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States, due to the comparatively less developed nature of Cayman Islands law in this area.

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

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

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

Provisions of our articles of association and Cayman Islands corporate law may impede a takeover or make it more difficult for shareholders to change the direction or management of the Company, which could adversely affect the value of our common shares and provide shareholders with less input into the management of the Company than they might otherwise have.

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

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

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Unlike many jurisdictions in the United States, Cayman Islands law does not provide for mergers as that expression is understood under corporate law in the United States. However, Cayman Islands law does have statutory provisions that provide for the reconstruction and amalgamation of companies, which are commonly referred to in the Cayman Islands as schemes of arrangement. The procedural and legal requirements necessary to consummate these transactions are more rigorous and take longer to complete than the procedures typically required to consummate a merger in the United States. Under Cayman Islands law and practice, a scheme of arrangement in relation to a solvent Cayman Islands company must be approved at a shareholders meeting by each class of shareholders, in each case, by a majority of the number of holders of each class of a company s shares that are present and voting (either in person or by proxy) at such a meeting, which holders must also represent 75% in value of such class issued that are present and voting (either in person or by proxy) at such meeting (excluding the shares owned by the parties to the scheme of arrangement).

The convening of these meetings and the terms of the amalgamation must also be sanctioned by the Grand Court of the Cayman Islands. Although there is no requirement to seek the consent of the creditors of the parties involved in the scheme of arrangement, the Grand Court typically seeks to ensure that the creditors have consented to the transfer of their liabilities to the surviving entity or that the scheme of arrangement does not otherwise have a material adverse effect on the creditors interests. Furthermore, the Grand Court will only approve a scheme of arrangement if it is satisfied that:

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

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

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

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

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

Item 2. ***UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS***

None.

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

None.

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

None.

Item 5. ***OTHER INFORMATION***

(a) None.

(b) None.

Item 6. ***EXHIBITS***

(a) Exhibit Index:

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EXHIBIT INDEX

Exhibit Number	Description	Reference
2.1	Agreement and Plan of Merger, dated April 10, 2002, by and among Herbalife International, Inc., WH Holdings (Cayman Islands) Ltd. and WH Acquisition Corp.	(a)
3.1	Form of Amended and Restated Memorandum and Articles of Association of Herbalife Ltd.	(d)
4.1	Indenture, dated as of June 27, 2002 between WH Acquisition Corp., WH Intermediate Holdings Ltd., WH Luxembourg Holdings SàRL, WH Luxembourg Intermediate Holdings SàRL, WH Luxembourg CM SàRL and The Bank of New York as Trustee governing 113/4% Senior Subordinated Notes due 2010	(a)
4.2	Indenture, dated as of March 8, 2004 between WH Holdings (Cayman Islands) Ltd., WH Capital Corporation and The Bank of New York as trustee governing 91/2% Notes due 2011	(a)
4.3	Form of Share Certificate	(d)
9.1	Shareholders Agreement dated as of July 31, 2002, by and among WH Holdings (Cayman Islands) Ltd., Whitney V, L.P., Whitney Strategic Partners V, L.P., WH Investments Ltd., CCG Investments (BVI), L.P., CCG Associates-QP, LLC, CCG Associates-AI, LLC, CCG Investment Fund-AI, L.P., CCG AV, LLC-Series C, CCG AV, LLC-Series E, and certain other persons	(a)
9.2	Voting Agreement, dated as of December 31, 2004 by and among Whitney V, L.P., Whitney Strategic Partners V, L.P., Whitney Private Debt Fund, L.P. and Green River Offshore Fund, Ltd., on the one hand, and CCG Investments (BVI), L.P., CCG Associates-QP, LLC, CCG Associates-AI, LLC, CCG Investment Fund-AI, LP, CCG AV, LLC-Series C, CCG AV, LLC-Series E and CCG CI, LLC on the other hand	(f)
10.1	Form of Indemnity Agreement between Herbalife International Inc. and certain officers and directors of Herbalife International Inc.	(a)
10.2	Office lease agreement between Herbalife International of America Inc. and State Teacher s Retirement System, dated July 11, 1995	(a)
10.3#	Herbalife International of America, Inc. s Senior Executive Deferred Compensation Plan, effectivex January 1, 1996, as amended	(a)
10.4#	Herbalife International of America, Inc. s Management Deferred Compensation Plan, effective January 1, 1996, as amended	(a)
10.5	Master Trust Agreement between Herbalife International of America, Inc. and Imperial Trust Company, Inc., effective January 1, 1996	(a)
10.6#	Herbalife International Inc. 401K Profit Sharing Plan and Trust, as amended	(a)
10.7	Trust Agreement for Herbalife 2001 Executive Retention Plan, effective March 15, 2001	(a)
10.8#	Herbalife 2001 Executive Retention Plan, effective March 15, 2001	(a)
10.9#	Separation Agreement and General Release, dated as of May 17, 2002, between Robert Sandler and Herbalife International, Inc. and Herbalife International of America, Inc. and Clarification	(a)
10.10	Agreement for Retention of Legal Services, dated as of May 20, 2002, by and among Herbalife International, Inc., Herbalife International of America, Inc. and Robert A. Sandler	(a)
10.11	Purchase Agreement, dated as of June 21, 2002, by and among WH Acquisition Corp., Herbalife International, Inc., WH Intermediate Holdings Ltd., WH Luxembourg Holdings	(a)

	SàRL, WH Luxembourg Intermediate Holdings SàRL, WH Luxembourg CM SàRL and UBS Warburg LLC	
10.12	Registration Rights Agreement, dated as of June 27, 2002, by and among WH Acquisition Corp., WH Intermediate Holdings Ltd., WH Luxembourg Holdings SàRL, WH Luxembourg Intermediate Holdings SàRL, WH Luxembourg CM SàRL and UBS Warburg LLC	(a)

Exhibit Number	Description	Reference
10.13	Notice to Distributors regarding Amendment to Agreements of Distributorship, dated as of July 18, 2002 between Herbalife International, Inc. and each Herbalife Distributor	(a)
10.14	Indemnity Agreement dated as of July 31, 2002, by and among WH Holdings (Cayman Islands) Ltd., WH Acquisition Corp., Whitney & Co., LLC, Whitney V, L.P., Whitney Strategic Partners V, L.P., GGC Administration, L.L.C., Golden Gate Private Equity, Inc., CCG Investments (BVI), L.P., CCG Associates-AI, LLC, CCG Investment Fund-AI, LP, CCG AV, LLC-Series C, CCG AV, LLC-Series C, CCG AV, LLC-Series E, CCG Associates-QP, LLC and WH Investments Ltd.	(a)
10.15#	Independent Director s Stock Option Plan of WH Holdings (Cayman Islands) Ltd.	(a)
10.16#	Employment Agreement, dated as of March 10, 2003 between Brian Kane and Herbalife International, Inc. and Herbalife International of America, Inc.	(a)
10.17#	Employment Agreement dated as of March 10, 2003 between Carol Hannah and Herbalife International, Inc. and Herbalife International of America, Inc.	(a)
10.18#	Non-Statutory Stock Option Agreement, dated as of March 10, 2003 between WH Holdings (Cayman Islands) Ltd. and Brian Kane	(a)
10.19#	Non-Statutory Stock Option Agreement, dated as of March 10, 2003 between WH Holdings (Cayman Islands) Ltd. and Carol Hannah	(a)
10.20#	WH Holdings (Cayman Islands) Ltd. Stock Incentive Plan, as restated, dated as of November 5, 2003	(a)
10.21#	Side Letter Agreement dated as of March 10, 2003 by and among WH Holdings (Cayman Islands) Ltd., Brian Kane and Carol Hannah and the Shareholders listed therein	(a)
10.22#	Employment Agreement dated as of April 3, 2003 between Michael O. Johnson and Herbalife International, Inc. and Herbalife International of America, Inc.	(a)
10.23#	Non-Statutory Stock Option Agreement, dated as of April 3, 2003 between WH Holdings (Cayman Islands) Ltd. and Michael O. Johnson	(a)
10.24#	Side Letter Agreement dated as of April 3, 2003 by and among WH Holdings (Cayman Islands) Ltd., Michael O. Johnson and the Shareholders listed therein	(a)
10.25#	Employment Agreement dated as of July 14, 2003 between Matt Wisk and Herbalife International of America, Inc.	(a)
10.26#	Employment Agreement dated as of July 31, 2003 between Gregory L. Probert and Herbalife International of America, Inc.	(a)
10.27#	Employment Agreement dated October 6, 2003 between Brett R. Chapman and Herbalife International of America, Inc.	(a)
10.28#	Form of Non-Statutory Stock Option Agreement (Non-Executive Agreement)	(a)
10.29#	Form of Non-Statutory Stock Option Agreement (Executive Agreement)	(a)
10.30	Registration Rights Agreement, dated as of March 8, 2004, by and among WH Holdings (Cayman Islands) Ltd., WH Capital Corporation and UBS Securities, LLC	(a)
10.31	Indemnity Agreement, dated as of February 9, 2004, among WH Capital Corporation and Gregory Probert	(a)
10.32	Indemnity Agreement, dated as of February 9, 2004, among WH Capital Corporation and Brett R. Chapman	(a)
10.33	Stock Subscription Agreement of WH Capital Corporation, dated as of February 9, 2004, between WH Capital Corporation and WH Holdings (Cayman Islands) Ltd.	(a)
10.34	First Amendment to Amended and Restated WH Holdings (Cayman Islands) Ltd. Stock Incentive Plan, dated November 5, 2003	(a)

Exhibit Number	Description	Reference
10.35#	Separation Agreement and General Release dated May 1, 2004, among Herbalife International, Inc., Herbalife International of America, Inc. and Carol Hannah	(a)
10.36#	Consulting Agreement dated May 1, 2004 among Herbalife International of America, Inc. and Carol Hannah	(a)
10.37#	Employment Agreement dated June 1, 2004 among Herbalife International of America, Inc. and Richard Goudis	(a)
10.38	Purchase Agreement, dated March 3, 2004, by and among WH Holdings (Cayman Islands) Ltd., WH Capital Corporation and UBS Securities LLC	(a)
10.39	Registration Rights Agreement, dated as of July 31, 2002, by and among WH Holdings (Cayman Islands) Ltd., Whitney V, L.P., Whitney Strategic Partners V, L.P., WH Investments Ltd., CCG Investments (BVI), L.P., CCG Associates-QP, LLC, CCG Associates-AI, LLC, CCG Investment Fund-AI, L.P., CCG AV, LLC-Series C and CCG AV, LLC-Series E.	(b)
10.40	Share Purchase Agreement, dated as of July 31, 2002, by and among WH Holdings (Cayman Islands) Ltd., Whitney Strategic Partners V, L.P., WH Investments Ltd., Whitney V, L.P., CCG Investments (BVI), L.P., CCG Associates-QP, LLC, CCG Associates-AI, LLC, CCG Investment Fund-AI, LP, CCG AV, LLC-Series C and CCG AV, LLC-Series E.	(b)
10.41	Form of Indemnification Agreement between Herbalife Ltd. and the directors and certain officers of Herbalife Ltd.	(c)
10.42#	Herbalife Ltd. 2004 Stock Incentive Plan, effective December 1, 2004	(c)
10.43	Termination Agreement, dated as of December 1, 2004, between Herbalife Ltd., Herbalife International, Inc. and Whitney & Co., LLC.	(d)
10.44	Termination Agreement, dated as of December 1, 2004, between Herbalife Ltd., Herbalife International Inc. and GGC Administration, L.L.C.	(d)
10.45	Termination Agreement, dated as of December 13, 2004, by and among Herbalife Ltd., Whitney V, L.P., Whitney Strategic Partners V, L.P., CCG Investments (BVI), L.P., CCG Associates-QP, LLC, CCG Associates-AI, LLC, CCG Investment Fund-AI, LP, CCG AV, LLC-Series C, CCG AV, LLC-Series E and CCG CI, LLC.	(d)
10.46	Indemnification Agreement, dated as of December 13, 2004, by and among Herbalife Ltd., Herbalife International, Inc., Whitney V, L.P., Whitney Strategic Partners V, L.P., CCG Investments (BVI), L.P., CCG Associates-QP, LLC, CCG Associates-AI, LLC, CCG Investment Fund-AI, LP, CCG AV, LLC-Series C, CCG AV, LLC-Series E, CCG CI, LLC and GGC Administration, LLC.	(d)
10.47#	Amendment No. 1 to Herbalife Ltd. 2004 Stock Incentive Plan	(e)
10.48#	Form of Stock Bonus Award Agreement	(e)
10.49#	Contract for Services of a Consultant between Herbalife International Luxembourg S.á.R.L. and Brian Kane dated as of October 18, 2004	(f)
10.50#	Compromise Agreement between Herbalife International Luxembourg S.á.R.L. and Brian Kane dated as of October 18, 2004	(f)
10.51	Credit Agreement, dated as of December 21, 2004, by and among Herbalife International Inc., Herbalife Ltd., WH Intermediate Holdings Ltd., HBL Ltd., WH Luxembourg Holdings S.á.R.L., HLF Luxembourg Holdings, S.á.R.L., WH Capital Corporation, WH Luxembourg Intermediate Holdings S.á.R.L. and the Subsidiary Guarantors party hereto, and certain lenders and agents named therein.	(g)

Exhibit Number	Description	Reference
10.52	Security Agreement, dated as of December 21, 2004, by and among Herbalife International, Inc., Herbalife Ltd., WH Intermediate Holdings Ltd., HBL Ltd., WH Luxembourg Holdings S.á.R.L., HLF Luxembourg Holdings, S.á.R.L., WH Capital Corporation, WH Luxembourg Intermediate Holdings S.á.R.L., and the Subsidiary Guarantors party thereto in favor of Morgan Stanley & Co. Incorporated, as Collateral Agent.	(g)
10.53	First Amendment to Credit Agreement, dated as of April 12, 2005, by and among Herbalife International Inc., Herbalife Ltd., WH Intermediate Holdings Ltd., HBL Ltd., WH Luxembourg Holdings S.á.R.L., HLF Luxembourg Holdings, S.á.R.L., WH Capital Corporation, WH Luxembourg Intermediate Holdings S.á.R.L. and the Subsidiary Guarantors party thereto, and certain lenders and agents named therein.	(g)
10.54#	Employment Agreement Effective as of January 1, 2005 between Herbalife Ltd. and Henry Burdick	(h)
10.55#	Form of 2004 Herbalife Ltd. 2004 Stock Incentive Plan Stock Option Agreement	(i)
10.56#	Form of 2004 Herbalife Ltd. 2004 Stock Incentive Plan Non-Employee Director Stock Option Agreement	(i)
10.57	Second Amendment to Credit Agreement, dated as of August 19, 2005, by and among Herbalife International, Inc., Herbalife Ltd., WH Intermediate Holdings Ltd., HBL Ltd., WH Luxembourg Holdings S.á.R.L., HLF Luxembourg Holdings, S.á.R.L., WH Capital Corporation, WH Luxembourg Intermediate Holdings S.á.R.L. and the Subsidiary Guarantors party thereto, and certain lenders and agents named therein.	(k)
10.58	Service Agreement by and between Herbalife Europe Limited and Wynne Roberts ESQ, dated as of September 6, 2005.	(l)
10.59#	Amendment to employment agreement between Michael O. Johnson and Herbalife International, Inc. and Herbalife International of America, Inc., dated May 15, 2005.	(m)
10.60#	Herbalife Ltd. Independent Directors Deferred Compensation and Stock Unit Plan	(n)
10.61#	Herbalife Ltd. Independent Directors Deferred Compensation and Stock Unit Plan Independent Directors Stock Unit Award Agreement	(n)
10.62#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement	(o)
10.63#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement	(o)
10.64#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Mr. Michael O. Johnson	(p)
10.64#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Mr. Michael O. Johnson	(p)
10.65#	Amendment to Herbalife Ltd. Independent Directors Deferred Compensation and Stock Unit Plan	(q)
10.66#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Messrs. Gregory Probert, Brett R. Chapman and Richard Goudis	(r)
10.67#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Messrs. Gregory Probert, Brett R. Chapman and Richard Goudis	(r)
10.68#	Amended and restated employment agreement effective April 17, 2006 between Herbalife International of America, Inc. and Paul Noack	*
31.1	Rule 13a-14(a) Certification of Chief Executive Officer	*
31.2	Rule 13a-14(a) Certification of Chief Financial Officer	*

32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer	*

Exhibit Number	Description	Reference
99.1	Disposition Agreement dated as of December 13, 2004 is by and among Whitney V, L.P., a Delaware limited partnership, Whitney Strategic Partners V, L.P., a Delaware limited partnership, Whitney Private Debt Fund, L.P., a Delaware limited partnership and Green River Offshore Fund, Ltd., a Cayman Islands company on the one hand, and CCG Investments (BVI), L.P., a British Virgin Islands limited partnership, CCG Associates-QP, LLC, a Delaware limited liability company, CCG Associates-AI, LLC, a Delaware limited liability company, CCG Investment Fund-AI, LP, a Delaware limited partnership, CCG AV, LLC-Series C, a Delaware limited liability company, CCG AV, LLC-Series E, a Delaware limited liability company and CCG CI, LLC a Delaware limited liability company on the other hand.	(d)

* Filed herewith.

\# Management contract or compensatory plan or arrangement.

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

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

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

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

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

(f) Previously filed on March 14, 2005 as an Exhibit to the Company s Annual Report on Form 10-K for the year ended December 31, 2004 and is incorporated herein by reference.

(g) Previously filed on May 9, 2005 as an Exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 and is incorporated herein by reference.

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

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

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

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

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

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

(o) Previously filed on March 29, 2006 as an Exhibit to the Company s Current Report on Form 8-K.

(p) Previously filed on March 29, 2006 as an Exhibit to the Company s Current Report on Form 8-K.

(q) Previously filed on March 30, 2006 as an Exhibit to the Company s Current Report on Form 8-K.

(r) Previously filed on March 31, 2006 as an Exhibit to the Company s Current Report on Form 8-K.

SIGNATURES

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

HERBALIFE LTD.
(Registrant)

By: /s/ Richard Goudis

Richard Goudis
Chief Financial Officer

Date: May 3, 2006

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