

HERBALIFE LTD.  
Form 10-K  
February 23, 2010

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

**Form 10-K**

**FOR ANNUAL AND TRANSITION REPORTS  
PURSUANT TO SECTIONS 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2009**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from        to**

**Commission file number: 1-32381**

**HERBALIFE LTD.**

*(Exact Name of Registrant as Specified in Its Charter)*

**Cayman Islands**  
*(State or Other Jurisdiction of  
Incorporation or Organization)*

**98-0377871**  
*(I.R.S. Employer  
Identification No.)*

**P.O. Box 309GT**  
**Ugland House, South Church Street**  
**Grand Cayman, Cayman Islands**  
*(Address of Principal Executive Offices)*

*(Zip Code)*

**(213) 745-0500**  
*(Registrant's telephone number, including area code)*

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

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Common Shares, par value \$0.002 per share	New York Stock Exchange

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

**None**

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

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

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

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

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

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

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

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

There were 60,291,306 common shares outstanding as of February 18, 2010. The aggregate market value of the Registrant's common shares held by non-affiliates was approximately \$1,732 million as of June 30, 2009, based upon the last reported sales price on the New York Stock Exchange on that date of \$31.54.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Definitive Proxy Statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant's fiscal year ended December 31, 2009, are incorporated by reference in Part III of this Annual Report on Form 10-K.

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**FORWARD-LOOKING STATEMENTS**

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

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

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;

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

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

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

changing consumer preferences and demands;

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

the competitive nature of our business;

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

third party legal challenges to our network marketing program;

risks associated with operating internationally and the effect of economic factors, including foreign exchange, inflation, pricing and currency devaluation risks, especially in countries such as Venezuela;

our dependence on increased penetration of existing markets;

contractual limitations on our ability to expand our business;

our reliance on our information technology infrastructure and outside manufacturers;

the sufficiency of trademarks and other intellectual property rights;

product concentration;

our reliance on our management team;

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

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

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taxation relating to our distributors;

product liability claims;

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

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

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

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

**The Company**

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

**PART I**

**Item 1. BUSINESS**

**GENERAL**

We are a global network marketing company that sells weight management, nutritional supplement, energy, sports & fitness products and personal care products. We were founded in 1980 by Mark Hughes. We pursue our mission of changing people's lives by providing a financially rewarding business opportunity to distributors and quality products to distributors and customers who seek a healthy lifestyle. We are one of the largest network marketing companies in the world with net sales of approximately \$2.3 billion for the fiscal year ended December 31, 2009. We sell our products in 72 countries through a network of approximately 2.0 million independent distributors. In China, in order to comply with local laws and regulations, we sell our products through retail stores, sales representatives, sales employees and licensed business providers. Licensed business providers are independent service providers that operate their own business under Chinese law as well as the conditions set forth by us to sell products and provide services to our customers. We believe the quality of our products and the effectiveness of our distribution network, coupled with geographic expansion, have been the primary reasons for our success throughout our 30-year operating history.

We offer science-based products in four principal categories: weight management, targeted nutrition, energy, sports & fitness and Outer Nutrition. The weight management product portfolio includes meal replacement shakes, weight-loss

enhancers, appetite suppressors and a variety of healthy snacks. Our collection of targeted nutrition products includes dietary supplements which contain vitamins, minerals and natural ingredients that support total well-being and long-term good health. The energy, sports & fitness category includes energy and isotonic drinks to support a healthy active lifestyle. Our Outer Nutrition products include skin cleansers, moisturizers and lotions with antioxidants, as well as anti-aging products. Weight management, targeted nutrition, energy, sports & fitness and Outer Nutrition accounted for 63.0%, 21.2%, 4.3% and 5.5% of our net sales in fiscal year 2009, respectively.

We believe that the direct-selling channel is ideally suited to marketing our products because sales of weight management, nutrition and personal care products are strengthened by ongoing personal contact between retail



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consumers and distributors. This personal contact may enhance consumers' nutritional and health education as well as motivate consumers to begin and maintain wellness and weight management programs. In addition, many of our distributors use our products themselves, and can therefore provide first-hand testimonials of the effectiveness of our products to consumers, which often serve as a powerful sales tool.

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

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

## **Our Competitive Strengths**

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

### ***Distributor Base***

As of December 31, 2009, we had approximately 2.0 million distributors, which includes approximately 296,000 China sales representatives and employees. Collectively, we refer to this group as distributors. Approximately 481,000 of our 2.0 million distributors have become sales leaders, which are comprised of approximately 431,000 sales leaders in the 71 countries where we use our traditional marketing plan and approximately 50,000 China sales employees and licensed business providers operating under our China marketing plan. Collectively, we refer to this group as sales leaders. We believe that the distributors who have not attained the sales leader level can be segmented into three general categories based on their product order patterns: discount buyers, small retailers and potential sales leaders. We define discount buyers as customers who have signed up as distributors to enjoy a discount on their purchases; small retailers as product users and sales people who generate modest sales to friends and family; and potential sales leaders as distributors who are proactively developing a business with the intention of qualifying to become a sales leader. In 2009, excluding China, distributor orders for these three general categories were approximately 47%, 36% and 17%, respectively. For the approximately 481,000 sales leaders in our organization, the marketing plan encourages active participation in the business including building down-line sales organizations of their own, which

can serve to increase their income and increase our product sales. Sales leaders contribute significantly to our sales.

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***Product Portfolio***

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

***Nutrition Science-Based Product Development***

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

***Scalable Business Model***

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

***Geographic Diversification***

We have a proven ability to establish our network marketing organization in new markets. Since our founding 30 years ago, we have expanded our presence into 72 countries. While sales within our local markets may fluctuate due to economic, market and regulatory conditions, competitive pressures, political and social instability or for Company-specific reasons, we believe that our geographic diversity mitigates our financial exposure to any particular market. We opened two new markets during 2009 and our strategic plan includes a goal of opening 6 new markets during 2010.

***Experienced Management Team***

Our management team is led by Michael O. Johnson who became our Chief Executive Officer after spending 17 years with The Walt Disney Company, where he most recently served as President of Walt Disney International. In 2007, he was named our Chairman. Since joining our Company, Mr. Johnson has assembled a team of experienced executives, including Desmond Walsh, who began serving as President effective January 1, 2010 and previously served as our Company's Executive Vice President, Worldwide Operations and Sales and formerly Senior Vice President of the

commercial division of DMX Music; Richard Goudis, who began serving as Chief Operating Officer effective January 1, 2010 and previously served as our Company's Chief Financial Officer and formerly Chief Operating Officer of Rexall Sundown, (a division of Royal Numico NV); John DeSimone, who began serving as Chief Financial Officer effective January 1, 2010 and previously served as our Company's Senior Vice President Finance and formerly Chief Financial Officer of Rexall Sundown; Brett R. Chapman, as General Counsel and formerly Senior Vice President and Deputy General Counsel of The Walt Disney Company; and Steve

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Henig, Ph.D., as Chief Scientific Officer with responsibility for our product research and development, and formerly Senior Vice President of Ocean Spray Cranberries, Inc.

**Our Business Strategy**

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

***Major Market Strategy***

We look to optimize country operating models; further aligning resources to fuel growth in high potential markets, develop lower-cost models where appropriate and centralize key functions. Expanding in China represents a significant growth opportunity for us as we believe that China could become one of the largest direct-selling markets in the world over the next several years. To address this opportunity, we have assembled a management team with direct selling experience, secured a headquarters location in Shanghai, and expanded our manufacturing capacity in our Suzhou, China factory. In 2007, we received a direct selling license for the Jiangsu province. In the third quarter of 2008 we received five additional direct selling licenses. We also applied for five additional provincial licenses in September 2008 and received approval in early July 2009. In addition, during 2009, we expanded our operations into two new countries and in 2008, we opened five new countries. As part of our long term strategy, we expect to continue to identify and open untapped markets. Additionally, our strategy includes further penetrating our existing markets and globalizing distributor business methods which will improve the balance of retailing, retention and recruiting in major markets. The success of this approach has been validated by the improved market penetration in key markets such as Brazil, the United States, South Korea, Taiwan and Russia.

***Product Strategy***

We are committed to providing our distributors with unique, innovative products to help them increase sales and recruit new distributors. Our product development is focused on four principal categories: weight management; targeted nutrition; energy, sports & fitness and Outer Nutrition that capitalize on the mega trends of obesity and anti-aging. On an ongoing basis, we will augment our product portfolio with additional science-based products and, as appropriate, will bundle products addressing similar health concerns into packages and programs. We are establishing a core set of products that will be available in key markets around the world. We also introduced new upgraded formulations of existing products to continue to improve the efficacy and product differentiation of our product as compared to products that can be found on the retail shelf. To better support distributors, we will expand our product packaging to provide both individual serving sizes and larger sizes of our top selling products. Additionally, each year we plan to have mega launches of products and/or programs, coupled with our major events, to generate continued excitement among our distributors, to add to our core set of products and to support our distributor daily methods of operation, or DMOs. These mega launches will generally target specific market segments deemed strategic to us, such as the recent introduction of our powered fiber and aloe lines that support our focus on driving daily consumption. To augment the personal testimonials of our distributors and to provide them with independent validation of our product efficacy we successfully completed two sponsored clinical studies in 2008 and one sponsored clinical study in 2009 in addition to other clinical studies currently underway.

***Distributor Strategy***

We continue to increase our investment in events and promotions, both in absolute dollars and as a percent of net sales, as a catalyst to help our distributors improve the effectiveness and productivity of their businesses. We work with our distributor leaders to globalize best-practice business methods to enable our distributors to improve their

penetration in existing markets. We refer to these business methods as DMOs and they include such methods as: Nutrition Clubs, Commercial Clubs, Central Clubs, Weight Loss Challenge, The Total Plan, Wellness Coach and Internet/Sampling. We also offer distributors BizWorks, a business system which assists our distributors in building their businesses more efficiently while better servicing their existing customers. And finally, to increase brand awareness among potential customers and distributors, we have entered into numerous marketing alliances around

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the world, created Team Herbalife and rolled-out a style guide and brand asset library so that our distributors have access to the Herbalife brand logo for use in their marketing efforts.

***Infrastructure Strategy***

In 2003, we embarked upon a strategic initiative to significantly upgrade our technology infrastructure throughout the world. We are implementing an Oracle enterprise-wide technology solution, with a scalable and stable open architecture platform, to enhance our efficiency and productivity as well as that of our distributors. In addition, we are upgrading our Internet-based marketing and distributor services platform with tools such as BizWorks, BizWorks 2.0 and MyHerbalife.com and we have invested in business intelligence tools to enable better analysis of our business. In 2008, we successfully completed upgrades for the software application tier of the Oracle platform with implementation across multiple regions. In 2009, we completed the roll out of the Oracle platform in all of our regions, except China. Additionally, in August 2009, we purchased certain assets of Micelle Laboratories, Inc., a Lake Forest, California contract manufacturer of food and nutritional supplements. We purchased these assets in order to strengthen our global manufacturing capabilities. We continue to invest in our employees through a comprehensive and global organizational development program as well as a Wellness program which was initiated in the U.S. during 2008.

**Product Overview**

For 30 years, our products have been designed to help distributors and customers from around the world lose weight, improve their health and experience life-changing results. We have built our heritage on developing unique formulas that blend the best of nature with innovative techniques from nutrition science, appealing to the growing base of consumers seeking differentiated products and desiring a healthier lifestyle.

As of December 31, 2009, we marketed and sold 127 products encompassing over 3,600 SKUs through our distributors and currently have approximately 1,942 trademarks worldwide. We group our products into four primary categories: weight management, targeted nutrition, energy, sports & fitness and Outer Nutrition. Our products are often sold as part of a program, and therefore our portfolio is comprised of a series of related products designed to simplify weight management and nutrition for our consumers and maximize our distributors' cross-selling opportunities. These programs target specific consumer market segments, such as women, men or children, as well as weight-management customers and individuals looking to enhance their overall well-being and support an active, healthy lifestyle.

The following table summarizes our products by product category.

<b>Product Category</b>	<b>Description</b>	<b>Representative Products</b>
<b>Weight Management</b> (63.0% of 2009 net sales)	Meal replacement, weight-loss enhancers and a variety of healthy snacks	Formula 1 Healthy Meal, Personalized Protein Powder, <i>Total Control</i> <sup>®</sup> , Protein Bars and Snacks
<b>Targeted Nutrition</b> (21.2% of 2009 net sales)	Dietary and nutritional supplements containing quality herbs, vitamins, minerals and other natural ingredients	<i>Niteworks</i> <sup>®</sup> , <i>Garden 7</i> <sup>®</sup> phytonutrient supplement, <i>Best Defense</i> <sup>®</sup> for improved immune system, Kids Line
<b>Energy, Sports &amp; Fitness</b>		

(4.3% of 2009 net sales)	Products that support a healthy active lifestyle	<i>Liftoff</i> <sup>®</sup> energy drink, <i>H(3)O</i> <sup>™</sup> hydration drink
<b>Outer Nutrition</b> (5.5% of 2009 net sales)	Skin cleansers, moisturizers, lotions, shampoos and conditioners	<i>Skin Activator</i> <sup>®</sup> Anti-Aging line, <i>NouriFusion</i> <sup>®</sup> skin care line
<b>Literature, Promotional and Other Products</b> (6.0% of 2009 net sales)	Sales aids, informational audiotapes, CDs, DVDs and start-up kits	International Business Packs, BizWorks



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### ***Weight Management***

Weight Management is our largest product category representing 63.0% of our net sales for the year 2009. Formula 1, our best-selling product, is a healthy meal with soy protein, essential vitamins, minerals, herbs and nutrients that is available in seven delicious flavors and can help support weight management. It has been part of our basic weight management program for 30 years and generated approximately 32% of our retail sales for the year 2009.

Personalized Protein Powder is a soy and whey protein product developed to be added to Formula 1 to personalize a person's daily protein intake to help achieve their desired weight and shape. Weight-loss enhancers, including *Total Control*<sup>®</sup>, address specific challenges associated with dieting, such as lack of energy, hunger and food craving, fluid retention, decreased metabolism and digestive challenges, by building energy, boosting metabolism, curbing appetite and helping to promote weight loss. Healthy snacks are formulated to provide between-meal nutrition and satisfaction. In 2008, we introduced packettes in all 7 flavors in the U.S., as well as a packette variety pack to support dietary supplement, or DS sampling and lead generation efforts. We expanded the Formula 1 franchise by introducing F1 Express Healthy Meal Bar in EMEA in 2009. In the U.S., some key weight management products, Total Control, Snack Defense and Cell-U-Loss were upgraded with more modern formulations and stronger benefits.

### ***Targeted Nutrition***

We market numerous dietary and nutritional supplements designed to meet our customers' specific nutritional needs. Each of these supplements contains quality herbs, vitamins, minerals and other natural ingredients and focuses on specific life stages of our customers, including women, men, children and those with health concerns, including heart health, healthy aging, digestive health, or immune solutions. *Niteworks*<sup>®</sup> is a product developed in conjunction with Nobel Laureate in Medicine, Dr. Louis Ignarro, that supports energy, circulatory and vascular health and enhances blood flow to the heart, brain and other vital organs. *Garden 7*<sup>®</sup> is designed to provide the phytonutrient benefits of seven servings of fruits and vegetables and has anti-oxidant and health-boosting properties. *Best Defense*<sup>®</sup> is an effervescent drink that boosts immunity. In 2007, we introduced a new Kids Line including shakes and improved multivitamins which provide essential nutrition including protein, fiber and 100% of key nutrients to meet growing kids' daily needs. In 2008, we re-launched the Digestive Line and introduced two new products—Herbal Aloe Powder (Mango Accent and Aloe Accent flavors) and Active Fiber Complex (Apple and Unflavored). In 2009, we further expanded our successful Aloe line by introducing a popular Mango flavored Aloe Concentrate while optimizing and reintroducing several of our Targeted Nutrition products in the U.S. such as Xtra-Cal Advanced, Joint Support Advanced, Tang Kuei Plus, Schizandra Plus and RoseGuard.

### ***Energy, Sports & Fitness***

We entered into the high growth energy drink category in 2005 with the introduction of *Liftoff*<sup>®</sup>, an innovative, effervescent energy drink containing a proprietary blend of B-vitamins, guarana, ginseng, ginkgo and caffeine to increase energy and improve mental clarity for better performance throughout the day. In 2007, we launched H<sup>3</sup>O<sup>™</sup> Fitness Drink to provide rapid hydration, sustained muscle energy plus antioxidant protection for people living a healthy, active lifestyle. In 2008, we expanded our product offerings in the energy drink segment with the introduction of two new flavors of Liftoff—Tropical Fruit and Lemon Cola.

### ***Outer Nutrition***

Our Outer Nutrition products complement our weight management and targeted nutrition products and aim to improve the appearance of the body, skin and hair. These products include skin cleansers, toners, moisturizers and facial masks, shampoos and conditioners, body-wash items and a selection of fragrances for men and women. *NouriFusion*<sup>®</sup> Multivitamin skin care products are formulated with antioxidant Vitamins A, C and E for a healthy, glowing complexion. In 2006, we launched a full line of anti-aging products as an extension of our successful *Skin Activator*<sup>®</sup>

product, an advanced face cream that contains a collagen-building Glucosamine Complex to reduce the appearance of fine lines and wrinkles. In the past few years, we launched a number of regional products to address local market needs including a Soft Green Body Care line in Brazil in 2008, the Whitening Serum under the NouriFusion brand in the Asia Pacific region, and the Lively Fragrances perfume line in Brazil in 2009.

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### ***Literature, Promotional and Other Products***

We also sell literature and promotional materials, including sales aids, informational audiotapes, videotapes, CDs and DVDs designed to support our distributors' marketing efforts, as well as start-up kits called "International Business Packs" for new distributors. In 2006, we introduced BizWorks, a customizable retail website for our distributors to enhance the on-line experience and improve their productivity.

### **Product Development**

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

A new product development process was deployed to accelerate the introduction of new products and to improve the launch of products. Cross-functional teams from Product Marketing, Product Development, Sciences, Licensing, Manufacturing and Finance were formed and assigned to major product initiatives.

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

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

We reorganized our technical team in 2009 for greater efficiency in product development as well as to carry out related product development strategies both globally and regionally. During 2009, we also added new talents to our technical and scientific teams and additional resources to the Company's Nutrition and Scientific Advisory Boards.

The Nutrition Advisory Board is headed by David Heber, M.D., Ph.D., Professor of Medicine and Public Health at the UCLA School of Medicine, Director of the UCLA Center for Human Nutrition and Director of the UCLA Center for Dietary Supplement Research in Botanicals. The Nutrition Advisory Board has 20 members from 17 countries. It is comprised of leading scientists and medical doctors who provide training on product usage and give health-news updates through Herbalife literature, the Internet and training events around the world. Our Scientific Advisory Board

is chaired by Dr. Heber and has 10 members from 4 countries. Louis Ignarro, Ph.D., Distinguished Professor of Pharmacology at the UCLA School of Medicine and Nobel Laureate in Medicine is also a member of the Scientific Advisory Board.

We believe that it is important to maintain our relationships with members of our Nutrition Advisory Board and Scientific Advisory Board to recognize the time and effort that they expend on our behalf. Each member of our Nutrition Advisory Board other than Dr. Heber receives a monthly retainer of up to \$5,000, plus up to \$3,000 for every day that they appear at a non-southern California distributor event and up to \$2,000 for every day that they

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need to travel to such events. Members of our Scientific Advisory Board are compensated for their time and efforts in the following manner: (1) eight members are paid an annual retainer of \$5,000 plus travel expenses, (2) Dr. Ignarro receives no direct compensation from us although we do pay a consulting firm, with which Dr. Ignarro is affiliated, a royalty on sales of Niteworks®, certain healthy heart products, and other products that we may mutually designate in the future that are, in each case, sold with the aid of Dr. Ignarro's consulting, promotional or endorsement services, with such amounts totaling \$1.9 million, \$2.1 million, and \$1.9 million, in 2009, 2008, and 2007 respectively and (3) Dr. Heber generally, other than a one time option grant in 2005, receives no direct compensation from us although we do reimburse him for travel expenses and we do pay to a consulting firm, with which Dr. Heber is affiliated, a quarterly consulting fee of \$75,000. During 2009, a total of \$300,000 was paid to the consulting firm.

We also make contributions to the UCLA Lab. We have continually invested in this lab since 2002 with total donations of approximately \$1.4 million which includes donations of lab equipment and software. UCLA agreed that the donations would be used for further research and education in the fields of weight management and botanical dietary supplements. In addition, we have made donations from time to time to UCLA to fund research and educational programs. While our direct relationship with UCLA involves clinical studies and research regarding botanical ingredients, we intend to take full advantage of the expertise at UCLA by committing to support research that will further our understanding of the benefits of phytochemicals.

In 2009, we acquired certain assets of Micelle Laboratories, a Lake Forest, California contract manufacturer of food and nutritional supplements. The acquisition allows us to strengthen our global manufacturing capabilities. Over the next year, we plan to increase plant capacity and capability to produce products for shipment throughout North America and several of our international markets.

In 2009, we focused our development efforts on strengthening our portfolio by optimizing certain key products in weight management and targeted nutrition segments to better meet the nutritional needs of our customers.

Regionally, our product development supported local needs for new Outer Nutrition offerings including Soft Green and Lively Fragrances lines in South America and NouriFusion Whitening products in Asia Pacific as well as further globalization of Heart Health, Digestive Health and single-serve Weight Management products including a new Healthy Meal Replacement Bar in EMEA.

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

## **Network Marketing Program**

### ***General***

Our products are distributed through a global network marketing organization comprised of approximately 2.0 million independent distributors in 72 countries, including in China where, due to regulations, our sales are conducted through Company operated retail stores, sales representatives, sales employees and licensed business providers. In China, in the areas where we have a direct selling license, our representatives, licensed business providers and employees can sell Herbalife product outside the retail establishments. In addition to helping our distributors achieve physical health and wellness through use of our products, we offer our distributors, who are independent contractors, attractive income opportunities. Distributors may earn income on their own sales and can also earn royalties and bonuses on sales made by the distributors in their sales organizations. We believe that our products are particularly well-suited to the network marketing distribution channel because sales of weight management and health and wellness products are

strengthened by ongoing personal contact and coaching between retail consumers and distributors. We believe our continued commitment to developing innovative, science-based products will enhance our ability to attract new distributors as well as increase the productivity and retention of existing distributors. Furthermore, our international sponsorship program, which permits distributors to sponsor distributors in other countries where we are licensed to do business and where we have obtained required product approvals, provides a significant advantage to our distributors in developing and growing their businesses. China has its own unique marketing program.

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On July 18, 2002, we entered into an agreement with our distributors that no material changes adverse to the distributors will be made to our marketing plan without their consent and that we will continue to distribute Herbalife products exclusively through our independent distributors. We believe that this agreement has strengthened our relationship with our existing distributors, improved our ability to recruit new distributors and generally increased the long-term stability of our business.

**Structure of the Network Marketing Program**

To become a distributor in most markets, a person must be sponsored by an existing distributor and must purchase an International Business Pack. The International Business Pack, or IBP, is a distributor kit available in local languages. The product and literature contents in the kits vary slightly to meet individual market needs. An example is the large size U.S. IBP, which costs \$87.95 and includes a canister of Formula 1 shake mix, two bottles of nutritional supplements, Herbal Concentrate (Tea), *Liftoff*<sup>®</sup> (an energy drink), and *Nourifusion*<sup>®</sup> (skin care) samples, along with a handy tote, booklets describing us, our compensation plan and rules of conduct, various training and promotional materials, distributor applications and a product catalog. The smaller U.S. version costs \$54.95 and includes sample products, a handy tote, and essentially the same print and promotional materials as included in the larger kit version. To become a sales leader, or qualify for a higher level, including the Qualified Producer level introduced in October 2009, distributors must achieve specified volumes of product sales or earn certain amounts of royalty overrides during specified time periods and must re-qualify for the levels once each year. To attain sales leader status, a distributor generally must be responsible for sales of products representing at least 4,000 volume points in one month or 2,500 volume points in two consecutive months. An additional optional qualification, introduced globally in October 2009, allows for a distributor to achieve sales leader level by personally placing orders with Herbalife that accumulate to 5,000 Volume Points within 12 months (of which a minimum of 3 months is required). China has its own unique marketing program. Volume points are point values assigned to each of our products that are usually equal in all countries and are essentially based on the suggested retail price of U.S. products. Sales leaders may then attain higher levels, (consisting of the World Team, the Global Expansion Team, the Millionaire Team, the President's Team, the Chairman's Club and the Founders Circle) and earn increasing amounts of royalty overrides based on sales in their downline organizations and, for members of our Global Expansion Team and above, earn production bonuses on sales in their downline organizations.

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

	At the End of February					
	Number of Sales Leaders			Sales Leader Retention Rate		
	2009	2008	2007	2009	2008	2007
North America	63,726	64,383	54,314	42.2%	43.5%	43.1%
Mexico	50,099	60,685	61,781	45.2%	44.4%	55.1%
South & Central America	67,876	67,808	52,204	32.2%	34.7%	33.2%
EMEA	53,371	59,446	64,862	48.7%	46.6%	46.2%
Asia Pacific (excluding China)	59,631	57,355	56,871	35.1%	34.3%	35.0%
Total Sales Leaders	294,703	309,677	290,032	40.3%	41.0%	42.5%
China Sales Employees	29,684	25,294	8,759			