

HERBALIFE LTD.  
Form 10-Q  
August 01, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 1-32381

HERBALIFE LTD.

(Exact name of registrant as specified in its charter)

Cayman Islands 98-0377871  
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

P.O. Box 309GT

Ugland House, South Church Street

Grand Cayman, Cayman Islands

(Address of principal executive offices) (Zip code)

(213) 745-0500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Number of shares of registrant's common shares outstanding as of July 25, 2017 was 93,962,385.

HERBALIFE LTD.

PART I. FINANCIAL INFORMATION

<u>Item 1. Financial Statements</u>	3
<u>Unaudited Condensed Consolidated Balance Sheets</u>	3
<u>Unaudited Condensed Consolidated Statements of Income (Loss)</u>	4
<u>Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)</u>	5
<u>Unaudited Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	50
<u>Item 4. Controls and Procedures</u>	53
<u>Forward Looking Statements</u>	54
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	55
<u>Item 1A. Risk Factors</u>	55
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	73
<u>Item 3. Defaults Upon Senior Securities</u>	73
<u>Item 4. Mine Safety Disclosures</u>	73
<u>Item 5. Other Information</u>	73
<u>Item 6. Exhibits</u>	73
<u>Signatures and Certifications</u>	77



## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## HERBALIFE LTD. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30,	December 31,
	2017	2016
	(In millions, except share and	
	par value amounts)	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,624.1	\$ 844.0
Receivables, net of allowance for doubtful accounts	89.7	70.3
Inventories	378.6	371.3
Prepaid expenses and other current assets	177.0	176.9
Total current assets	2,269.4	1,462.5
Property, at cost, net of accumulated depreciation and amortization	374.0	378.0
Marketing related intangibles and other intangible assets, net	310.1	310.1
Goodwill	94.6	89.9
Other assets	361.9	324.9
Total assets	\$ 3,410.0	\$ 2,565.4
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 89.5	\$ 66.0
Royalty overrides	247.9	261.2
Current portion of long-term debt	100.3	9.5
Other current liabilities	425.1	454.8
Total current liabilities	862.8	791.5
<b>NON-CURRENT LIABILITIES:</b>		
Long-term debt, net of current portion	2,188.1	1,438.4
Other non-current liabilities	159.1	139.2
Total liabilities	3,210.0	2,369.1
<b>CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Common shares, \$0.001 par value; 1.0 billion shares authorized; 90.2 million (2017) and 93.1 million (2016) shares outstanding	0.1	0.1
Paid-in capital in excess of par value	442.7	467.6
Accumulated other comprehensive loss	(188.4 )	(205.1 )
Retained earnings (accumulated deficit)	186.1	(66.3 )

Edgar Filing: HERBALIFE LTD. - Form 10-Q

Treasury stock, at cost, 3.8 million shares (2017)	(240.5 )	—
Total shareholders' equity	200.0	196.3
Total liabilities and shareholders' equity	\$3,410.0	\$ 2,565.4

See the accompanying notes to unaudited condensed consolidated financial statements.

## HERBALIFE LTD. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(Unaudited)

	Three Months		Six Months Ended	
	Ended		June 30,	June 30,
	June 30,	June 30,	June 30,	June 30,
	2017	2016	2017	2016
	(In millions, except per share amounts)			
Product sales	\$1,088.7	\$1,137.9	\$2,133.1	\$2,189.9
Shipping & handling revenues	58.2	63.9	115.9	131.5
Net sales	1,146.9	1,201.8	2,249.0	2,321.4
Cost of sales	218.8	236.3	423.4	449.4
Gross profit	928.1	965.5	1,825.6	1,872.0
Royalty overrides	318.9	336.7	634.0	648.6
Selling, general & administrative expenses	443.2	676.8	881.8	1,103.9
Other operating income	(38.9 )	(28.1 )	(38.9 )	(28.9 )
Operating income (loss)	204.9	(19.9 )	348.7	148.4
Interest expense, net	37.9	23.1	68.1	48.0
Income (loss) before income taxes	167.0	(43.0 )	280.6	100.4
Income taxes	29.4	(20.1 )	57.8	27.5
NET INCOME (LOSS)	\$137.6	\$(22.9 )	\$222.8	\$72.9
Earnings (loss) per share:				
Basic	\$1.69	\$(0.28 )	\$2.71	\$0.88
Diluted	\$1.61	\$(0.28 )	\$2.59	\$0.85
Weighted average shares outstanding:				
Basic	81.4	83.0	82.3	82.9
Diluted	85.3	83.0	86.0	85.9

See the accompanying notes to unaudited condensed consolidated financial statements.

## HERBALIFE LTD. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended June 30, June 30,		Six Months Ended June 30, June 30,	
	2017	2016	2017	2016
	(In millions)			
Net income (loss)	\$137.6	\$ (22.9 )	\$222.8	\$ 72.9
Other comprehensive income (loss):				
Foreign currency translation adjustment, net of income taxes of \$2.7 and \$2.3 for the three months ended June 30, 2017 and 2016, respectively, and \$5.3 and \$1.5 for the six months ended June 30, 2017 and 2016, respectively	6.7	(15.8 )	29.7	4.2
Unrealized (loss) gain on derivatives, net of income taxes of \$— and \$(0.1) for the three months ended June 30, 2017 and 2016, respectively, and \$— and \$(0.3) for the six months ended June 30, 2017 and 2016, respectively	(5.5 )	(1.5 )	(13.0)	(7.1 )
Other, net of income taxes of \$0.1 for the six months ended June 30, 2016	—	—	—	(0.1 )
Total other comprehensive income (loss)	1.2	(17.3 )	16.7	(3.0 )
Total comprehensive income (loss)	\$138.8	\$ (40.2 )	\$239.5	\$ 69.9

See the accompanying notes to unaudited condensed consolidated financial statements.



## HERBALIFE LTD. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended	
	June 30,	June 30,
	2017	2016
	(In millions)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$222.8	\$72.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	48.6	47.9
Share-based compensation expenses	22.7	20.5
Non-cash interest expense	29.5	28.7
Deferred income taxes	0.7	(21.2 )
Inventory write-downs	11.2	11.2
Foreign exchange transaction loss (gain)	0.9	(2.9 )
Other	(3.3 )	(1.1 )
Changes in operating assets and liabilities:		
Receivables	(17.8 )	(20.4 )
Inventories	5.2	(0.2 )
Prepaid expenses and other current assets	6.0	(14.7 )
Accounts payable	10.3	17.4
Royalty overrides	(23.3 )	(1.4 )
Other current liabilities	(48.7 )	236.4
Other	12.3	(5.1 )
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>277.1</b>	<b>368.0</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(45.9 )	(86.9 )
Other	(1.6 )	4.5
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(47.5 )</b>	<b>(82.4 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings from senior secured credit facility, net of discount	1,274.0	—
Principal payments on senior secured credit facility and other debt	(441.3 )	(229.7 )
Debt issuance costs	(22.6 )	—
Share repurchases	(273.6 )	(4.5 )
Other	1.0	0.7
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>537.5</b>	<b>(233.5 )</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>13.0</b>	<b>(5.2 )</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>780.1</b>	<b>46.9</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>844.0</b>	<b>889.8</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$1,624.1</b>	<b>\$936.7</b>

See the accompanying notes to unaudited condensed consolidated financial statements.

HERBALIFE LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization

Herbalife Ltd., a Cayman Islands exempt limited liability company, was incorporated on April 4, 2002. Herbalife Ltd. (and together with its subsidiaries, the “Company” or “Herbalife”) is a global nutrition company that sells weight management, targeted nutrition, energy, sports & fitness, and outer nutrition products to and through a network of independent members, or Members. In China, the Company sells its products to and through independent service providers, sales representatives, and sales officers to customers and preferred customers, as well as through Company-operated retail stores when necessary. The Company reports revenue in six geographic regions: North America; Mexico; South and Central America; EMEA, which consists of Europe, the Middle East and Africa; Asia Pacific (excluding China); and China.

2. Significant Accounting Policies

Basis of Presentation

The unaudited condensed consolidated interim financial information of the Company has been prepared in accordance with Article 10 of the Securities and Exchange Commission’s, or the SEC, Regulation S-X. Accordingly, as permitted by Article 10 of the SEC’s Regulation S-X, it does not include all of the information required by generally accepted accounting principles in the U.S., or U.S. GAAP, for complete financial statements. The condensed consolidated balance sheet at December 31, 2016 was derived from the audited financial statements at that date and does not include all the disclosures required by U.S. GAAP, as permitted by Article 10 of the SEC’s Regulation S-X. The Company’s unaudited condensed consolidated financial statements as of June 30, 2017, and for the three and six months ended June 30, 2017 and 2016, include Herbalife Ltd. and all of its direct and indirect subsidiaries. In the opinion of management, the accompanying financial information contains all adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company’s unaudited condensed consolidated financial statements as of June 30, 2017, and for the three and six months ended June 30, 2017 and 2016. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, or the 2016 10-K. Operating results for the three and six months ended June 30, 2017, are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

Recently Adopted Pronouncements

In March 2016, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU No. 2016-09, Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This ASU is intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements, including the income tax effects of share-based payments and accounting for

forfeitures. The amendments in this update became effective for the Company's reporting period beginning January 1, 2017. This guidance requires the Company to recognize excess tax benefits on share-based compensation arrangements in its tax provision, instead of in shareholders' equity as under the previous guidance. During the three and six months ended June 30, 2017, the Company recorded \$21.4 million and \$25.7 million of excess tax benefits in its tax provision, respectively, as described further in Note 8, Income Taxes. In addition, these amounts are now required to be classified as an operating activity in the Company's statement of cash flows rather than a financing activity. The Company has elected to present the cash flow statement using a prospective transition method and prior periods have not been adjusted. In addition, the Company has made an accounting policy election to continue to estimate the number of forfeitures expected to occur. The adoption of this guidance also increased the Company's number of shares used in its calculation of fully diluted earnings per share due to the reduction in assumed proceeds under the treasury stock method which also impacts how the Company determines its earnings per share calculation. Upon adoption of this guidance on January 1, 2017, the Company also recognized \$29.6 million of its unrealized excess tax benefits, described further in Note 12, Income Taxes in the 2016 10-K, as deferred tax assets on its consolidated balance sheet with a corresponding increase to its retained earnings.

In March 2016, the FASB issued ASU No. 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments. This ASU clarified the requirements for assessing whether contingent put or call options that can accelerate the payment of principal on debt instruments are clearly and closely related (i.e. an entity is required to assess whether the economic characteristics and risks of embedded put or call options are clearly and closely related to those of their debt hosts only in accordance with the four-step decision sequence of FASB Accounting Standards Codification, or ASC 815, Derivatives and Hedging). An entity should no longer assess whether the event that triggers the ability to exercise a put or call option is related to interest rates or credit risk of the entity. In the first quarter of 2017, the Company adopted and applied the standard to its applicable financial instruments. The adoption of this guidance had no financial impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. This ASU provides guidance clarifying that the novation of a derivative contract (i.e. a change in counterparty) in a hedge accounting relationship does not, in and of itself, require dedesignation of that hedge accounting relationship. If all of the other hedge accounting criteria are met, including the expectation that the hedge will be highly effective when the creditworthiness of the new counterpart to the derivative contract is considered, the hedging relationship will continue uninterrupted. The adoption of this guidance during the first quarter of 2017 had no financial impact on the Company's consolidated financial statements.

#### New Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The new revenue recognition standard provides a five-step analysis of contracts to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB deferred the effective date of ASU No. 2014-09 for all entities by one year to annual reporting periods beginning after December 15, 2017. The FASB has issued several updates subsequently including implementation guidance on principal versus agent considerations, on how an entity should account for licensing arrangements with customers, and to improve guidance on assessing collectability, presentation of sales taxes, noncash consideration, and contract modifications and completed contracts at transition. The amendments in this series of updates shall be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Early adoption is permitted. The Company continues to assess the impact this ASU, and related subsequent updates, will have on its consolidated financial statements. The Company continues to analyze its worldwide business, its revenue streams and its payments to Members to determine the timing of recognition and the income statement classification. Based on the Company's ongoing assessment as of June 30, 2017, it has not identified any material impact to its consolidated net income relating to this ASU. However, the final impact of this ASU on the Company's financial statements will not be known until the assessment is complete. The Company expects to update its disclosure in future periods as the analysis is completed.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The updated guidance enhances the reporting model for financial instruments by modifying how entities measure and recognize equity investments and present changes in the fair value of financial liabilities, and by simplifying the disclosure guidance for financial instruments. The amendments in this update are effective for fiscal years beginning after December 15, 2017. The amendments in this update should be applied prospectively. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The updated guidance requires lessees to recognize a lease liability and a right-of-use asset, measured at the present value of the future minimum lease payments, at the lease commencement date. Recognition, measurement and presentation of expenses will depend on classification as a finance or operating lease. The amendments also require certain quantitative and qualitative disclosures. ASU 2016-02 is effective for all interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. A modified retrospective approach must be applied for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is evaluating the potential impact of this adoption on its consolidated financial statements, however, increases in both assets and liabilities are expected.

In March 2016, the FASB issued ASU No. 2016-04, Liabilities — Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products. This ASU requires entities that sell prepaid stored-value products redeemable for goods, services or cash at third-party merchants to recognize breakage (i.e., the

value that is ultimately not redeemed by the consumer) in a way that is consistent with how it will be recognized under the new revenue recognition standard. Under current U.S. GAAP, there is diversity in practice in how entities account for breakage that results when a consumer does not redeem the entire product balance. This ASU clarifies that an entity's liability for prepaid stored-value products within its scope meets the definition of a financial liability. The amendments in this update are effective for reporting periods beginning after December 15, 2017, with early adoption permitted. The amendment may be applied using either a modified retrospective approach or a full retrospective approach. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instrument — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU changes the impairment model for most financial assets, requiring the use of an expected loss model which requires entities to estimate the lifetime expected credit loss on financial assets measured at amortized cost. Such credit losses will be recorded as an allowance to offset the amortized cost of the financial asset, resulting in a net presentation of the amount expected to be collected on the financial asset. In addition, credit losses relating to available-for-sale debt securities will now be recorded through an allowance for credit losses rather than as a direct write-down to the security. The amendments in this update are effective for reporting periods beginning after December 15, 2019, with early adoption permitted for reporting periods beginning after December 15, 2018. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU provides clarification on eight specific cash flow issues regarding presentation and classification in the statement of cash flows with the objective of reducing the existing diversity in practice. The amendments in this update are effective for reporting periods beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This ASU requires that entities recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments in this update do not change U.S. GAAP for the pre-tax effects of an intra-entity asset transfer under Topic 810, Consolidation, or for an intra-entity transfer of inventory. The amendments in this update are effective for reporting periods beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. This ASU requires that restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the statements of cash flows. The amendments in this update are effective for reporting periods beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This ASU simplifies the test for goodwill impairment by removing Step 2 from the goodwill impairment test. Companies will now perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value not to exceed the total amount of goodwill allocated to that reporting unit. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments in this update are effective for goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted for goodwill impairment tests performed after January 1, 2017. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation — Stock Compensation (Topic 718): Scope of Modification Accounting. This ASU provides additional guidance for when a company should apply modification accounting when there is a change in either the terms or conditions of a share-based payment award. Specifically, a company should not apply modification accounting if the fair value, vesting conditions, and classification of the award remains the same immediately before and after the modification. The amendments in this update must be applied on a prospective basis and are effective for reporting periods beginning after December 15, 2017, with early adoption

permitted. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

Distributor Compensation – U.S.

In the U.S., distributor compensation, including Royalty overrides, is capped if the Company does not meet an annual requirement as described in the Consent Order. On a periodic basis, the Company evaluates if this requirement will be achieved by year end to determine if a cap on distributor compensation will be required, and then determines the appropriate amount of distributor compensation expense, which may vary in each reporting period. As of June 30, 2017, the Company believes that the cap to distributor compensation will not be applicable for the current year.



### Other Operating Income

To encourage local investment and operations, governments in various China provinces conduct grant programs. The Company applied for and received several such grants in China. Government grants are recorded into income when a legal right to the grant exists, there is a reasonable assurance that the grant proceeds will be received, and the substantive conditions under which the grants were provided have been met. During the three and six months ended June 30, 2017, the Company recognized \$38.9 million in government grant income related to its regional headquarters and distribution centers within China as compared to \$28.1 million and \$28.9 million for the same periods in 2016. The Company intends to continue applying for government grants in China when programs are available; however, there is no assurance that the Company will receive grants in future periods.

### Reclassifications

Certain reclassifications were made to the prior period condensed consolidated balance sheets, the condensed consolidated statements of comprehensive income (loss), and the condensed consolidated statements of cash flows to conform to the current period presentation. See Note 13, Detail of Certain Balance Sheet Accounts, for further information on certain balance sheet items that are combined for financial statement presentation.

### 3. Inventories

Inventories consist primarily of finished goods available for resale. Inventories are stated at lower of cost (primarily on the first-in, first-out basis) and net realizable value.

The following are the major classes of inventory:

	June 30, December 31,	
	2017	2016
	(In millions)	
Raw materials	\$41.7	\$ 49.3
Work in process	6.3	3.9
Finished goods	330.6	318.1
Total	\$378.6	\$ 371.3

### 4. Long-Term Debt

Long-term debt consists of the following:

Edgar Filing: HERBALIFE LTD. - Form 10-Q

	June 30,	December 31,
	2017	2016
	(In millions)	
Borrowings under prior senior secured credit facility, carrying value	\$—	\$ 410.0
Borrowings under new senior secured credit facility, carrying value	1,235.0	—
Convertible senior notes, carrying value of liability component	1,047.0	1,024.8
Other	6.4	13.1
Total	2,288.4	1,447.9
Less: current portion	100.3	9.5
Long-term portion	\$2,188.1	\$ 1,438.4

### Senior Secured Credit Facility

On May 4, 2015, the Company amended its prior senior secured credit facility, or the Prior Credit Facility, to extend the maturity date of its revolving credit facility, or the Prior Revolving Credit Facility, by one year to March 9, 2017. Pursuant to this amendment and upon execution, the Company made prepayments of approximately \$20.3 million and \$50.9 million on its \$500 million term loan under the Prior Credit Facility, or the Prior Term Loan, and the Prior Revolving Credit Facility, respectively. Additionally, the Company's \$700 million borrowing capacity on its Prior Revolving Credit Facility was reduced by approximately \$235.9 million upon execution of this amendment, and was further reduced by approximately \$39.1 million on September 30, 2015. The Prior Term Loan matured on March 9, 2016 and was repaid in full. The total available borrowing capacity under the Prior Revolving Credit Facility was \$425.0 million as of December 31, 2016. Prior to March 9, 2016, the interest rates on the Company's borrowings under the Prior Credit Facility remained effectively unchanged except that the minimum applicable margin was increased by 0.50% and LIBOR was subject to a minimum floor of 0.25%. After March 9, 2016, the applicable interest rates on the Company's borrowings under the Prior Credit Facility increased by 2.00% such that borrowings under the Prior Credit Facility began bearing interest at either LIBOR plus the applicable margin between 4.00% and 5.00% or the base rate plus the applicable margin between 3.00% and 4.00%, based on the Company's consolidated leverage ratio. The Company incurred approximately \$6.2 million of debt issuance costs in connection with the amendment. These debt issuance costs were recorded on the Company's condensed consolidated balance sheet and were amortized over the life of the Prior Revolving Credit Facility.

On February 15, 2017, the Company entered into a new \$1,450.0 million senior secured credit facility, or the Credit Facility, consisting of a \$1,300.0 million term loan B, or the Term Loan, and a \$150 million revolving credit facility, or the Revolving Credit Facility, with a syndicate of financial institutions as lenders, or Lenders. The Revolving Credit Facility matures on February 15, 2022 and the Term Loan matures on February 15, 2023.

The Term Loan was issued to the Lenders at a 2% discount, or \$26.0 million. In connection with the Credit Facility, the Company also repaid the \$410.0 million outstanding balance on its Prior Revolving Credit Facility. The Company incurred approximately \$22.6 million of debt issuance costs in connection with the Credit Facility. The debt issuance costs and the discount are recorded on the Company's condensed consolidated balance sheet and are being amortized over the life of the Credit Facility using the effective interest method.

Borrowings under the Term Loan bear interest at either the eurocurrency rate plus a margin of 5.50% or the base rate plus a margin of 4.50%. Prior to August 15, 2017, borrowings under the Revolving Credit Facility bear interest at the eurocurrency rate plus a margin of 4.75% or the base rate plus a margin of 3.75%. After August 15, 2017, borrowings under the Revolving Credit Facility, depending on Herbalife's consolidated leverage ratio, will bear interest at either the eurocurrency rate plus a margin of either 4.50% or 4.75% or the base rate plus a margin of either 3.50% or 3.75%. The base rate represents the highest of the Federal Funds Rate plus 0.50%, one-month adjusted LIBOR plus 1.00%, and the prime rate set by Credit Suisse, and is subject to a floor of 1.75%. The eurocurrency rate is based on adjusted LIBOR and is subject to a floor of 0.75%. The Company is required to pay a commitment fee on the Revolving Facility of 0.50% per annum on the undrawn portion of the Revolving Credit Facility. Interest is due at least quarterly on amounts outstanding on the Credit Facility.

The Credit Facility requires the Company to comply with a leverage ratio. In addition, the Credit Facility contains customary events of default and covenants, including covenants that limit or restrict the Company's ability to incur liens, incur indebtedness, make investments, dispose of assets, make certain restricted payments, pay dividends, repurchase its common shares, merge or consolidate and enter into certain transactions with affiliates. The Company is also required to maintain a minimum balance of \$200.0 million of consolidated cash and cash equivalents. As of June 30, 2017 and December 31, 2016, the Company was in compliance with its debt covenants under the Credit Facility and the Prior Credit Facility, respectively.

The Term Loan is payable in consecutive quarterly installments each in an aggregate principal amount of \$24.4 million which began on June 30, 2017. In addition, the Company may be required to make mandatory prepayments towards the Term Loan based on the Company's consolidated leverage ratio and annual excess cash flows as defined under the terms of the Credit Facility. The Company is also permitted to make voluntary prepayments. These prepayments, if any, will be applied against remaining quarterly installments owed under the Term Loan in order of maturity with the remaining principal due upon maturity.

On June 30, 2017 and December 31, 2016, the weighted average interest rate for borrowings under the Credit Facility and the Prior Credit Facility, was 6.53% and 4.29%, respectively.

During the three months ended March 31, 2017, the Company repaid a total amount of \$410.0 million to repay in full amounts outstanding on the Prior Revolving Credit Facility. During the three months ended June 30, 2017, the Company repaid a total amount of \$24.4 million on amounts outstanding under the Term Loan. During the three months ended March 31, 2016, the Company repaid a total amount of \$229.7 million to repay in full the Prior Term Loan. The Company did not repay any amounts under the Prior Revolving Credit Facility during the three months ended June 30, 2016. As of June 30, 2017, the U.S. dollar amount outstanding under the Term Loan was \$1,275.6 million. There were no borrowings outstanding on the Revolving Credit Facility as of June 30, 2017. As of December 31, 2016, the U.S. dollar amount outstanding under the Prior Revolving Credit Facility was \$410.0 million. There were no outstanding foreign currency borrowings as of June 30, 2017 and December 31, 2016 under the Credit Facility and the Prior Credit Facility, respectively.

During the three and six months ended June 30, 2017, the Company recognized \$23.4 million and \$34.6 million, respectively, of interest expense relating to the Term Loan, which included \$1.2 million and \$1.8 million, respectively, relating to non-cash interest expense relating to the debt discount and \$0.8 million and \$1.2 million, respectively, relating to amortization of debt issuance costs.

The fair value of the outstanding borrowings on the Term Loan is determined by utilizing over-the-counter market quotes, which are considered Level 2 inputs as defined in Note 12, Fair Value Measurements. As of June 30, 2017, the carrying amount of the Term Loan was \$1,235.0 million and the fair value was approximately \$1.28 billion. There were no amounts outstanding on the Revolving Credit Facility as of June 30, 2017. The fair value of the outstanding borrowings on the Company's Prior Revolving Credit Facility approximated its carrying value as of December 31, 2016 due to its variable interest rate which reprices frequently and which represents floating market rates. The fair value of the outstanding borrowings on the Prior Revolving Credit Facility was determined by utilizing Level 2 inputs as defined in Note 12, Fair Value Measurements, such as observable market interest rates and yield curves.

#### Convertible Senior Notes

During February 2014, the Company initially issued \$1 billion aggregate principal amount of convertible senior notes, or Convertible Notes, in a private offering to qualified institutional buyers, pursuant to Rule 144A under the Securities Act of 1933, as amended. The Company granted an option to the initial purchasers to purchase up to an additional \$150 million aggregate principal amount of Convertible Notes which was subsequently exercised in full during February 2014, resulting in a total issuance of \$1.15 billion aggregate principal amount of Convertible Notes. The Convertible Notes are senior unsecured obligations which rank effectively subordinate to any of the Company's existing and future secured indebtedness, including amounts outstanding under the Credit Facility, to the extent of the value of the assets securing such indebtedness. The Convertible Notes pay interest at a rate of 2.00% per annum payable semiannually in arrears on February 15 and August 15 of each year, beginning on August 15, 2014. The Convertible Notes mature on August 15, 2019, unless earlier repurchased or converted. The Company may not redeem the Convertible Notes prior to their stated maturity date. Holders of the Convertible Notes may convert their notes at their option under the following circumstances: (i) during any calendar quarter commencing after the calendar quarter ending March 31, 2014, if the last reported sale price of the Company's common shares for at least 20 trading days (whether or not consecutive) in a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter exceeds 130% of the conversion price for the Convertible Notes on each applicable trading day; (ii) during the five business-day period immediately after any five consecutive trading day period, or the measurement period, in which the trading price per \$1,000 principal amount of Convertible Notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of the Company's common shares and the conversion rate for the Convertible Notes for each such day; or (iii) upon the occurrence of specified corporate events. On and after May 15, 2019, holders may convert their Convertible Notes at any time, regardless of the foregoing circumstances. Upon conversion, the Convertible Notes will be settled in cash and, if applicable, the Company's common shares, based on the applicable conversion rate at such time. The

Convertible Notes had an initial conversion rate of 11.5908 common shares per \$1,000 principal amount of the Convertible Notes (which is equal to an initial conversion price of approximately \$86.28 per common share).

The Company incurred approximately \$26.6 million of issuance costs during the first quarter of 2014 relating to the issuance of the Convertible Notes. Of the \$26.6 million issuance costs incurred, \$21.5 million and \$5.1 million were recorded as debt issuance costs and additional paid-in capital, respectively, in proportion to the allocation of the proceeds of the Convertible Notes. The \$21.5 million of debt issuance cost recorded on the Company's condensed consolidated balance sheet is being amortized over the contractual term of the Convertible Notes using the effective interest method.

During February 2014, the \$1.15 billion proceeds received from the issuance of the Convertible Notes were initially allocated between long-term debt, or liability component, and additional paid-in-capital, or equity component, within the Company's condensed consolidated balance sheet at \$930.9 million and \$219.1 million, respectively. The liability component was measured using the nonconvertible debt interest rate. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the face value of the Convertible Notes as a whole. Since the Company must still settle these Convertible Notes at face value at or prior to maturity, this liability component will be accreted up to its face value resulting in additional non-cash interest expense being recognized within the Company's condensed consolidated statements of income (loss) while the Convertible Notes remain outstanding. The effective interest rate on the Convertible Notes is approximately 6.2% per annum. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

As of June 30, 2017, the outstanding principal on the Convertible Notes was \$1.15 billion, the unamortized debt discount and debt issuance cost was \$103.0 million, and the carrying amount of the liability component was \$1,047.0 million, which was recorded to long-term debt within the Company's condensed consolidated balance sheet as reflected in the table above within this Note. As of December 31, 2016, the outstanding principal on the Convertible Notes was \$1.15 billion, the unamortized debt discount and debt issuance costs was \$125.2 million, and the carrying amount of the liability component was \$1,024.8 million, which was recorded to long-term debt within the Company's consolidated balance sheet as reflected in the table above within this Note. The fair value of the liability component relating to the Convertible Notes was approximately \$1,064.5 million and \$961.3 million as of June 30, 2017 and December 31, 2016, respectively. At June 30, 2017 and December 31, 2016, the Company determined the fair value of the liability component of the Convertible Notes using two valuation methods. The Company reviewed market data that was available for publicly traded, senior, unsecured nonconvertible corporate bonds issued by companies with similar credit ratings. Assumptions used in the estimate represent what market participants would use in pricing the liability component, including market yields and credit standing to develop the straight debt yield estimate. The Company also used a lattice model, which included inputs such as stock price, the Convertible Note trading price, volatility and dividend yield to estimate the straight debt yield. The Company combined the results of the two valuation methods to determine the fair value of the liability component of the Convertible Notes. Most of these inputs are primarily considered Level 2 and Level 3 inputs. This valuation approach was similar to the approach the Company used to determine the initial fair value of the liability component of the Convertible Notes on the February 7, 2014 issuance date.

In conjunction with the issuance of the Convertible Notes, during February 2014, the Company paid approximately \$685.8 million to enter into prepaid forward share repurchase transactions, or the Forward Transactions, with certain financial institutions, and paid approximately \$123.8 million to enter into capped call transactions with respect to its common shares, or the Capped Call Transactions, with certain financial institutions. See Note 10, Shareholders' Equity, for additional discussion on the Forward Transactions and Capped Call Transactions entered into in conjunction with the issuance of these Convertible Notes.

During the three and six months ended June 30, 2017, the Company recognized \$17.0 million and \$33.7 million, respectively, of interest expense relating to the Convertible Notes, which included \$10.2 million and \$20.2 million, respectively, relating to non-cash interest expense relating to the debt discount and \$1.0 million and \$2.0 million, respectively, relating to amortization of debt issuance costs. During the three and six months ended June 30, 2016, the Company recognized \$16.2 million and \$32.3 million, respectively, of interest expense relating to the Convertible Notes, which included \$9.6 million and \$19.0 million, respectively, relating to non-cash interest expense relating to the debt discount and \$1.0 million and \$1.9 million, respectively, relating to amortization of debt issuance costs.

Total Debt

The Company's total interest expense was \$41.9 million and \$24.6 million for the three months ended June 30, 2017 and 2016, respectively, and \$74.4 million and \$50.6 million for the six months ended June 30, 2017 and 2016, respectively, which was recognized within its condensed consolidated statements of income (loss).

As of June 30, 2017, annual scheduled principal payments of debt were: \$51.5 million for the remainder of 2017; and \$100.4 million; \$1,247.9 million; \$97.9 million; \$97.5 million; \$97.5 million; and \$739.4 million for the years ended December 31, 2018, 2019, 2020, 2021, 2022, and 2023, respectively.

Certain vendors and government agencies may require letters of credit or similar guaranteeing arrangements to be issued or executed. As of June 30, 2017, the Company had \$39.5 million of issued but undrawn letters of credit or similar arrangements that were unsecured, which included the Mexico Value Added Tax, or VAT, related surety bonds described in Note 5, Contingencies.



## 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.

### Tax Matters

On May 7, 2010, the Company received an assessment from the Mexican Tax Administration Service in an amount equivalent to approximately \$63 million, translated at the June 30, 2017 spot rate, for various items, the majority of which was VAT allegedly owed on certain of the Company's products imported into Mexico during the years 2005 and 2006. This assessment is subject to interest and inflationary adjustments. On July 8, 2010, the Company initiated a formal administrative appeal process. On May 13, 2011, the Mexican Tax Administration Service issued a resolution on the Company's administrative appeal. The resolution nullified the assessment. Since the Mexican Tax Administration Service can further review the tax audit findings and re-issue some or all of the original assessment, the Company commenced litigation in the Tax Court of Mexico in August 2011 to dispute the assertions made by the Mexican Tax Administration Service in the case. The Company received notification on February 6, 2015 that the Tax Court of Mexico nullified substantially all of the assessment. On March 18, 2015, the Mexican Tax Administration Service filed an appeal against the verdict with the Circuit Court. On August 27, 2015, the Circuit Court remanded the case back to the Tax Court of Mexico to reconsider a portion of the procedural decision that was adverse to the Mexican Tax Administration Service. The Company received notification on March 18, 2016 that the Tax Court of Mexico nullified a portion of the assessment and upheld a portion of the original assessment. On August 25, 2016, the Company filed a further appeal of this decision to the Circuit Court. On April 6, 2017, the Circuit Court issued a verdict with the Company prevailing on some lesser issues and the Tax Administration Service prevailing on the core issue. On May 11, 2017, the Company filed a further appeal to the Supreme Court of Mexico. On June 14, 2017, the Supreme Court of Mexico agreed to hear the appeal. The Company believes that it has meritorious defenses if the assessment is reissued. The Company has not recognized a loss as the Company does not believe a loss is probable.

The Mexican Tax Administration Service commenced audits of the Company's Mexican subsidiaries for the period from January to September 2007 and on May 10, 2013, the Company received an assessment of approximately \$16.2 million, translated at the June 30, 2017 spot rate, related to that period. On July 11, 2013, the Company filed an administrative appeal disputing the assessment. On September 22, 2014, the Mexican Tax Administration Service denied the Company's administrative appeal. The Company commenced litigation in the Tax Court of Mexico in November 2014 to dispute the assertions made by the Mexican Tax Administration Service in the case. The Company issued a surety bond in the amount of \$17.9 million, translated at the June 30, 2017 spot rate, through an insurance company to guarantee payment of the tax assessment as required while the Company pursues an appeal of the assessment. Litigation in this case is currently ongoing. The Company has not recognized a loss as the Company does not believe a loss is probable.

The Mexican Tax Administration Service has delayed processing VAT refunds for companies operating in Mexico and the Company believes that the process for its Mexico subsidiary to receive VAT refunds may be delayed. As of June 30, 2017, the Company had \$47.6 million of Mexico VAT related assets, of which \$40.7 million was within non-current other assets and \$6.9 million was within prepaid expenses and other current assets on its consolidated balance sheet. This amount relates to VAT payments made over various periods and the Company believes these amounts are recoverable by refund or they may be applied against certain future tax liabilities. The Company has not recognized any losses related to these VAT related assets as the Company does not believe a loss is probable.

On March 26, 2015, the Office of the President of Mexico issued a decree relating to the application of VAT to Nutritional Supplements. The Company continues to believe its application of the VAT law in Mexico is correct. At

June 30, 2017, the Company has not recognized any losses as the Company, based on its current analysis and guidance from its advisors, does not believe a loss is probable. The Company continues to evaluate and monitor its situation as it develops, including whether it will make any changes to its operations in Mexico.

The Company has not recognized a loss with respect to any of these Mexican matters as the Company, based on its analysis and guidance from its advisors, does not believe a loss is probable. Further, the Company is currently unable to reasonably estimate a possible loss or range of loss that could result from an unfavorable outcome if an assessment was re-issued or any additional assessments were to be issued for these or other periods. The Company believes that it has meritorious defenses if an assessment is re-issued or would have meritorious defenses if any additional assessment is issued.

As previously disclosed, the Mexican Tax Administration Service has requested information related to the Company's 2010 year. This information has been provided and the Tax Administration Service has now completed its income tax audit related to the 2010 year. The Tax Administration Service is now discussing its preliminary findings with the Company. It is possible that the Company could receive a final assessment from the Tax Administration Service after these discussions are completed. The Company believes that it has recognized an appropriate amount of income tax expense with respect to its Mexican operations during the 2010 year. The Company believes that it has meritorious defenses if a formal assessment is issued by the Tax Administration Service. The Company is currently unable to reasonably estimate the amount of loss that may result from an unfavorable outcome if a formal assessment is issued by the Tax Administration Service.

The Company received a tax assessment in September 2009 from the Federal Revenue Office of Brazil in an amount equivalent to approximately \$2.1 million, translated at the June 30, 2017 spot rate, related to withholding/contributions based on payments to the Company's Members during 2004. On December 28, 2010, the Company appealed this tax assessment to the Administrative Council of Tax Appeals (2nd level administrative appeal). The Company believes it has meritorious defenses and it has not recognized a loss as the Company does not believe a loss is probable. On March 6, 2014, the Company was notified of a similar audit of the 2011 year. In January 2016, the Company received a tax assessment for an amount equivalent to approximately \$5.3 million, translated at the June 30, 2017 spot rate, related to contributions based on payments to the Company's Members during 2011. The Company filed a first level administrative appeal against most of the assessment on February 23, 2016, which was subsequently denied. On March 13, 2017, the Company appealed this tax assessment to the Administrative Council of Tax Appeals (2nd level administrative appeal). The Company has not accrued a loss for the majority of the assessment because the Company does not believe a loss is probable. The Company is currently unable to reasonably estimate the amount of the loss that may result from an unfavorable outcome if additional assessments for other periods were to be issued.

The Company's Brazilian subsidiary pays ICMS-ST taxes on its product purchases, similar to VAT. As of June 30, 2017, the Company had \$17.0 million of Brazil ICMS-ST, of which \$9.0 million was within non-current other assets and \$8.0 million was within prepaid expenses and other current assets on its condensed consolidated balance sheet. The Company believes it will be able to utilize or recover these ICMS-ST credits in the future.

The Company is under examination in several Brazilian states related to ICMS and ICMS-ST taxation. Some of these examinations have resulted in assessments for underpaid tax that the Company has appealed. The State of Sao Paulo has audited the Company for the 2013 and 2014 tax years. During July 2016, for the State of Sao Paulo, the Company received an assessment in the aggregate amount of approximately \$48.6 million, translated at the June 30, 2017 spot rate, relating to various ICMS issues for its 2013 tax year and it is possible the Company could receive a similar assessment for its 2014 tax year. In August 2016, the Company filed a first level administrative appeal which was denied in February 2017. The Company filed a further appeal on March 9, 2017. The Company has not recognized a loss as the Company does not believe a loss is probable. The Company has also received other ICMS tax assessments in Brazil. During the fourth quarter of 2015, the Company filed appeals with state judicial courts against three of the assessments. The Company had issued surety bonds in the aggregate amount of \$12.6 million, translated at the June 30, 2017 spot rate, to guarantee payment of some of the tax assessments as required while the Company pursues the appeals. In addition, the Company has received several ICMS tax assessments in the aggregate amount of \$6.9 million, translated at the June 30, 2017 spot rate, from several Brazilian states where surety bonds have not been issued. Litigation in all these cases is currently ongoing. The Company has not recognized a loss as the Company does not believe a loss is probable.

The Company has received various tax assessments in multiple states in India for multiple years from the Indian VAT authorities in an amount equivalent to approximately \$8.2 million, translated at the June 30, 2017 spot rate. These assessments are for underpaid VAT. The Company is litigating these cases at the tax administrative level and the tax

tribunal levels as it believes it has meritorious defenses. The Company has not recognized a loss as it does not believe a loss is probable.

The Korea Customs Service audited the importation activities of Herbalife Korea for the period January 2011 through May 2013. The total assessment for the audit period is \$31.4 million translated at the June 30, 2017 spot rate. The Company has paid the assessment and has recognized these payments within other assets on its condensed consolidated balance sheet. The Company lodged a first level administrative appeal, which was denied on October 21, 2016. On January 31, 2017, the Company filed a further appeal to the National Tax Tribunal of Korea. The Company disagrees with the assertions made in the assessments, as well as the calculation methodology used in the assessments. The Company has not recognized a loss as the Company does not believe a loss is probable.

During the course of 2016, the Company received various questions from the Greek Social Security Agency and on December 29, 2016, the Greek Social Security Agency issued an assessment of approximately \$2.3 million translated at the June 30, 2017 spot rate, with respect to Social Security Contributions on Member earnings for the 2006 year. For Social Security issues, the Statute of Limitations is open for 2007 and later years in Greece. The Company could receive similar assessments covering other years. The Company disputes the allegations raised in the assessment and has filed an administrative appeal against the assessment with the Social Security Agency. The Company has not recognized a loss as it does not believe a loss is probable.

## U.S. Federal Trade Commission Consent Order

As previously disclosed, the Company received from the U.S. Federal Trade Commission, or the FTC, a Civil Investigative Demand, or a CID, relating to the FTC's confidential investigation of whether the Company has complied with federal law in the advertising, marketing, or sale of business opportunities. On July 15, 2016, the Company and the FTC entered into a proposed Stipulation to Entry of Order for Permanent Injunction and Monetary Judgment, or the Consent Order. The Consent Order was lodged with the U.S. District Court for the Central District of California on July 15, 2016 and became effective on July 25, 2016, or the Effective Date, upon final approval by the Court. The Consent Order resolved the FTC's multi-year investigation of the Company.

Pursuant to the Consent Order, under which the Company neither admitted nor denied the FTC's allegations (except as to the Court having jurisdiction over the matter), the Company made, through its wholly owned subsidiary Herbalife International of America, Inc., a \$200 million payment to the FTC. Additionally, the Company agreed to implement certain new procedures and enhance certain existing procedures in the U.S., most of which the Company had 10 months from the Effective Date to implement. Among other requirements, the Consent Order requires the Company to categorize all existing and future Members in the U.S. as either "preferred members" – who are simply consumers who only wish to purchase products for their own household use, or "distributors" – who are members who wish to resell some products or build a sales organization. The Company also agreed to compensate distributors on eligible U.S. sales within their downline organization, which include purchases by preferred members, purchases by a distributor for his or her personal consumption within allowable limits and sales of product by a distributor to his or her customers. The Consent Order also imposes restrictions on distributors' ability to open Nutrition Clubs in the United States. The Consent Order subjects the Company to certain audits by an independent compliance auditor for a period of seven years; imposes requirements on the Company regarding compliance certification and record creation and maintenance; and prohibits the Company, its affiliates and its distributors from making misrepresentations and misleading claims regarding, among other things, income and lavish lifestyles. The FTC and the independent compliance auditor have the right to inspect Company records and request additional compliance reports for purposes of conducting audits pursuant to the Consent Order. In September 2016, the Company and the FTC mutually selected Affiliated Monitors, Inc. to serve as the independent compliance auditor. The Company is monitoring the impact of the Consent Order and, while the Company currently does not expect the settlement to have a long-term and materially adverse impact on its business and its Member base, the Company's business and its Member base, particularly in the United States, may be negatively impacted as the Company and the Member base adjust to the changes. If the Company is unable to comply with the Consent Order then this could result in a material and adverse impact to the Company's results of operations and financial condition.

## Other Matters

As a marketer of foods, 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. The Company currently maintains product liability insurance with an annual deductible of \$15 million.

The SEC and the Department of Justice have requested from the Company documents and other information relating to the Company's anti-corruption compliance in China and the Company is conducting its own review. The Company is cooperating with the government and cannot predict the eventual scope, duration, or outcome of the matter at this time.

Since late 2012, a short seller has made and continues to make allegations regarding the Company and its network marketing program. The Company believes these allegations are without merit and is vigorously defending itself against such claims, including proactively reaching out to governmental authorities about what the Company believes

is manipulative activity with respect to its securities. Because of these allegations, the Company and others have received and may receive additional regulatory and governmental inquiries. For example, the Company has previously disclosed inquiries from the FTC, SEC and other governmental authorities. In the future, governmental authorities may determine to seek information from the Company and other persons relating to these same or other allegations. If the Company believes any governmental or regulatory inquiry or investigation is or becomes material it will be disclosed individually. Consistent with its policies, the Company has cooperated and will continue to fully cooperate with any governmental or regulatory inquiries or investigations.

These matters described in this Note may take several years to resolve. While the Company believes it has meritorious defenses, it cannot be sure of their ultimate resolution. Although the Company may reserve amounts for certain matters that the Company believes represent the most likely outcome of the resolution of these related disputes, if the Company is incorrect in its assessment, the Company may have to record additional expenses, when it becomes probable that an increased potential liability is warranted.

## 6. Segment Information

The Company is a nutrition company that sells a wide range of weight management, targeted nutrition, energy, sports & fitness, and outer nutrition products. The Company's products are manufactured by the Company in its Changsha, Hunan, China extraction facility, Suzhou, China facility, Nanjing, China facility, Lake Forest, California facility, and Winston-Salem, North Carolina facility, and by third party providers, and then are sold to Members who consume and sell Herbalife products to retail consumers or other Members. Revenues reflect sales of products by the Company to its Members and are categorized based on geographic location.

As of June 30, 2017, the Company sold products in 94 countries throughout the world and was organized into and managed through six geographic regions: North America, Mexico, South & Central America, EMEA (Europe, Middle East, and Africa), Asia Pacific and China. The Company defines its operating segments as those geographical operations. The Company aggregates its operating segments, excluding China, into a reporting segment, or the Primary Reporting Segment, as management believes that the Company's operating segments have similar operating characteristics and similar long term operating performance. In making this determination, management believes that the operating segments are similar in the nature of the products sold, the product acquisition process, the types of customers to whom products are sold, the methods used to distribute the products, the nature of the regulatory environment, and their economic characteristics. China has been identified as a separate reporting segment as it does not meet the criteria for aggregation. The Company reviews its net sales and contribution margin by operating segment, and reviews its assets and capital expenditures on a consolidated basis and not by operating segment. Therefore, net sales and contribution margin are presented by reportable segment and assets and capital expenditures by segment are not presented.

The operating information for the two reportable segments are as follows:

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2017	2016	2017	2016
	(In millions)			
<b>Net Sales:</b>				
Primary Reporting Segment	\$904.2	\$959.3	\$1,790.8	\$1,861.5
China	242.7	242.5	458.2	459.9
Total Net Sales	\$1,146.9	\$1,201.8	\$2,249.0	\$2,321.4
<b>Contribution Margin(1):</b>				
Primary Reporting Segment		\$393.2	\$405.7	\$779.8
China(2)		216.0	223.1	411.8
Total Contribution Margin		609.2	628.8	1,191.6
Selling, general and administrative expenses(2)		443.2	676.8	881.8
Other operating income		(38.9 )	(28.1 )	(38.9 )
Interest expense, net		37.9	23.1	68.1
Income (loss) before income taxes		167.0	(43.0 )	280.6
Income taxes		29.4	(20.1 )	57.8
Net income (loss)		\$137.6	\$(22.9 )	\$222.8
				\$72.9

- (1) Contribution margin consists of net sales less cost of sales and royalty overrides. For the China segment, contribution margin does not include service fees to China independent service providers.
- (2) Service fees to China independent service providers totaling \$104.5 million and \$115.7 million for the three months ended June 30, 2017 and 2016, respectively, and \$216.1 million and \$218.2 million for the six months ended June 30, 2017 and 2016, respectively, are included in selling, general and administrative expenses.

17

---



The following table sets forth net sales by geographic area:

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(In millions)			
<b>Net Sales:</b>				
United States	\$213.1	\$260.8	\$437.8	\$501.7
Mexico	115.6	119.3	220.4	229.0
China	242.7	242.5	458.2	459.9
Others	575.5	579.2	1,132.6	1,130.8
<b>Total Net Sales</b>	<b>\$1,146.9</b>	<b>\$1,201.8</b>	<b>\$2,249.0</b>	<b>\$2,321.4</b>

## 7. Share-Based Compensation

The Company has share-based compensation plans, which are more fully described in Note 9, Share-Based Compensation, to the Consolidated Financial Statements in the 2016 10-K. During the six months ended June 30, 2017, the Company granted stock appreciation rights, or SARs, and stock units subject to service conditions and service and performance conditions.

In June 2017, the Company granted stock unit awards to its Chief Executive Officer which will vest on December 31, 2019 subject to his continued employment through that date and the achievement of certain performance conditions. The performance conditions include targets for Volume Points, adjusted earnings before interest and taxes, and adjusted earnings per share. These performance stock unit awards can vest at between 0% and 200% of the target award based on the achievement of the performance conditions.

For the three months ended June 30, 2017 and 2016, share-based compensation expense amounted to \$11.4 million and \$10.7 million, respectively. For the six months ended June 30, 2017 and 2016, share-based compensation expense amounted to \$22.7 million and \$20.5 million, respectively. As of June 30, 2017, the total unrecognized compensation cost related to all non-vested stock awards was \$64.9 million and the related weighted-average period over which it is expected to be recognized is approximately 1.6 years.

The following tables summarize the activity under all share-based compensation plans for the six months ended June 30, 2017:

SARs	Awards	Weighted	Weighted	Aggregate
		Average	Average	Intrinsic

Edgar Filing: HERBALIFE LTD. - Form 10-Q

		Exercise Price	Remaining Contractual Term	Value(1) (In millions)
Outstanding at December 31, 2016(2)(3)	(In thousands) 11,998	\$ 41.52	6.0 years	\$ 148.7
Granted	1,350	\$ 57.25		
Exercised	(2,421 )	\$ 28.34		
Forfeited	(247 )	\$ 50.98		
Outstanding at June 30, 2017(2)(3)	10,680	\$ 46.28	6.5 years	\$ 275.1
Exercisable at June 30, 2017(4)	6,337	\$ 45.56	5.1 years	\$ 170.9

(1) The intrinsic value is the amount by which the current market value of the underlying stock exceeds the exercise price of the stock awards.

(2) Includes 0.1 million market condition SARs as of both June 30, 2017 and December 31, 2016.

(3) Includes 3.1 million and 2.9 million performance condition SARs as of June 30, 2017 and December 31, 2016, respectively.

(4) Includes 1.5 million performance condition SARs.

18

---

The weighted-average grant date fair value of SARs granted during the three months ended June 30, 2017 and 2016 was \$34.76 and \$29.77, respectively. The weighted-average grant date fair value of SARs granted during the six months ended June 30, 2017 and 2016 was \$28.34 and \$29.47, respectively. The total intrinsic value of SARs exercised during the three months ended June 30, 2017 and 2016 was \$80.2 million and \$8.2 million, respectively. The total intrinsic value of SARs exercised during the six months ended June 30, 2017 and 2016 was \$97.0 million and \$14.1 million, respectively.

Incentive Plan and Independent Directors Stock Units	Shares (In thousands)	Weighted Average Grant Date Fair Value
Outstanding and nonvested December 31, 2016	26	\$ 62.35
Granted(1)	112	\$ 70.14
Vested	(24 )	\$ 62.45
Forfeited	—	\$ —
Outstanding and nonvested June 30, 2017	114	\$ 69.98

(1) This includes 91,610 performance based stock unit awards which represents the maximum amount that can vest.

The total vesting date fair value of stock units which vested during the three months ended June 30, 2017 and 2016 was \$1.4 million and \$1.8 million, respectively. The total vesting date fair value of stock units which vested during the six months ended June 30, 2017 and 2016 was \$1.4 million and \$1.8 million, respectively.

## 8. Income Taxes

Income taxes were an expense of \$29.4 million and \$57.8 million for the three and six months ended June 30, 2017, respectively, as compared to a benefit of \$20.1 million and an expense of \$27.5 million for the same periods in 2016. The effective income tax rate was 17.6% and 20.6% for the three and six months ended June 30, 2017, respectively, as compared to 46.7% and 27.4% for the same periods in 2016. The decrease in the effective tax rate for the three months ended June 30, 2017, as compared to the same period in 2016, was due to the change in the geographic mix of the Company's income, primarily related to the FTC settlement and to an increase in net benefits from discrete events. The decrease in the effective tax rate for the six months ended June 30, 2017, as compared to the same period in 2016, was primarily due to an increase in net benefits from discrete events. Included in the discrete events for the three and six months ended June 30, 2017 was the impact of \$21.4 million and \$25.7 million of excess tax benefits

generated during those respective periods, relating to the Company's application of ASU 2016-09 that was adopted on January 1, 2017.

As of June 30, 2017, the total amount of unrecognized tax benefits, including related interest and penalties was \$72.7 million. If the total amount of unrecognized tax benefits was recognized, \$52.4 million of unrecognized tax benefits, \$11.3 million of interest and \$2.3 million of penalties would impact the effective tax rate.

The Company believes that it is reasonably possible that the amount of unrecognized tax benefits could decrease by up to approximately \$11.1 million within the next twelve months. Of this possible decrease, \$4.0 million would be due to the settlement of audits or resolution of administrative or judicial proceedings. The remaining possible decrease of \$7.1 million would be due to the expiration of statute of limitations in various jurisdictions. For a description on contingency matters relating to income taxes see Note 5, Contingencies.

## 9. Derivative Instruments and Hedging Activities

### Foreign Currency Instruments

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

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

As of June 30, 2017 and December 31, 2016, the aggregate notional amounts of all foreign currency contracts outstanding designated as cash flow hedges were approximately \$126.9 million and \$90.0 million, respectively. At June 30, 2017, these outstanding contracts were expected to mature over the next fifteen months. The Company's derivative financial instruments are recorded on the condensed consolidated balance sheet at fair value based on third-party quotes. As of June 30, 2017, the Company recorded assets at fair value of \$0.1 million and liabilities at fair value of \$5.9 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. As of December 31, 2016, the Company recorded assets at fair value of \$4.6 million. The Company assesses hedge effectiveness and measures hedge ineffectiveness at least quarterly. During the three and six months ended June 30, 2017 and 2016, the ineffective portion relating to these hedges was immaterial and the hedges remained effective as of June 30, 2017 and December 31, 2016.

As of June 30, 2017 and December 31, 2016, the majority of the Company's outstanding foreign currency forward contracts had maturity dates of less than twelve months with the majority of freestanding derivatives expiring within two months and one month as of June 30, 2017 and December 31, 2016, respectively. As of June 30, 2017, the Company had aggregate notional amounts of approximately \$395.0 million of foreign currency contracts, inclusive of freestanding contracts and contracts designated as cash flow hedges.

#### Gains and Losses on Derivative Instruments

The following table summarizes gains (losses) relating to derivative instruments recorded in other comprehensive income (loss) during the three and six months ended June 30, 2017 and 2016:

	Amount of Gain (Loss) Recognized			
	in Other Comprehensive Income (Loss)			
	For the Three Months Ended		For the Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(In millions)			
<b>Derivatives designated as hedging instruments:</b>				
Foreign exchange currency contracts relating to inventory	\$(4.4)	\$ 3.2	\$(10.5)	\$ 2.3

and intercompany management fee hedges

As of June 30, 2017, the estimated amount of existing net losses related to cash flow hedges recorded in accumulated other comprehensive loss that are expected to be reclassified into earnings over the next twelve months was \$6.8 million.

20

---

The following table summarizes gains (losses) relating to derivative instruments recorded to income during the three and six months ended June 30, 2017 and 2016:

	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss)			
		Recognized in Income For the Three Months Ended		For the Six Months Ended	
		June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
(In millions)					
<b>Derivatives designated as hedging instruments:</b>					
Foreign exchange currency contracts relating to	Selling, general and				
inventory hedges and intercompany	administrative				
management fee hedges(1)	expenses	\$1.7	\$0.5	\$1.2	\$0.1
<b>Derivatives not designated as hedging instruments:</b>					
Foreign exchange currency contracts	Selling, general and				
	administrative				
	expenses	\$(5.2)	\$(0.9)	\$(6.5)	\$(3.2)

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

The following table summarizes gains (losses) relating to derivative instruments reclassified from accumulated other comprehensive loss into income during the three and six months ended June 30, 2017 and 2016:

Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income	Amount of Gain (Loss) Reclassified	
	from Accumulated Other Comprehensive Loss into Income	from Accumulated Other Comprehensive Loss into Income
	For the Three Months Ended	For the Six Months Ended

Edgar Filing: HERBALIFE LTD. - Form 10-Q

	(Effective Portion)	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Derivatives designated as hedging instruments:					
Foreign exchange currency contracts relating to					
inventory hedges	Cost of sales	\$0.7	\$ 4.6	\$1.6	\$ 9.6
Foreign exchange currency contracts relating to					
intercompany management fee hedges	Selling, general and administrative expenses	\$0.4	\$ (0.4 )	\$0.9	\$ (0.5 )

The Company reports its derivatives at fair value as either assets or liabilities within its condensed consolidated balance sheet. See Note 12, Fair Value Measurements, for information on derivative fair values and their condensed consolidated balance sheet location as of June 30, 2017 and December 31, 2016.

## 10. Shareholders' Equity

### Dividends

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



## Share Repurchases

On February 21, 2017, the Company's board of directors authorized a new three-year \$1.5 billion share repurchase program that will expire on February 21, 2020, which replaced the Company's prior share repurchase authorization which was set to expire on June 30, 2017 which, as of December 31, 2016, had \$232.9 million of remaining authorized capacity. This share repurchase program allows the Company, which includes an indirect wholly owned subsidiary of Herbalife Ltd., to repurchase the Company's common shares, at such times and prices as determined by the Company's management as market conditions warrant and to the extent Herbalife Ltd.'s distributable reserves are available under Cayman Islands law. The Credit Facility permits the Company to repurchase its common shares as long as no default or event of default exists and other conditions such as specified consolidated leverage ratios are met.

In conjunction with the issuance of the Convertible Notes during February 2014, the Company paid approximately \$685.8 million to enter into prepaid forward share repurchase transactions, or the Forward Transactions, with certain financial institutions, or the Forward Counterparties, pursuant to which the Company purchased approximately 9.9 million common shares, at an average cost of \$69.02 per share, for settlement on or around the August 15, 2019 maturity date for the Convertible Notes, subject to the ability of each Forward Counterparty to elect to settle all or a portion of its Forward Transactions early. See Note 4, Long-Term Debt for further information on the conditions for which Holders of the Convertible Notes may convert their notes prior to the maturity date. The Forward Transactions were generally expected to facilitate privately negotiated derivative transactions between the Forward Counterparties and holders of the Convertible Notes, including swaps, relating to the common shares by which holders of the Convertible Notes establish short positions relating to the common shares and otherwise hedge their investments in the Convertible Notes concurrently with, or shortly after, the pricing of the Convertible Notes. The shares are treated as retired shares for basic and diluted EPS purposes although they remain legally outstanding.

As a result of the Forward Transactions, the Company's total shareholders' equity within its condensed consolidated balance sheet was reduced by approximately \$685.8 million during the first quarter of 2014, with amounts of \$653.9 million and \$31.9 million being allocated between accumulated deficit and additional paid-in-capital, respectively, within total shareholders' equity. Also, upon executing the Forward Transactions, the Company recorded, at fair value, \$35.8 million in non-cash issuance costs to other assets and a corresponding amount to additional paid-in-capital within its condensed consolidated balance sheet. These non-cash issuance costs will be amortized to interest expense over the contractual term of the Forward Transactions. For both the three and six months ended June 30, 2017 and 2016, the Company recognized \$1.6 million and \$3.2 million, respectively, of non-cash interest expense within its condensed consolidated statements of income (loss) relating to amortization of these non-cash issuance costs.

During the three months ended March 31, 2017, an indirect wholly owned subsidiary of the Company purchased approximately 1.1 million of Herbalife Ltd.'s common shares through open market purchases at an aggregate cost of approximately \$60.7 million, or an average cost of \$56.10 per share, which reduced the Company's total shareholders' equity and is reflected at cost within the Company's accompanying condensed consolidated balance sheet. During the three months ended June 30, 2017, an indirect wholly owned subsidiary of the Company purchased approximately 2.7 million of Herbalife Ltd.'s common shares through open market purchases at an aggregate cost of approximately \$179.8 million, or an average cost of \$67.06 per share, which reduced the Company's total shareholders' equity and is reflected at cost within the Company's accompanying condensed consolidated balance sheet. Although these shares are owned by an indirect wholly owned subsidiary of the Company, they are reflected as treasury shares under U.S. GAAP and therefore reduce the number of common shares outstanding within the Company's condensed consolidated financial statements and the weighted-average number of common shares outstanding used in calculating earnings per share. The common shares of Herbalife Ltd. held by the indirect wholly owned subsidiary, however, remain outstanding on the books and records of the Company's transfer agent and therefore still carry voting and other share rights related to ownership of the Company's common shares, which may be exercised. As of June 30, 2017, the

Company held approximately 3.8 million of treasury shares for U.S. GAAP purposes. The Company did not repurchase any common shares in the open market during the three and six months ended June 30, 2016. As of June 30, 2017, the remaining authorized capacity under the Company's \$1.5 billion share repurchase program was \$1,259.5 million.

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

For the six months ended June 30, 2017 and 2016, the Company's share repurchases were \$240.5 million and none, respectively, under the Company's share repurchase programs and \$45.7 million and \$4.5 million, respectively, due to shares withheld for tax purposes related to the Company's share-based compensation plans. For the six months ended June 30, 2017 and 2016, the Company's total share repurchases, including shares withheld for tax purposes, were \$286.2 million and \$4.5 million, respectively, and have been recorded as a reduction to shareholders' equity within the Company's condensed consolidated balance sheet. The Company recorded \$273.6 million of total share repurchases within financing activities on its condensed consolidated statement of cash flows for the six months ended June 30, 2017, which excludes \$12.6 million of share repurchases for which payment was made subsequent to the quarter end and therefore reflected as a liability within the Company's condensed consolidated balance sheet as of June 30, 2017.

#### Capped Call Transactions

In February 2014, in connection with the issuance of Convertible Notes, the Company paid approximately \$123.8 million to enter into capped call transactions with respect to its common shares, or the Capped Call Transactions, with certain financial institutions. The Capped Call Transactions are expected generally to reduce the potential dilution upon conversion of the Convertible Notes in the event that the market price of the common shares is greater than the strike price of the Capped Call Transactions, initially set at \$86.28 per common share, with such reduction of potential dilution subject to a cap based on the cap price initially set at \$120.79 per common share. The strike price and cap price are subject to certain adjustments under the terms of the Capped Call Transactions. Therefore, as a result of executing the Capped Call Transactions, the Company in effect will only be exposed to potential net dilution once the market price of its common shares exceeds the adjusted cap price. As a result of the Capped Call Transactions, the Company's additional paid-in capital within shareholders' equity on its condensed consolidated balance sheet was reduced by \$123.8 million during the first quarter of 2014.

#### Accumulated Other Comprehensive Income (Loss)

The following table summarizes changes in accumulated other comprehensive income (loss) during the three months ended June 30, 2017 and 2016:

	Changes in Accumulated Other Comprehensive Income (Loss) by Component Three Months Ended June 30,					
	2017			2016		
	Foreign	Unrealized		Foreign	Unrealized	
	Currency Gain (Loss)			Currency Gain (Loss)		
	Translation			Translation		
	Adjustment	Derivatives	Total	Adjustment	Derivatives	Total
	(In millions)					
Beginning Balance	\$ (192.5)	\$ 2.9	\$ (189.6)	\$ (163.0)	\$ 11.8	\$ (151.2)
Other comprehensive income (loss)						
before reclassifications, net of tax	6.7	(4.4 )	2.3	(15.8 )	3.3	(12.5 )
Amounts reclassified from	—	(1.1 )	(1.1 )	—	(4.8 )	(4.8 )

accumulated other comprehensive							
income (loss) to income, net of							
tax(1)							
Total other comprehensive income							
(loss), net of reclassifications	6.7	(5.5 )	1.2	(15.8 )	(1.5 )	(17.3 )	
Ending balance	\$(185.8)	\$ (2.6 )	\$(188.4)	\$(178.8)	\$ 10.3	\$(168.5)	

(1) See Note 9, Derivative Instruments and Hedging Activities, for information regarding the location in the condensed consolidated statements of income (loss) of gains (losses) reclassified from accumulated other comprehensive income (loss) into income during the three months ended June 30, 2017 and 2016.

Other comprehensive income (loss) before reclassifications was net of tax expense of \$2.7 million for foreign currency translation adjustment for the three months ended June 30, 2017.

Other comprehensive income (loss) before reclassifications was net of tax expense of \$2.3 million and tax benefits of \$0.1 million for foreign currency translation adjustment and unrealized gain (loss) on derivatives, respectively, for the three months ended June 30, 2016.

The following table summarizes changes in accumulated other comprehensive income (loss) during the six months ended June 30, 2017 and 2016:

	Changes in Accumulated Other Comprehensive Income (Loss) by Component Six Months Ended June 30,			
	2017		2016	
	Foreign	Unrealized	Foreign	Unrealized
	Currency Gain (Loss)		Currency Gain (Loss)	
	Translation		Translation	
	Adjustment	Derivatives	Adjustment	Derivatives
	Other	Total	Other	Total
	(In millions)			
Beginning Balance	\$ (215.5)	\$ 10.4	\$ (205.1)	\$ (183.0)
Other comprehensive income (loss)				
before reclassifications, net of tax	29.7	(10.5 )	19.2	4.2
Amounts reclassified from				
accumulated other comprehensive				
income (loss) to income, net of				
tax(1)	—	(2.5 )	(2.5 )	—
Total other comprehensive income				
(loss), net of reclassifications	29.7	(13.0 )	16.7	4.2
Ending balance	\$ (185.8)	\$ (2.6 )	\$ (188.4)	\$ (178.8)

(1) See Note 9, Derivative Instruments and Hedging Activities, for information regarding the location in the condensed consolidated statements of income (loss) of gains (losses) reclassified from accumulated other comprehensive income (loss) into income during the six months ended June 30, 2017 and 2016.

Other comprehensive income (loss) before reclassifications was net of tax expense of \$5.3 million for foreign currency translation adjustment for the six months ended June 30, 2017.

Other comprehensive income (loss) before reclassifications was net of tax expense of \$1.5 million and tax benefits of \$0.3 million for foreign currency translation adjustment and unrealized gain (loss) on derivatives, respectively, for the six months ended June 30, 2016. Amounts reclassified from other comprehensive income (loss) to income were net of tax expense of \$0.1 million for other for the six months ended June 30, 2016.

## 11. Earnings Per Share

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

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

	For the Three Months		For the Six Months	
	Ended June 30, 2017	2016	Ended June 30, 2017	2016
	(in millions)			
Weighted average shares used in basic computations	81.4	83.0	82.3	82.9
Dilutive effect of exercise of equity grants outstanding	3.9	—	3.7	3.0
Weighted average shares used in diluted computations	85.3	83.0	86.0	85.9

There were an aggregate of 3.3 million and 3.6 million of equity grants, consisting of SARs, and stock units that were outstanding during the three and six months ended June 30, 2017, respectively, and an aggregate of 13.0 million and 4.9 million of equity grants, consisting of SARs and stock units, that were outstanding during the three and six months ended June 30, 2016, respectively, but were not included in the computation of diluted earnings per share because their effect would be anti-dilutive or the performance condition for the award had not been satisfied. The Company had a net loss during the three months ended June 30, 2016, therefore all outstanding equity grants were excluded from the calculation of diluted earnings per share for the three months ended June 30, 2016 as their inclusion would have an antidilutive effect.

Since the Company will settle the principal amount of its Convertible Notes in cash and settle the conversion feature for the amount above the conversion price in common shares, or the conversion spread, the Company uses the treasury stock method for calculating any potential dilutive effect of the conversion spread on diluted earnings per share, if applicable. The conversion spread will have a dilutive impact on diluted earnings per share when the average market price of the Company's common shares for a given period exceeds the initial conversion price of \$86.28 per share. For the three and six months ended June 30, 2017 and 2016, the Convertible Notes have been excluded from the computation of diluted earnings per share as the effect would be anti-dilutive since the conversion price of the Convertible Notes exceeded the average market price of the Company's common shares for the three and six months ended June 30, 2017 and 2016. The initial conversion rate and conversion price is described further in Note 4, Long-Term Debt.

The Capped Call Transactions are excluded from the calculation of diluted earnings per share because their impact is always anti-dilutive.

See Note 10, Shareholders' Equity, for a discussion of how common shares repurchased by the Company's indirect wholly owned subsidiary are treated under U.S. GAAP.

## 12. Fair Value Measurements

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

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

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

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

The Company measures certain assets and liabilities at fair value as discussed throughout the notes to its condensed consolidated financial statements. Foreign exchange currency contracts are valued using standard calculations and models primarily based on inputs such as observable forward rates, spot rates and foreign currency exchange rates at the reporting period ended date. The Company's derivative assets and liabilities are measured at fair value and consisted of Level 2 inputs and their amounts are shown below at their gross values at June 30, 2017 and December 31, 2016:

Fair Value Measurements at Reporting Date

	Derivative Balance Sheet Location	Fair Value at June 30, 2017	(Level 2) Inputs	Significant Other Inputs	Fair Value at December 31, 2016
<b>ASSETS:</b>					
Derivatives designated as hedging instruments:					
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges					
	Prepaid expenses and other current assets	\$0.1	\$	4.6	
Derivatives not designated as hedging instruments:					
Foreign exchange currency contracts					
	Prepaid expenses and other current assets	\$2.5	\$	2.8	
		\$2.6	\$	7.4	
<b>LIABILITIES:</b>					
Derivatives designated as hedging instruments:					



Foreign exchange currency contracts relating to				
inventory and intercompany management fee				
hedges	Other current liabilities	\$5.9	\$	—
Derivatives not designated as hedging				
instruments:				
Foreign exchange currency contracts	Other current liabilities	\$2.6	\$	3.5
		\$8.5	\$	3.5

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents are comprised of money market funds and foreign and domestic bank accounts. These cash and cash equivalents are valued based on level 1 inputs which consist of quoted prices in active markets. To reduce its credit risk, the Company monitors the credit standing of the financial institutions that hold the Company's cash and cash equivalents.

The Company's deferred compensation plan assets consist of Company owned life insurance policies. As these policies are recorded at their cash surrender value, they are not required to be included in the fair value table above. See Note 6, Employee Compensation Plans, to the consolidated financial statements included in the 2016 10-K for a further description of the Company's deferred compensation plan assets.

The following tables summarize the offsetting of the fair values of the Company's derivative assets and derivative liabilities for presentation in the Company's condensed consolidated balance sheet at June 30, 2017 and December 31, 2016:

	Offsetting of Derivative Assets		
			Net Amounts
	Gross Amounts of	Gross Amounts of	of Assets
	Recognized	Offset in	Presented
	Balance	the	in
	Assets	Recognized	the
	Sheet	Balance	Balance
	(In millions)	Sheet	Sheet
<b>June 30, 2017</b>			
Foreign exchange currency contracts	\$2.6	\$ (2.6 )	\$ —
<b>Total</b>	<b>\$2.6</b>	<b>\$ (2.6 )</b>	<b>\$ —</b>
<b>December 31, 2016</b>			
Foreign exchange currency contracts	\$7.4	\$ (3.0 )	\$ 4.4
<b>Total</b>	<b>\$7.4</b>	<b>\$ (3.0 )</b>	<b>\$ 4.4</b>

  

	Offsetting of Derivative Liabilities		
			Net Amounts
	Gross Amounts of	Gross Amounts of	of Liabilities
	Recognized	Offset in	Presented
	Balance	the	in
	Liabilities	Recognized	the
	Sheet	Balance	Balance
	(In millions)	Sheet	Sheet
<b>June 30, 2017</b>			
Foreign exchange currency contracts	\$8.5	\$ (2.6 )	\$ 5.9
<b>Total</b>	<b>\$8.5</b>	<b>\$ (2.6 )</b>	<b>\$ 5.9</b>
<b>December 31, 2016</b>			

Edgar Filing: HERBALIFE LTD. - Form 10-Q

Foreign exchange currency contracts	\$3.5	\$ (3.0 )	\$ 0.5
Total	\$3.5	\$ (3.0 )	\$ 0.5

The Company offsets all of its derivative assets and derivative liabilities in its condensed consolidated balance sheet to the extent it maintains master netting arrangements with related financial institutions. As of June 30, 2017 and December 31, 2016, all of the Company's derivatives were subject to master netting arrangements and no collateralization was required for the Company's derivative assets and derivative liabilities.

### 13. Detail of Certain Balance Sheet Accounts

#### Other Assets

The Other assets on the Company's accompanying condensed consolidated balance sheets includes deferred compensation plan assets of \$32.0 million and \$30.6 million and long-term deferred tax assets of \$186.1 million and \$155.2 million as of June 30, 2017 and December 31, 2016, respectively.

#### Other Current Liabilities

Other current liabilities consist of the following:

	December	
	June 30, 31,	
	2017	2016
	(In millions)	
Accrued compensation	\$97.0	\$ 125.8
Accrued liabilities	239.0	236.9
Advance sales deposits	77.0	50.1
Income taxes payable	12.1	42.0
Total	\$425.1	\$ 454.8

#### Other Non-Current Liabilities

The Other non-current liabilities on the Company's accompanying condensed consolidated balance sheets includes deferred compensation plan liabilities of \$53.8 million and \$50.0 million and deferred income tax liabilities of \$15.5 million and \$15.3 million as of June 30, 2017 and December 31, 2016, respectively. See Note 6, Employee Compensation Plans, to the consolidated financial statements in the 2016 10-K for a further description of the Company's deferred compensation plan assets and liabilities.

#### 14. Subsequent Events

During July 2017, an indirect wholly owned subsidiary of the Company repurchased approximately 0.8 million of the Company's common shares for aggregate consideration of approximately \$58.7 million through open market purchases under the Company's \$1.5 billion share repurchase program. These repurchases were effected pursuant to Rule 10b5-1 trading plans. See Note 10, Shareholders' Equity, for a discussion of how common shares repurchased by the Company's indirect wholly owned subsidiary are treated under U.S. GAAP.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes included in Part I, Item 1 – Financial Information, of this Quarterly Report on Form 10-Q and our consolidated financial statements appearing in our Annual Report on Form 10-K for the year ended December 31, 2016, or the 2016 10-K. Unless the context otherwise requires, all references herein to the “Company,” “we,” “us” or “our,” or similar terms, refer to Herbalife Ltd., a Cayman Islands exempt limited liability company, and its consolidated subsidiaries.

### Overview

We are a global nutrition company that sells weight management, targeted nutrition, energy, sports & fitness, and outer nutrition products to and through independent members, or Members. In China, we sell our products to and through independent service providers, sales representatives, and sales officers to customers and preferred customers, as well as through Company-operated retail stores when necessary. We refer to Members that distribute our products and achieve certain qualification requirements as “sales leaders.”

We pursue our mission of “changing people’s lives” by providing high quality, science-based products to Members and their customers who seek a healthy lifestyle and we also offer a business opportunity to those Members who seek additional income. We believe the global obesity epidemic has made our quality products more relevant and the effectiveness of our distribution network, coupled with geographic expansion, have been the primary reasons for our success throughout our 37-year operating history.

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

Industry-wide factors that affect us and our competitors include the global obesity epidemic, the aging of the worldwide population and rising public health care costs, which are driving demand for weight management, nutrition and wellness-related products along with the global increase in under employment and unemployment which can affect the recruitment and retention of Members seeking additional income opportunities.

While we continue to monitor the current global financial environment, we remain focused on the opportunities and challenges in retailing of our products, sponsoring and retaining Members, improving Member productivity, further penetrating existing markets, opening new markets, globalizing successful Distributor Methods of Operation, or DMOs, such as Nutrition Clubs and Weight Loss Challenges, introducing new products and globalizing existing products, developing niche market segments and further investing in our infrastructure.

We report revenue from our six regions:

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

On July 15, 2016, we reached a settlement with the U.S. Federal Trade Commission, or the FTC, and entered into a proposed Stipulation to Entry of Order for Permanent Injunction and Monetary Judgment, or the Consent Order, which resolved the FTC's multi-year investigation of the Company. The Consent Order became effective on July 25, 2016, or the Effective Date, upon final approval by the U.S. District Court for the Central District of California. Pursuant to the Consent Order, we agreed to implement certain new procedures and enhance certain existing procedures in the U.S., most of which we had 10 months from the Effective Date to implement. Among other requirements, the Consent Order required us to categorize all existing and future Members in the U.S. as either "preferred members" - who are simply consumers who only wish to purchase product for their own household use, or "distributors" - who are Members who wish to resell some products or build a sales organization. We also agreed to compensate distributors on eligible U.S. sales within their downline organizations, which include purchases by preferred members, purchases by a distributor for his or her personal consumption within allowable limits and sales of product by a distributor to his or her customers. The Consent Order also requires distributors to meet certain conditions before opening Nutrition Clubs and/or entering into leases for their Herbalife business in the United States. The Consent Order also prohibits the Company from making expressly or by implication, any representation regarding the amount or level of income, including full-time or part-time income, that a participant can reasonably expect to earn in the Company's network marketing program, unless the representation is non-misleading and the Company possesses competent and reliable evidence sufficient to substantiate that the representation is true.

We are monitoring the impact of the Consent Order and our Board of Directors has established the Implementation Oversight Committee in connection with the Consent Order. The committee has met and will meet regularly with management to oversee our compliance with the terms of the Consent Order. While we currently do not expect the settlement to have a long-term and materially adverse impact on our business and our Member base, our business and our Member base, particularly in the U.S., may be negatively impacted as we and they adjust to the changes. The terms of the settlement do not change our going to market through direct selling by independent distributors, and compensating those distributors based upon the product they and their sales organization sell. See Item 1A – Risk Factors of this Quarterly Report on Form 10-Q for a discussion of risks related to the settlement with the FTC.

#### Volume Points by Geographic Region

A key non-financial measure we focus on is Volume Points on a Royalty Basis, or Volume Points, which is essentially our weighted-average measure of product sales volume. Volume Points, which are unaffected by exchange rates or price changes, are used by management as a proxy for sales trends because in general, excluding the impact of price changes, an increase in Volume Points in a particular geographic region or country indicates an increase in our local currency net sales while a decrease in Volume Points in a particular geographic region or country indicates a decrease in our local currency net sales. The criteria we use to determine how and when we recognize Volume Points are not identical to our revenue recognition policies under U.S. GAAP. Unlike net sales, which are generally recognized when the product is delivered and both the title and risk and rewards pass to the Member, as discussed in greater detail in the 2016 10-K, we recognize Volume Points when a Member pays for the order, which is generally prior to the product being delivered. Further, the periods in which Volume Points are tracked can vary slightly from the fiscal periods for which we report our results under U.S. GAAP. Therefore, there can be timing differences between the product orders for which net sales are recognized and for which Volume Points are recognized within a given period. However, historically these timing differences generally have been immaterial in the context of using changes in Volume Points as a proxy to explain volume-driven changes in net sales.

We assign a Volume Point value to a product when it is first introduced into a market and the value is unaffected by subsequent exchange rate and price changes. The specific number of Volume Points assigned to a product, and generally consistent across all markets, is based on a Volume Point to suggested retail price ratio for similar products. If a product is available in different quantities, the various sizes will have different Volume Point values. In general, once assigned, a Volume Point value is consistent in each region and country and does not change from year to year. The reason Volume Points are used in the manner described above is that we use Volume Points for Member qualification and recognition purposes and therefore we attempt to keep Volume Points for a similar or like product consistent on a global basis. However, because Volume Points are a function of value rather than product type or size, they are not a reliable measure for product mix. As an example, an increase in Volume Points in a specific country or region could mean a significant increase in sales of less expensive products or a marginal increase in sales of more expensive products.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
	(Volume Points in millions)					
North America	284.1	347.0	(18.1 )%	586.7	666.5	(12.0 )%
Mexico	228.9	242.6	(5.6 )%	454.4	458.6	(0.9 )%
South & Central America	137.5	160.3	(14.2 )%	290.7	338.1	(14.0 )%
EMEA	283.6	276.9	2.4 %	557.8	537.6	3.8 %
Asia Pacific (excluding China)	275.9	277.8	(0.7 )%	536.7	527.3	1.8 %
China	153.9	179.7	(14.4 )%	335.9	334.9	0.3 %
Worldwide	1,363.9	1,484.3	(8.1 )%	2,762.2	2,863.0	(3.5 )%

We believe the decrease in worldwide Volume Points for the three and six months ended June 30, 2017 of 8.1% and 3.5%, respectively, versus increases reported for the prior year periods, were driven by regional specific factors. Longer term, favorable Volume Point growth trends have been attributable to our facilitation of sales leader success and customer satisfaction by providing quality products and emphasizing sustainable business; improved DMOs, including daily consumption approaches such as Nutrition Clubs; easier access to product; systemized training for Members on our products and methods; and continued promotion and branding of Herbalife products. The decreases for North America for the three and six months ended June 30, 2017, following increases in the prior year periods, reflects Member focus on FTC settlement implementation actions including training on new tools and methods for documenting sales, and time spent to then train their sales organizations. The decrease for Mexico for the three months ended June 30, 2017, and to a lesser extent the six months ended June 30, 2017, reflects, among other factors, a difficult comparison with Q2 2016, the highest volume quarter in Mexico history, as well as tougher economic conditions. We continue to see declines in the South & Central America region primarily as a result of regional and country specific challenges discussed in greater detail in Sales by Geographic Region below. Asia Pacific (excluding China) has had mixed results by country within the region, as discussed in greater detail in Sales by Geographic Region below. The Volume Point decline in China for the three months ended June 30, 2017, is due to member response to a price increase announced in March that was effective April 1, 2017. This price increase announcement, our first for the market in six years, drove significant sales orders late in March, including orders that were pulled forward from the second quarter, as Members made purchases ahead of the price change. For the six months ended June 30, 2017, we saw a lower rate of increase than recent prior year periods, attributable to factors such as Members testing new business methods that did not prove to be as sustainable as traditional methods. Sales volume results are discussed further below in the applicable sections of Sales by Geographic Region. We believe the changes to our Marketing Plan, as well as our competitive strengths and business strategies, each of which is discussed in greater detail in Item 1 — Business of the 2016 10-K, will contribute to achieving our long-term objective

of sustainable sales growth through retailing, recruiting and retention.

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

Our compensation system requires each sales leader to re-qualify for such status each year, prior to February, in order to maintain their 50% discount on products and be eligible to receive royalty payments. In February of each year, we demote from the rank of sales leader those Members who did not satisfy the re-qualification requirements during the preceding twelve months. The re-qualification requirement does not apply to new sales leaders (i.e. those who became sales leaders subsequent to the January re-qualification of the prior year). Volume Points are the basis for sales leader qualification, as discussed in greater detail in Item 1, Business of the 2016 10-K. Typically, a Member accumulates Volume Points for a given sale at the time the Member pays for the product. However, effective beginning in May 2017, a Member does not receive Volume Point credit for a transaction in the United States until it is documented in compliance with the Consent Order.



For the latest twelve month re-qualification period ending January 2017, approximately 60.9% of our sales leaders, excluding China and Venezuela, re-qualified. This figure excludes sales leaders in the United States who had converted to preferred member prior to the re-qualification period-end, as those individuals were not eligible for requalification; had these individuals been included in the calculation the figure would have been 59.3%. Venezuelan Members were excluded from retention figures for the year ended January 2017 due to revised requalification criteria that are not comparable to prior periods or to other markets and were excluded from 2016 as sales leaders in the market were not required to requalify that year due to product supply limitations. Argentina is excluded from 2016 as described further in the 2016 10-K.

Sales Leaders Statistics (Excluding China)	2017	2016
	(In thousands)	
January 1 total sales leaders	572.9	603.3
January & February new sales leaders	26.8	27.7
Demoted sales leaders (did not re-qualify)(1)	(124.0)	(207.6)
Sales leaders who converted to preferred members	(38.3 )	—
Other sales leaders (resigned, etc.)	(2.0 )	(3.9 )
End of February total sales leaders(1)	435.4	419.5

The statistics below further highlight the calculation for retention.

Sales Leaders Retention (Excluding China)	2017	2016
	(In thousands)	
Sales leaders needed to re-qualify	379.0	450.2
Demoted sales leaders (did not re-qualify)(2)	(148.3)	(206.4)
Total re-qualified	230.7	243.8
Retention rate	60.9 %	54.2 %

(1) Demoted sales leaders excludes, and the end of February total sales leaders includes, approximately 10.0 thousand South Korea sales leaders who were demoted in March 2017, under a distinct program that granted our South Korea sales leaders one additional month to re-qualify.

(2) For historical comparison purposes the 60.9% retention rate calculation for February 2017 includes as demoted 20.3 thousand sales leaders who re-qualified, but under a pilot program for certain markets with a lower re-qualification threshold, but excludes 6.0 thousand Venezuelan sales leaders who were demoted under revised criteria that are not comparable to prior periods or other markets. The retention rate for 2017 if calculated absent these adjustments would have been 65.5%.

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

	Number of Sales Leaders		Sales Leaders Retention Rate	
	2017	2016	2017	2016
	North America	61,362	79,305	74.8%

Edgar Filing: HERBALIFE LTD. - Form 10-Q

Mexico	74,968	67,294	71.7%	57.1%
South & Central America	73,375	77,523	55.2%	53.0%
EMEA	101,101	87,500	62.2%	63.6%
Asia Pacific (excluding China)	124,555	107,871	49.7%	43.8%
Total Sales Leaders	435,361	419,493	60.9%	54.2%
China	47,244	41,890		
Worldwide Total Sales Leaders	482,605	461,383		

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

Retention Rate for the requalification period ended January 2017 was significantly improved compared to prior year periods. We believe this performance is the result of efforts we have made to improve the sustainability of sales leaders' businesses such as encouraging Members to obtain experience retailing Herbalife products before becoming a sales leader.

## Presentation

“Retail value” represents the suggested retail price of products we sell to our Members and is the gross sales amount reflected on our invoices. Retail value is a Non-GAAP measure which may not be comparable to similarly-titled measures used by other companies. This is not the price paid to us by our Members. Our Members purchase product from us at a discount from the suggested retail price. We refer to these discounts as “distributor allowance”, and we refer to retail value less distributor allowances as “product sales”.

Total distributor allowances for the three months ended June 30, 2017 and 2016 were 40.1% and 40.2% of retail value, respectively. Total distributor allowances for the six months ended June 30, 2017 and 2016 were 40.3% and 40.1% of retail value, respectively. Distributor allowances and Marketing Plan payouts generally utilize 90% to 95% of suggested retail price, depending on the product and market, to which we apply discounts of up to 50% for distributor allowances and payout rates of up to 15% for royalty overrides, up to 7% for production bonuses, and approximately 1% for the Mark Hughes bonus. Distributor allowances as a percentage of retail value may vary by country depending upon regulatory restrictions that limit or otherwise restrict distributor allowances. We also offer reduced distributor allowances with respect to certain products worldwide. Each Member’s level of discount is determined by qualification based on volume of purchases. In cases where a Member has qualified for less than the maximum discount, the remaining discount, which we also refer to as a wholesale commission, is received by their sponsoring Members. Therefore, product sales are recognized net of product returns and distributor allowances.

“Net sales” equal product sales plus “shipping and handling revenues”, and generally represents what we collect.

We do not have visibility into all of the sales from our Members to their customers, but such a figure would differ from our reported “retail value” by factors including (a) the amount of product purchased by our Members for their own personal consumption and (b) prices charged by our Members to their customers other than our suggested retail prices. We discuss retail value because of its fundamental role in our systems, internal controls and operations, and its correlation to Member discounts and Royalty Overrides. In addition, retail value is a component of the financial reports we use to analyze our financial results because, among other things, it can provide additional detail and visibility into our net sales results on a Company-wide and a geographic region and product category basis. Therefore, this non-GAAP measure may be useful to investors because it provides investors with the same information used by management. As this measure is not in accordance with U.S. generally accepted accounting principles, or U.S. GAAP, retail value should not be considered in isolation from, nor as a substitute for, net sales and other consolidated income or cash flow statement data prepared in accordance with U.S. GAAP, or as a measure of profitability or liquidity. A reconciliation of retail value to net sales is presented below under Results of Operations.

Our international operations have provided and will continue to provide a significant portion of our total net sales. As a result, total net sales will continue to be affected by fluctuations in the U.S. dollar against foreign currencies. In order to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency fluctuations, in addition to comparing the percent change in net sales from one period to another in U.S. dollars, we also compare the percent change in net sales from one period to another period using “net sales in local currency”. Net sales in local currency is not a U.S. GAAP financial measure. Net sales in local currency removes from net sales in U.S. dollars the impact of changes in exchange rates between the U.S. dollar and the local currencies of our foreign subsidiaries, by translating the current period net sales into U.S. dollars using the same foreign currency exchange rates that were used to translate the net sales for the previous comparable period. We believe presenting net sales in local currency is useful to investors because it allows a meaningful comparison of net sales of our foreign operations from period to period. However, net sales in local currency measures should not be considered in isolation or as an alternative to net sales in U.S. dollar measures that reflect current period exchange rates, or to other financial measures calculated and presented in accordance with U.S. GAAP.

Our “gross profit” consists of net sales less “cost of sales,” which represents our manufacturing costs, the price we pay to our raw material suppliers and manufacturers of our products as well as shipping and handling costs including duties, tariffs, and similar expenses.

While certain Members may profit from their activities by reselling our products for amounts greater than the prices they pay us, Members that develop, retain, and manage other Members may earn additional compensation for those activities, which we refer to as “Royalty overrides.” Royalty overrides are our most significant operating expense and consist of:

- royalty overrides and production bonuses;
- the Mark Hughes bonus payable to some of our most senior Members; and
- other discretionary incentive cash bonuses to qualifying Members.

33

---

Royalty overrides are compensation to Members for the development, retention and improved productivity of their sales organizations and are paid to several levels of Members on each sale. Royalty overrides are compensation for services rendered to us and as such are recorded as an operating expense.

In China, our independent service providers are compensated for marketing, sales support, and other services instead of the distributor allowances and royalty overrides utilized in our global marketing plan. Service fees to China independent service providers are included in selling, general and administrative expenses.

Because of local country regulatory constraints, we may be required to modify our Member incentive plans as described above. We also pay reduced royalty overrides with respect to certain products worldwide. Consequently, the total royalty override percentage may vary over time and from the percentages noted above.

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

“Selling, general and administrative expenses” represent our operating expenses, which include labor and benefits, service fees to China service providers, sales events, professional fees, travel and entertainment, Member promotions, occupancy costs, communication costs, bank fees, depreciation and amortization, foreign exchange gains and losses and other miscellaneous operating expenses.

Our “other operating income” consists of government grant income related to China.

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

#### Summary Financial Results

Net sales for the three and six months ended June 30, 2017 were \$1,146.9 million and \$2,249.0 million, respectively. Net sales decreased \$54.9 million, or 4.6%, and \$72.4 million or 3.1%, for the three and six months ended June 30, 2017, as compared to the same periods in 2016. In local currency, net sales decreased 3.4% and 1.8% for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. The decrease in net sales of 4.6% for the three months ended June 30, 2017 was primarily driven by a decrease in sales volume, as indicated by an 8.1% decrease in Volume Points, and a 1.2% unfavorable fluctuation in foreign currency exchange rates partially offset by price increases, which increased net sales by approximately 2.6%. The decrease in net sales of 3.1% for the six months ended June 30, 2017 was primarily driven by a decrease in sales volume, as indicated by a 3.5% decrease in Volume Points, and a 1.3% unfavorable fluctuation in foreign currency exchange rates; partially offset by price increases, which increased net sales by approximately 2.0%.

Net income for the three and six months ended June 30, 2017 was \$137.6 million, or \$1.61 per diluted share, and \$222.8 million, or \$2.59 per diluted share, respectively. Net income increased \$160.5 million, or 700.9%, and \$149.9 million, or 205.6%, for the three and six months ended June 30, 2016, respectively, as compared to the same periods in 2016. The increase in net income for the three and six months ended June 30, 2017, was primarily due to lower selling, general, and administrative expenses mostly related to the \$203.0 million of regulatory settlements in the second quarter of 2016; higher other operating income related to government grant in China; partially offset by lower

contribution margin driven by lower sales as discussed above; higher interest expense primarily due to an increase in borrowings in connection with the new senior secured credit facility entered into on February 15, 2017; and higher income taxes.

Net income for the three months ended June 30, 2017 included a \$38.9 million favorable impact (\$27.7 million post-tax) of government grant income in China; a \$12.6 million unfavorable impact of non-cash interest expense related to the Convertible Notes and the Forward Transactions (See Note 4, Long-Term Debt, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q); a \$2.9 million pre-tax unfavorable impact (\$1.9 million post-tax) from expenses related to regulatory inquiries; a \$1.6 million pre-tax unfavorable impact (\$1.2 million post-tax) related to legal, advisory services and other expenses for our response to allegations and other negative information put forward in the marketplace by a hedge fund manager which started in late 2012 (See Selling, General and Administrative Expenses below for further discussion); and a \$5.2 million pre-tax unfavorable impact (\$3.5 million post-tax) from expenses related to the implementation of the FTC Consent Order.

Net income for the six months ended June 30, 2017 included a \$38.9 million favorable impact (\$27.7 million post-tax) of government grant income in China; a \$25.3 million unfavorable impact of non-cash interest expense related to the Convertible Notes and the Forward Transactions (See Note 4, Long-Term Debt, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q); a \$6.7 million pre-tax unfavorable impact (\$4.4 million post-tax) from expenses related to regulatory inquiries; a \$3.1 million pre-tax unfavorable impact (\$2.3 million post-tax) related to legal, advisory services and other expenses for our response to allegations and other negative information put forward in the marketplace by a hedge fund manager which started in late 2012 (See Selling, General and Administrative Expenses below for further discussion); and a \$13.7 million pre-tax unfavorable impact (\$9.2 million post-tax) from expenses related to the implementation of the FTC Consent Order.

The income tax impact of the expenses discussed above is based on forecasted items affecting our 2017 full year effective tax rate. Adjustments to forecasted items unrelated to these expenses, as well as impacts related to interim reporting, will have an effect on the income tax impact of these items in subsequent periods.

Net loss for the three months ended June 30, 2016 included a \$203.0 million pre-tax unfavorable impact (\$136.5 million post-tax) related to regulatory settlements; a \$28.2 million pre-tax favorable impact (\$20.0 million post-tax) of government grant income in China; a \$11.3 million unfavorable impact of non-cash interest expense related to the Convertible Notes and the Forward Transactions (See Note 4, Long-Term Debt, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q); a \$2.5 million pre-tax unfavorable impact (\$1.6 million post-tax) from expenses related to regulatory inquiries; a \$4.6 million pre-tax unfavorable impact (\$3.4 million post-tax) related to legal, advisory services and other expenses for our response to allegations and other negative information put forward in the marketplace by a hedge fund manager which started in late 2012 (See Selling, General and Administrative Expenses below for further discussion); and a \$1.9 million pre-tax unfavorable impact (\$1.3 million post-tax) related to expenses incurred for the recovery of costs associated with the re-audit of our 2010 to 2012 financial statements after the resignation of KPMG as our independent registered public accounting firm.

Net income for the six months ended June 30, 2016 included a \$203.0 million pre-tax unfavorable impact (\$136.5 million post-tax) related to regulatory settlements; a \$28.9 million pre-tax favorable impact (\$20.5 million post-tax) of government grant income in China; a \$23.5 million unfavorable impact of non-cash interest expense related to the Convertible Notes and the Forward Transactions (See Note 4, Long-Term Debt, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q); a \$10.1 million pre-tax unfavorable impact (\$6.4 million post-tax) from expenses related to regulatory inquiries; a \$7.5 million pre-tax unfavorable impact (\$5.7 million post-tax) related to legal, advisory services and other expenses for our response to allegations and other negative information put forward in the marketplace by a hedge fund manager which started in late 2012 (See Selling, General and Administrative Expenses below for further discussion); and a \$3.3 million pre-tax unfavorable impact (\$2.2 million post-tax) related to expenses incurred for the recovery of costs associated with the re-audit of our 2010 to 2012 financial statements after the resignation of KPMG as our independent registered public accounting firm.

## Results of Operations

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





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

	Three Months		Six Months	
	Ended		Ended	
	June 30,	June 30,	June 30,	June 30,
	2017	2016	2017	2016
<b>Operations:</b>				
Net sales	100.0%	100.0 %	100.0%	100.0 %
Cost of sales	19.1	19.7	18.8	19.4
Gross profit	80.9	80.3	81.2	80.6
Royalty overrides(1)	27.8	28.0	28.2	27.9
Selling, general and administrative expenses(1)	38.6	56.3	39.2	47.5
Other operating income	(3.4 )	(2.3 )	(1.7 )	(1.2 )
Operating (loss) income	17.9	(1.7 )	15.5	6.4
Interest expense, net	3.3	1.9	3.0	2.1
Income (loss) before income taxes	14.6	(3.6 )	12.5	4.3
Income taxes	2.6	(1.7 )	2.6	1.2
Net income (loss)	12.0 %	(1.9 )%	9.9 %	3.1 %

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

#### Reporting Segment Results

We aggregate our operating segments, excluding China, into a reporting segment, or the Primary Reporting Segment. The Primary Reporting Segment includes the North America, Mexico, South & Central America, EMEA, and Asia Pacific regions. China has been identified as a separate reporting segment as it does not meet the criteria for aggregation. See Note 6, Segment Information, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further discussion of our reporting segments. See below for discussions of net sales and contribution margin by our reporting segments.

#### Net Sales by Reporting Segment

The Primary Reporting Segment reported net sales of \$904.2 million and \$1,790.8 million for the three and six months ended June 30, 2017, respectively, representing a decrease of \$55.1 million, or 5.7%, and a decrease of \$70.7 million, or 3.8%, for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. In local currency, net sales decreased 5.6% and 3.4% for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016 for the Primary Reporting Segment. The 5.7% decrease in net sales for the three months ended June 30, 2017 was primarily due to a decrease in sales volume, as indicated by a 7.3% decrease in Volume Points, and an unfavorable change in country mix, which reduced net sales by approximately 2.0%; partially offset by price increases which increased net sales by approximately 2.4%. The 3.8% decrease in net sales for the six months ended June 30, 2017 was primarily due to a decrease in sales volume, as indicated by a 4.0% decrease in Volume Points and an unfavorable change in country mix, which reduced net sales by approximately 2.3%; partially offset by price increases which increased net sales by approximately 2.0%.

For a discussion of China's net sales for the three and six months ended June 30, 2017 see the China section of the Sales by Geographic Region below.

#### Contribution Margin by Reporting Segment

As discussed above under "Presentation," contribution margin consists of net sales less cost of sales and Royalty overrides.

36

---

The Primary Reporting Segment reported contribution margin of \$393.2 million, or 43.5% of net sales, and \$779.8 million, or 43.5% of net sales, representing a decrease of \$12.5 million, or 3.1%, and a decrease of \$22.9 million, or 2.9%, for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. The 3.1% decrease for the three months ended June 30, 2017 was primarily the result of volume decreases and unfavorable country mix which reduced contribution margin by approximately 5.5% and 5.5%, respectively, partially offset by price increases and cost savings through strategic sourcing and self-manufacturing, which increased contribution margin by approximately 3.8% and 2.3%, respectively. The 2.9% decrease for the six months ended June 30, 2017 was primarily the result of unfavorable country mix and volume decreases which reduced contribution margin by approximately 6.2% and 2.3%, respectively, partially offset by price increases and cost savings through strategic sourcing and self-manufacturing, which increased contribution margin by approximately 3.1% and 2.3%, respectively.

China reported contribution margin of \$216.0 million and \$411.8 million for the three and six months ended June 30, 2017, respectively, representing a decrease of \$7.1 million, or 3.2%, and \$8.9 million, or 2.1%, for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. The decrease of 3.2% for the three months ended June 30, 2017 was primarily due to fluctuations in foreign currency rates which reduced contribution margin by approximately 5.9%, partially offset by the favorable impact of price increases which increased contribution margin by approximately 4.1%. The decrease of 2.1% for the six months ended June 30, 2017 was primarily due to fluctuations in foreign currency rates which reduced contribution margin by approximately 5.6%, partially offset by the favorable impact of price increases which increased contribution margin by approximately 2.2%.

#### Sales by Geographic Region

The following chart reconciles retail value to net sales by geographic region:

	Three Months Ended June 30, 2017					2016					Change in Net Sales
	Retail Value(1) (In millions)	Distributor Allowance Sales	Product Sales	Shipping & Handling Revenue	Net Sales	Retail Value(1)	Distributor Allowance Sales	Product Sales	Shipping & Handling Revenue	Net Sales	
North America	\$363.8	\$(166.6)	\$197.2	\$21.2	\$218.4	\$441.1	\$(199.6)	\$241.5	\$25.0	\$266.5	(18.0)%
Mexico	199.0	(90.4)	108.6	7.0	115.6	205.2	(93.1)	112.1	7.2	119.3	(3.1)%
South & Central America	192.6	(90.0)	102.6	7.4	110.0	209.1	(97.7)	111.4	8.5	119.9	(8.3)%
EMEA	387.2	(176.3)	210.9	13.8	224.7	373.6	(168.3)	205.3	13.7	219.0	2.6%
Asia Pacific	401.2	(173.2)	228.0	7.5	235.5	394.5	(168.1)	226.4	8.2	234.6	0.4%
China	274.3	(32.9)	241.4	1.3	242.7	277.9	(36.7)	241.2	1.3	242.5	0.1%
Worldwide	\$1,818.1	\$(729.4)	\$1,088.7	\$58.2	\$1,146.9	\$1,901.4	\$(763.5)	\$1,137.9	\$63.9	\$1,201.8	(4.6)%

Edgar Filing: HERBALIFE LTD. - Form 10-Q

Six Months Ended June 30,  
2017

2016

	Shipping & Handling					Shipping & Handling					Change in Net Sales
	Retail Value(1) (In millions)	Distributor Allowance	Product Sales	Revenues	Net Sales	Retail Value(1)	Distributor Allowance	Product Sales	Revenues	Net Sales	
North America	\$749.8	\$(345.4 )	\$404.4	\$43.8	\$448.2	\$846.9	\$(382.5 )	\$464.4	\$48.1	\$512.5	(12.5)%
Mexico	379.1	(172.0 )	207.1	13.3	220.4	393.1	(177.9 )	215.2	13.8	229.0	(3.8 )%
South & Central America	405.5	(188.8 )	216.7	15.7	232.4	426.1	(196.7 )	229.4	17.5	246.9	(5.9 )%
EMEA	748.4	(340.2 )	408.2	26.3	434.5	713.9	(322.5 )	391.4	26.0	417.4	4.1 %
Asia Pacific	775.8	(334.9 )	440.9	14.4	455.3	753.6	(321.5 )	432.1	23.6	455.7	(0.1 )%
China	514.7	(58.9 )	455.8	2.4	458.2	524.5	(67.1 )	457.4	2.5	459.9	(0.4 )%
Worldwide	\$3,573.3	\$(1,440.2)	\$2,133.1	\$115.9	\$2,249.0	\$3,658.1	\$(1,468.2)	\$2,189.9	\$131.5	\$2,321.4	(3.1 )%

(1) Retail value is a Non-GAAP measure which may not be comparable to similarly-titled measures used by other companies. See "Presentation" above for a discussion of how we calculate retail value and why we believe the measure is useful to investors.

Changes in net sales are directly associated with the retailing of our products, recruitment of new Members, and retention of sales leaders. Our strategies involve providing quality products, improved DMOs, including daily consumption approaches such as Nutrition Clubs, easier access to product, systemized training and education of Members on our products and methods, and continued promotion and branding of Herbalife products.

Management's role, in-country and at the region and corporate level, is to provide Members with a competitive and broad product line, encourage strong teamwork and Member leadership and offer leading edge business tools and technology services to make doing business with Herbalife simple. Management uses the Marketing Plan, which reflects the rules for our global network marketing organization that specify the qualification requirements and general compensation structure for Members, coupled with educational and motivational tools and promotions to encourage Members to increase retailing, retention, and recruiting, which in turn affect net sales. Such tools include sales events such as Extravaganzas, Leadership Development Weekends and World Team Schools where large groups of Members gather, thus allowing them to network with other Members, learn retailing, retention, and recruiting techniques from our leading Members and become more familiar with how to market and sell our products and business opportunities. Accordingly, management believes that these development and motivation programs increase the productivity of the sales leader network. The expenses for such programs are included in selling, general and administrative expenses. We also use event and non-event product promotions to motivate Members to increase retailing, retention, and recruiting activities. These promotions have prizes ranging from qualifying for events to product prizes and vacations. A program that we have seen success with and begun to use on a broad basis is the Member Activation Program, under which new Members, who order a modest number of Volume Points in each of their first three months, earn a prize. Our objective is to improve the quality of sales leaders by encouraging new Members to begin acquiring retail customers before attempting to qualify for sales leader status. The costs of these programs are included in selling, general and administrative expenses.

DMOs are being generated in many of our markets and are globalized where applicable through the combined efforts of Members and country, regional and corporate management. While we support a number of different DMOs, one of the most popular DMOs is the daily consumption DMO. Under our traditional DMO, a Member typically sells to its customers on a somewhat infrequent basis (e.g., monthly) which provides fewer opportunities for interaction with their customers. Under a daily consumption DMO, a Member interacts with its customers on a more frequent basis, including such activities as weekly weigh-ins, which enables the Member to better educate and advise customers about nutrition and the proper use of the products and helps promote daily usage as well, thereby helping the Member grow his or her business. Specific examples of DMOs include the Nutrition Club concept in Mexico, the Healthy Breakfast concept in Russia, and the Internet/Sampling and Weight Loss Challenge in the United States. Management's strategy is to review the applicability of expanding successful country initiatives throughout a region, and where appropriate, support the globalization of these initiatives.

The factors described above helps Members increase their business, which in turn helps drive Volume Point growth in our business, and thus, net sales growth. The discussion below of net sales details some of the specific drivers of changes in our business and causes of sales fluctuations during the three and six months ended June 30, 2017, as compared to the same periods in 2016, as well as the unique growth or contraction factors specific to certain geographic regions or significant countries within a region during these periods. Net sales fluctuations, both Company-wide and within a particular geographic region or country, are primarily the result of changes in volume, changes in prices, and/or changes in foreign currency translation rates. The discussion of changes in net sales quantifies the impact of those drivers that are quantifiable such as changes in foreign currency translation rates, and cites the estimated impact of any significant price changes. The remaining drivers, which management believes are the primary drivers of changes in volume, are typically qualitative factors whose impact cannot be quantified. The Company measures sales volume using Volume Points.

#### North America

The North America region reported net sales of \$218.4 million and \$448.2 million for the three and six months ended June 30, 2017, respectively. Net sales decreased \$48.1 million, or 18.0%, and \$64.3 million, or 12.5% for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. In local currency, net sales decreased 17.9% and 12.5% for the three and six months ended June 30, 2017, respectively, as compared to the

same periods in 2016. The decrease in net sales for the three and six months ended June 30, 2017, as compared to the same periods in 2016, was a result of a net sales decrease in the U.S. of \$47.7 million or 18.3%, and \$63.9 million, or 12.7%, respectively. The decreases in net sales for the North America region for the three and six months ended June 30, 2017 were primarily the result of decreases in sales volume, as indicated by decreases in Volume Points.

As part of our FTC settlement, we have implemented certain new procedures and enhanced certain existing procedures in the United States. We believe North America's Volume Point decreases for the second quarter and first half of 2017, versus increases for the prior year periods, reflect a transitional impact of Member focus on FTC settlement implementation actions including training on new tools and methods for documenting sales and time spent to then train their sales organizations. Similar to the transitional impact that occurred as a result of Marketing Plan changes made in 2014, we do not expect the FTC settlement to have a long-term material adverse impact on our net sales in the North America region or on our Member base. However, we believe net sales for the region could continue to be negatively impacted during the remainder of 2017 as we and our Members spend time educating and training, and as our Members implement and adjust to the changes.

## Mexico

The Mexico region reported net sales of \$115.6 million and \$220.4 million for the three and six months ended June 30, 2017, respectively. Net sales decreased \$3.7 million, or 3.1%, and \$8.6 million, or 3.8%, for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. In local currency, net sales decreased 0.6% and increased 3.3% for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. The 3.1% decrease in net sales for the three months ended June 30, 2017 was primarily the result of a decrease in sales volume, as indicated by a 5.6% decrease in Volume Points, and a 2.4% unfavorable fluctuation in foreign currency exchange rates. These reductions to net sales were partially offset by price increases which contributed approximately 5.4% to net sales. The 3.8% decrease in net sales for the six months ended June 30, 2017 was primarily the result of a 7.0% unfavorable fluctuation in foreign currency exchange rates, as well as a decrease in sales volume, as indicated by a 0.9% decrease in Volume Points. These reductions to net sales were partially offset by price increases which contributed approximately 4.6% to net sales.

Mexico has had success with the Member Activation Program which rewards new Members who purchase a modest amount of product, acquire customers and gain retailing experience. Following six consecutive quarters of year-over-year growth, volume declined for the second quarter of 2017 versus the second quarter of 2016, which was a record quarter for the market. We believe softer volume is attributable to a tougher economic environment marked by rising inflation, tightening credit and lower macro consumer sentiment.

## South and Central America

The South and Central America region reported net sales of \$110.0 million and \$232.4 million for the three and six months ended June 30, 2017, respectively. Net sales decreased \$9.9 million, or 8.3%, and \$14.5 million, or 5.9%, for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. In local currency, net sales decreased 8.9% and 8.3% for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. The 8.3% decrease in net sales for the three months ended June 30, 2017 was primarily the result of a decline in sales volume, as indicated by a 14.2% decrease in Volume Points. This reduction to net sales was partially offset by price increases and fluctuations in foreign currency exchange rates which contributed approximately 6.4% and 0.7%, respectively, to net sales. The 5.9% decrease in net sales for the six months ended June 30, 2017 was primarily the result of a decline in sales volume, as indicated by a 14.0% decrease in Volume Points. This reduction to net sales was partially offset by price increases and fluctuations in foreign currency exchange rates which contributed approximately 6.7% and 2.4%, respectively.

In Brazil, the region's largest market, net sales were \$43.2 million and \$94.5 million for the three and six months ended June 30, 2017, respectively. Net sales decreased \$2.2 million, or 4.9%, and \$1.2 million, or 1.2% for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. In local currency, net sales decreased 13.0% and 15.3% for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. The fluctuation of foreign currency rates had a favorable impact of \$3.7 million and \$13.5 million, respectively, on net sales for the three and six months ended June 30, 2017. Marketing Plan changes intended to build more sustainable business for our Members through a focus on daily product consumption and retailing are taking hold following a lengthy transition period. In addition, we have introduced programs in Brazil that have been successful in other regions to improve Member activity and productivity. We are also increasing the number of product access points, expanding our product offering to promote more frequent consumption moments, and exploring product affordability approaches for the market. Changes in ICMS tax legislation, effective April 2016, reduced net sales by approximately \$4 million for the first quarter of 2017.

Net sales in Peru were \$14.6 million and \$30.7 million for the three and six months ended June 30, 2017, respectively. Net sales decreased \$1.0 million, or 6.7%, and \$1.4 million, or 4.4%, for the three and six months ended June 30,

2017, respectively, as compared to the same periods in 2016. In local currency, net sales decreased 8.2% and 7.4% for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. The fluctuation of foreign currency rates had a favorable impact of \$0.2 million and \$1.0 million on net sales for the three and six months ended June 30, 2017, respectively. Slower sales volume is attributed in part to reductions in qualification levels for certain promotions during the period that did not achieve their objectives of increasing the number of qualifiers. Also, Peru experienced severe inclement weather during the first quarter, which we believe directly impacted the ability of our Members to operate their businesses.



## EMEA

The EMEA region reported net sales of \$224.7 million and \$434.5 million for the three and six months ended June 30, 2017, respectively. Net sales increased \$5.7 million, or 2.6%, and \$17.1 million, or 4.1%, for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. In local currency, net sales increased 3.8% and 4.7% for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. The 2.6% increase in net sales for the three months ended June 30, 2017 was primarily the result of an increase in sales volume, as indicated by a 2.4% increase in Volume Points, and price increases which contributed approximately 1.6% to net sales. This increase in net sales was partially offset by a 1.2% unfavorable fluctuation in foreign currency exchange rates. The 4.1% increase in net sales for the six months ended June 30, 2017 was primarily the result of an increase in sales volume, as indicated by a 3.8% increase in Volume Points, and price increases which contributed approximately 1.6% to net sales. This increase in net sales was partially offset by a 0.6% unfavorable fluctuation in foreign currency exchange rates. Though the region is made up of a large number of markets with different characteristics and levels of success, generally we believe volume growth for the region is correlated with programs that have enhanced the quality and activity of sales leaders as they continue to focus on customer-oriented initiatives.

Net sales in Italy were \$38.0 million and \$71.3 million for the three and six months ended June 30, 2017, respectively. Net sales decreased \$1.1 million, or 2.8%, and \$1.1 million, or 1.5%, for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. In local currency, net sales decreased 0.3% and increased 1.5% for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. The fluctuation of foreign currency rates had an unfavorable impact of \$1.0 million and \$2.2 million on net sales for the three and six months ended June 30, 2017, respectively. Italy continues to benefit from ongoing events such as city-by-city tours and increased efforts to increase brand awareness. Italy has seen a modest decline in new Members and volumes as the newly introduced Member Activation Program is adopted and optimized by Members and sales leaders.

Net sales in Russia were \$32.7 million and \$64.7 million for the three and six months ended June 30, 2017, respectively. Net sales increased \$5.9 million, or 21.9%, and \$13.7 million, or 26.8%, for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. In local currency, net sales increased 5.8% and 5.1% for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. The fluctuation of foreign currency rates had a favorable impact of \$4.3 million and \$11.0 million on net sales for the three and six months ended June 30, 2017, respectively. Product prices in Russia were increased 5% in February 2017 and 5% in March 2016.

Net sales in Spain were \$26.7 million and \$49.9 million for the three and six months ended June 30, 2017, respectively. Net sales decreased \$1.6 million, or 5.6%, and \$1.4 million, or 2.8%, for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. In local currency, net sales decreased 3.2% and increased 0.2% for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. The fluctuation of foreign currency rates had an unfavorable impact of \$0.7 million and \$1.5 million on net sales for the three and six months ended June 30, 2017, respectively. Spain has continued to develop and support member retailing with multiple approaches including personal evaluations, fitness activities, shake parties, nutrition training, customer follow-up, and other customer oriented activities. Spain has seen a modest decline in new Members and volumes as the newly introduced Member Activation Program is adopted and optimized by Members and sales leaders.

## Asia Pacific

The Asia Pacific region, which excludes China, reported net sales of \$235.5 million and \$455.3 million for the three and six months ended June 30, 2017, respectively. Net sales increased \$0.9 million, or 0.4%, and decreased \$0.4 million, or 0.1%, for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. In local currency, net sales decreased 1.0% and 1.5% for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. The 0.4% increase in net sales for the three months ended June 30, 2017 was primarily the result of price increases and the impact of fluctuations in foreign currency exchange rates, which increased net sales by approximately 2.1% and 1.4%, respectively. This increase in net sales was partially offset by a decrease in sales volume, as indicated by a 0.7% decrease in Volume Points, and an unfavorable change in country sales mix resulting from a lower percentage of our sales volume coming from markets with higher prices, which reduced net sales by approximately 4.2%. The 0.1% decrease in net sales for the six months ended June 30, 2017 was primarily the result of an unfavorable change in country sales mix resulting from a lower percentage of our sales volume coming from markets with higher prices, which decreased net sales by approximately 4.0%. This reduction to net sales was partially offset by an increase in sales volume, as indicated by a 1.8% increase in Volume Points, and fluctuations in foreign currency exchange rates and price increases, which contributed approximately 1.4% and 0.7%, respectively, to net sales. The Volume Points performance for the region has been mixed by country, with increases led by India and Indonesia, offset by declines primarily in South Korea and Taiwan.

Net sales in South Korea were \$36.5 million and \$71.1 million for the three and six months ended June 30, 2017, respectively. Net sales decreased \$13.7 million, or 27.3%, and \$26.4 million, or 27.1%, for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. In local currency, net sales decreased 29.4% and 29.6% for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. The fluctuation of foreign currency rates had a favorable impact of \$1.1 million and \$2.4 million on net sales for the three and six months ended June 30, 2017, respectively. South Korea continues to be negatively impacted by a number of changes in the Marketing Plan, including certain changes unique to the market. In addition to a shift in emphasis toward longer-term sales leader qualification, we also changed the product discount structure in South Korea and began charging a fee for the Member kit during 2016. Previously, the Member kit in South Korea was free. While we believe these changes will benefit the market in the long term, they have resulted in sales declines as sales leaders continue to adapt to these new methods of operation.

Net sales in India were \$47.9 million and \$89.2 million for the three and six months ended June 30, 2017, respectively. Net sales increased \$9.3 million, or 24.1%, and \$12.7 million, or 16.6%, for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. In local currency, net sales increased 19.6% and 13.9% for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. The fluctuation of foreign currency rates had a favorable impact of \$1.7 million and \$2.0 million on net sales for the three and six months ended June 30, 2017, respectively. In 2016, we introduced the Member Activation Program which we believe has contributed to higher sales leader activity. Additionally, we began the segmentation of our Members into preferred members and distributors as required by local regulations. India continues to expand its product line, offering more comprehensive nutrition products for customers.

Net sales in Taiwan were \$34.0 million and \$64.5 million for the three and six months ended June 30, 2017, respectively. Net sales decreased \$2.0 million, or 5.6%, and \$1.9 million, or 2.9%, for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. In local currency, net sales decreased 11.9% and 9.1% for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. The fluctuation of foreign currency rates had a favorable impact of \$2.3 million and \$4.1 million on net sales for the three and six months ended June 30, 2017, respectively. Taiwan sales have declined versus the prior year period on a local currency basis as the market adjusts to and Members optimize programs and training introduced in 2016.

Net sales in Indonesia were \$31.8 million and \$65.0 million for the three and six months ended June 30, 2017, respectively. Net sales increased \$4.1 million, or 14.7%, and \$10.5 million, or 19.2%, for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. In local currency, net sales increased 14.7% and 18.4% for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. The fluctuation of foreign currency rates had an insignificant impact on net sales and a favorable impact of \$0.4 million for the three and six months ended June 30, 2017, respectively. Indonesia had a price increase of 3% in September 2016. The Indonesia market has continued to make progress by focusing on a customer-based business and daily consumption through Nutrition Clubs, training activities, and new products. We have increased the number of product access points for the market and expanded a city-by-city training and promotion approach.

#### China

Net sales in China were \$242.7 million and \$458.2 million for the three and six months ended June 30, 2017, respectively. Net sales increased \$0.2 million, or 0.1%, and decreased \$1.7 million, or 0.4%, for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. In local currency, net sales increased 5.3% and 5.0% for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. The relatively flat net sales for the three months ended June 30, 2017 included the benefit of a price increase, which increased net sales by approximately 3.8%, and an unfavorable fluctuation in foreign currency exchange rates, which decreased net sales by 5.2%. The Volume Point decrease for China for the second quarter noted

above under Volume Points by Geographic Region did not have a significant net sales impact, as sales orders for which Volume Points were pulled forward into the first quarter due to the price increase announced in March 2017 which took effect on April 1, were not recorded as net sales until the second quarter. The net sales decrease for the six months ended June 30, 2017, was the result of a 5.3% unfavorable fluctuation in foreign currency exchange rates, partially offset by the favorable effects of a price increase, which increased net sales by approximately 2.0%, and an increase in sales volume, as indicated by a 0.3% increase in Volume Points.

We believe the continued adoption and acculturation of daily consumption DMOs in the China market, supported by ongoing investments in areas including brand awareness, product access, and online and mobile platforms has contributed to growth in China over recent years. We believe the lower rate of sales volume increase for the year-to-date is attributable to factors such as Member overemphasis on social media business methods; reduction in the number of Nutrition Clubs as Members in some cases consolidated smaller clubs into larger, more commercialized clubs; and temporary government limitations on companies conducting commercial meetings ahead of the National Congress this fall, which have reduced certain Member activities in the near term. Members in China are now re-focusing on more established business methods, complimented by the use of social media. In addition, we have introduced the Member Activation Program for new members and in May we successfully expanded our online ordering platform, which allow our Members and Preferred Customers in China to purchase certain new products from a wholly owned subsidiary outside China for only personal consumption.

Sales by Product Category

	Three Months Ended June 30, 2017					2016					% Change in Net Sales
	Retail	Distributor	Product	Shipping & Handling	Net	Retail	Distributor	Product	Shipping & Handling	Net	
	Value(2) (In millions)	Allowance	Sales	Revenue	Sales	Value(2) (In millions)	Allowance	Sales	Revenue	Sales	
Weight Management	\$1,192.7	\$(488.4)	\$704.3	\$38.2	\$742.5	\$1,241.3	\$(511.8)	\$729.5	\$41.7	\$771.2	(3.7)%
Targeted Nutrition	440.6	(180.4)	260.2	14.1	274.3	449.1	(185.1)	264.0	15.1	279.1	(1.7)%
Energy, Sports and Fitness	111.7	(45.7)	66.0	3.5	69.5	117.3	(48.4)	68.9	4.0	72.9	(4.7)%
Outer Nutrition	38.5	(15.8)	22.7	1.3	24.0	46.9	(19.3)	27.6	1.6	29.2	(17.8)%
Literature, Promotional and Other(1)	34.6	0.9	35.5	1.1	36.6	46.8	1.1	47.9	1.5	49.4	(25.9)%
<b>Total</b>	<b>\$1,818.1</b>	<b>\$(729.4)</b>	<b>\$1,088.7</b>	<b>\$58.2</b>	<b>\$1,146.9</b>	<b>\$1,901.4</b>	<b>\$(763.5)</b>	<b>\$1,137.9</b>	<b>\$63.9</b>	<b>\$1,201.8</b>	<b>(4.6)%</b>

Six Months Ended June 30,  
2017

	Six Months Ended June 30, 2017					2016					% Change in Net Sales
	Retail	Distributor	Product	Shipping & Handling	Net	Retail	Distributor	Product	Shipping & Handling	Net	
	Value(2) (In millions)	Allowance	Sales	Revenue	Sales	Value(2) (In millions)	Allowance	Sales	Revenue	Sales	

Edgar Filing: HERBALIFE LTD. - Form 10-Q

Weight Management	\$2,336.9	\$(962.4 )	\$1,374.5	\$75.8	\$1,450.3	\$2,381.4	\$(982.8 )	\$1,398.6	\$85.6	\$1,484.2	(2.3 )%
Targeted Nutrition	872.1	(359.1 )	513.0	28.3	541.3	868.1	(358.2 )	509.9	31.2	541.1	0.0 %
Energy, Sports and Fitness	214.2	(88.2 )	126.0	6.9	132.9	219.0	(90.4 )	128.6	7.9	136.5	(2.6 )%
Outer Nutrition	78.9	(32.5 )	46.4	2.6	49.0	93.9	(38.7 )	55.2	3.4	58.6	(16.4)%
Literature, Promotional and Other(1)	71.2	2.0	73.2	2.3	75.5	95.7	1.9	97.6	3.4	101.0	(25.2)%
Total	\$3,573.3	\$(1,440.2)	\$2,133.1	\$115.9	\$2,249.0	\$3,658.1	\$(1,468.2)	\$2,189.9	\$131.5	\$2,321.4	(3.1 )%

(1)Product buy backs and returns in all product categories are included in literature, promotional and other category.

(2)Retail value is a Non-GAAP measure which may not be comparable to similarly-titled measures used by other companies. See “Presentation” above for a discussion of how we calculate retail value and why we believe the measure is useful to investors.

Net sales for the Targeted Nutrition product category decreased and were flat for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. Net sales for the Weight Management, Energy, Sports and Fitness, Outer Nutrition, and Literature, Promotional, and Other product categories decreased for the three and six months ended June 30, 2017 as compared to the same periods in 2016. The trend and business factors described in the above discussions of the individual geographic regions apply generally to all product categories.

## Gross Profit

Gross profit was \$928.1 million and \$1,825.6 million for the three and six months ended June 30, 2017, respectively, as compared to \$965.5 million and \$1,872.0 million for the same period in 2016. As a percentage of net sales, gross profit for the three months ended June 30, 2017 was 80.9% as compared to 80.3% for the same period in 2016, or a favorable net increase of 59 basis points and for the six months ended June 30, 2017 was 81.2% as compared to 80.6% in the same period in 2016, or a favorable net increase of 54 basis points. The gross profit rate for the three months ended June 30, 2017 included the favorable impact of cost savings through strategic sourcing and self-manufacturing of 68 basis points, retail price increases of 54 basis points, other cost changes of 11 basis points, and country mix of 10 basis points, partially offset by the unfavorable impact of foreign currency fluctuations of 49 basis points and higher inventory write-downs of 35 basis points. The 54 basis point net increase for the six months ended June 30, 2017 included the favorable impact of cost savings through strategic sourcing and self-manufacturing of 74 basis points, retail price increases of 39 basis points, other cost changes of 14 basis points and country mix of 3 basis points, partially offset by the unfavorable impact of foreign currency fluctuations of 61 basis points and higher inventory write-downs of 15 basis points. Generally, gross profit as a percentage of net sales may vary from period to period due to the impact of foreign currency fluctuations, changes in country mix as volume changes among countries with varying margins, retail price increases, cost savings through strategic sourcing and self-manufacturing, and inventory write-downs.

## Royalty Overrides

Royalty overrides were \$318.9 million and \$634.0 million for the three and six months ended June 30, 2017, respectively, as compared to \$336.7 million and \$648.6 million for the same periods in 2016. Royalty overrides as a percentage of net sales were 27.8% and 28.2% for the three and six months ended June 30, 2017, respectively, as compared to 28.0% and 27.9% for the same periods in 2016. Compensation to our independent service providers in China is included in selling, general and administrative expenses as opposed to royalty overrides where it is included for all other Members. Generally, royalty overrides as a percentage of net sales may vary 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 and in certain countries.

## Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$443.2 million and \$881.8 million for the three and six months ended June 30, 2017, respectively, as compared to \$676.8 million and \$1,103.9 million for the same periods in 2016. Selling, general and administrative expenses as a percentage of net sales were 38.6% and 39.2% for the three and six months ended June 30, 2017, respectively, as compared to 56.3% and 47.5% for the same periods in 2016.

The decrease in selling, general and administrative expenses for the three and six months ended June 30, 2017 was primarily due to the \$203.0 million related to regulatory settlements in the second quarter of 2016.

In late 2012, a hedge fund manager publicly raised allegations regarding the legality of our network marketing program and announced that the hedge fund manager had taken a significant short position regarding our common shares, leading to intense public scrutiny and significant stock price volatility. We have engaged legal and advisory services firms to assist with responding to the allegations and to perform other related services in connection to these events. For the three months ended June 30, 2017 and 2016, we recorded approximately \$1.6 million and \$4.6 million, respectively, of expenses related to this matter, which includes approximately \$1.2 million and \$3.6 million, respectively, of legal, advisory and other professional service fees. For the six months ended June 30, 2017 and 2016, we recorded approximately \$3.1 million and \$7.5 million, respectively, of expenses related to this matter, which includes approximately \$2.0 million and \$5.8 million, respectively, of legal, advisory and other professional service

fees. We expect to continue to incur expenses related to this matter over the next several periods and the expenses are expected to vary from period to period.

#### Other Operating Income

During the three and six months ended June 30, 2017, the Company recognized government grant income of approximately \$38.9 million, as compared to \$28.1 million and \$28.9 million for the same periods in 2016, relating to government grant income for China. See Note 2, Significant Accounting Policies, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, for a further discussion.



## Net Interest Expense

Net interest expense is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in millions)			
Interest expense	\$41.9	\$24.6	\$74.4	\$50.6
Interest income	(4.0)	(1.5)	(6.3)	(2.6)
Net interest expense	\$37.9	\$23.1	\$68.1	\$48.0

The increase in net interest expense for the three and six months ended June 30, 2017, as compared to the same period in 2016, was primarily due to the increase in our interest expense due to higher interest rates and increased borrowing amounts relating to our new \$1.45 billion senior secured credit facility, which includes a \$1.3 billion term loan B, that was entered into on February 15, 2017 as discussed further below in Liquidity and Capital Resources. These increases were partially offset by higher interest income related to proceeds from the \$1.3 billion term loan B.

## Income Taxes

Income taxes were an expense of \$29.4 million and expense of \$57.8 million for the three and six months ended June 30, 2017, respectively, as compared to a benefit of \$20.1 million and an expense of \$27.5 million for the same periods in 2016. The effective income tax rate was 17.6% and 20.6% for the three and six months ended June 30, 2017, respectively, as compared to 46.7% and 27.4% for the same periods in 2016. The decrease in the effective tax rate for the three months ended June 30, 2017, as compared to the same period in 2016, was due to the change in the geographic mix of our income, primarily related to the FTC settlement and to an increase in net benefits from discrete events. The decrease in the effective tax rate for the six months ended June 30, 2017, as compared to the same period in 2016, was primarily due to an increase in net benefits from discrete events. Included in the discrete events for the three and six months ended June 30, 2017 was the impact of \$21.4 million and \$25.7 million of excess tax benefits generated during those respective periods, relating to our application of Accounting Standards Update No. 2016-09 that was adopted on January 1, 2017.

## 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. Variations in sales of our products directly affect the availability of funds. There are no material contractual restrictions on our ability to transfer and remit funds among our international affiliated companies. However, there are foreign currency restrictions in certain countries which could reduce our ability to timely obtain U.S. dollars. Even with these restrictions, we believe we will have sufficient resources, including cash flow from operating activities and access to capital markets, to meet debt service obligations in a timely manner and be able to continue to meet our objectives.

Historically, our debt has not resulted from the need to fund our normal operations, but instead has resulted primarily from our share repurchase programs. Since inception in 2007, total share repurchases amounted to approximately \$3.4

billion. While a significant net sales decline could potentially affect the availability of funds, many of our largest expenses are variable in nature, which we believe protects our funding in all but a dramatic net sales downturn. Our \$1,624.1 million cash and cash equivalents and our senior secured credit facility, in addition to cash flow from operations, can be used to support general corporate purposes, including, any future share repurchases, dividends, and strategic investment opportunities.

We have a cash pooling arrangement with a financial institution for cash management purposes. This cash pooling arrangement allows certain of our participating subsidiaries to withdraw cash from this financial institution based upon our aggregate cash deposits held by subsidiaries who participate in the cash pooling arrangement. We did not owe any amounts to this financial institution under the pooling arrangement as of June 30, 2017 and December 31, 2016.

For the six months ended June 30, 2017, we generated \$277.1 million of operating cash flow, as compared to \$368.0 million for the same period in 2016. The decrease in our operating cash flow was primarily the result of unfavorable changes in operating assets and liabilities, partially offset by higher net income. The unfavorable change in operating assets and liabilities was primarily the result of changes in other current liabilities primarily related to the accrual of the \$203.0 million regulatory settlements in the second quarter of 2016, changes in employee bonus accruals, advance sales deposits, and non-income and income tax payables. The increase in net income is also primarily related to the \$203.0 million regulatory settlements in 2016, partially offset by lower contribution margin driven by lower sales in 2017.

Capital expenditures, including accrued capital expenditures, for the six months ended June 30, 2017 and 2016 were \$42.3 million and \$82.2 million, respectively. The majority of these expenditures represented investments in management information systems including the upgrade of our Oracle enterprise wide systems which is expected to go live in August 2017, manufacturing facilities both domestically and internationally, and initiatives to develop web-based Member tools. We expect to incur total capital expenditures of approximately \$115 million to \$135 million for the full year of 2017.

In March 2017, Herbalife hosted its annual global Herbalife Summit event in Charlotte, North Carolina where President Team members from around the world met and shared best practices, conducted leadership training and Herbalife management awarded Members \$65.2 million of Mark Hughes bonus payments related to their 2016 performance. In March 2016, Herbalife management awarded Members \$64.3 million of Mark Hughes bonus payments related to their 2015 performance.

#### Senior Secured Credit Facility

In May 2015, we amended our prior senior secured credit facility, or the Prior Credit Facility, and our \$700 million borrowing capacity on our prior revolving credit facility, or the Prior Revolving Credit Facility, was reduced by approximately \$235.9 million, and was further reduced by approximately \$39.1 million on September 30, 2015, bringing the total available borrowing capacity to \$425.0 million as of December 31, 2016. The Company repaid in full its \$500 million term loan under the Prior Credit Facility, or the Prior Term Loan, on March 9, 2016. On February 15, 2017, we entered into a \$1,450.0 million senior secured credit facility, or the Credit Facility, consisting of a \$1,300.0 million term loan B, or the Term Loan, and a \$150 million revolving credit facility, or the Revolving Credit Facility, with a syndicate of financial institutions as lenders, or Lenders. The Revolving Credit Facility matures on February 15, 2022 and the Term Loan matures on February 15, 2023.

The Credit Facility requires us to comply with a leverage ratio. In addition, the Credit Facility contains customary covenants, including covenants that limit or restrict our ability to incur liens, incur indebtedness, make investments, dispose of assets, make certain restricted payments, pay dividends, repurchase our common shares, merge or consolidate and enter into certain transactions with affiliates. We are also required to maintain a minimum balance of \$200.0 million of consolidated cash and cash equivalents. As of June 30, 2017 and December 31, 2016, we were compliant with our debt covenants under the Credit Facility and the Prior Credit Facility, respectively.

The Term Loan is payable in consecutive quarterly installments each in an aggregate principal amount of \$24.4 million, which began on June 30, 2017. Interest is due at least quarterly on amounts outstanding on the Credit Facility. In addition, we may be required to make mandatory prepayments towards the Term Loan based on the Company's consolidated leverage ratio and annual excess cash flows as defined under the terms of the credit agreement. We are also permitted to make voluntary prepayments. These prepayments, if any, will be applied against remaining quarterly installments owed under the Term Loan in order of maturity with the remaining principal due upon maturity.

During the three months ended March 31, 2017, we repaid a total amount of \$410.0 million to repay in full amounts outstanding on the Prior Revolving Credit Facility. During the three months ended June 30, 2017, the Company repaid a total amount of \$24.4 million on amounts outstanding under the Term Loan. During the three months ended March 31, 2016, we repaid a total amount of \$229.7 million to repay in full the Prior Term Loan. The Company did not repay any amounts under the Prior Revolving Credit Facility during the three months ended June 30, 2016. As of June 30, 2017, the U.S. dollar amount outstanding under the Term Loan was \$1,275.6 million. There were no amounts outstanding on the Revolving Credit Facility as of June 30, 2017. As of December 31, 2016, the U.S. dollar amount outstanding under the Prior Revolving Credit Facility was \$410.0 million. There were no outstanding foreign currency borrowings as of June 30, 2017 and December 31, 2016 under the Credit Facility and the Prior Credit Facility,

respectively. On June 30, 2017 and December 31, 2016, the weighted average interest rate for borrowings under the Credit Facility and the Prior Credit Facility was 6.53% and 4.29%, respectively.

See Note 4, Long-Term Debt, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, for a further discussion on our Credit Facility.

45

---

### Convertible Senior Notes

During February 2014, we issued \$1.15 billion aggregate principal amount of convertible senior notes, or the Convertible Notes. The Convertible Notes are senior unsecured obligations which rank effectively subordinate to any of our existing and future secured indebtedness, including amounts outstanding under the Credit Facility, to the extent of the value of the assets securing such indebtedness. The Convertible Notes pay interest at a rate of 2.00% per annum payable semiannually in arrears on February 15 and August 15 of each year, beginning on August 15, 2014. The Convertible Notes mature on August 15, 2019, unless earlier repurchased or converted. The primary purpose of the issuance of the Convertible Notes was for share repurchase purposes. See Note 4, Long-Term Debt, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, for a further discussion on our Convertible Notes.

### Cash and cash equivalents

The majority of our foreign subsidiaries designate their local currencies as their functional currencies. At June 30, 2017 and December 31, 2016, the total amount of our foreign subsidiary cash and cash equivalents was \$1,433.7 million and \$316.2 million, respectively, of which \$933.1 million and \$28.2 million, respectively, was invested in U.S. dollars. The increase in our foreign subsidiary U.S. dollar denominated cash and cash equivalents primarily relates to our borrowings from our Credit Facility executed on February 15, 2017. At June 30, 2017 and December 31, 2016, the total amount of cash and cash equivalents held by our parent and its U.S. entities, inclusive of U.S. territories, was \$190.4 million and \$527.8 million, respectively.

For earnings not considered to be indefinitely reinvested, deferred taxes have been provided. For earnings considered to be indefinitely reinvested, deferred taxes have not been provided. Should we make a determination to remit the cash and cash equivalents from our foreign subsidiaries that are considered indefinitely reinvested to our U.S. consolidated group for the purpose of repatriation of undistributed earnings, we would need to accrue and pay taxes. As of December 31, 2016, our U.S. consolidated group had approximately \$131.9 million of permanently reinvested unremitted earnings from certain foreign subsidiaries, and if these monies were ever needed to be remitted, the impact of any tax consequences on our overall liquidity position would not be material. As of December 31, 2016, our parent, Herbalife Ltd., had \$2.5 billion of permanently reinvested unremitted earnings relating to its operating subsidiaries. As of June 30, 2017, we do not have any plans to repatriate these unremitted earnings to our parent; therefore, we do not have any liquidity concerns relating to these unremitted earnings and related cash and cash equivalents. See Note 12, Income Taxes, to the Consolidated Financial Statements included in our 2016 10-K for additional discussion on our unremitted earnings.

### Off-Balance Sheet Arrangements

At June 30, 2017 and December 31, 2016, we had no material off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

### Dividends

The declaration of future dividends is subject to the discretion of our board of directors and will depend upon various factors, including our earnings, financial condition, Herbalife Ltd.'s available distributable reserves under Cayman Islands law, restrictions imposed by the Credit Facility and the terms of any other indebtedness that may be outstanding, cash requirements, future prospects and other factors deemed relevant by our board of directors.

### Share Repurchases

On February 21, 2017, our board of directors authorized a new three-year \$1.5 billion share repurchase program that will expire on February 21, 2020, which replaced our prior share repurchase authorization which was set to expire on June 30, 2017 which, as of December 31, 2016, had \$232.9 million of remaining authorized capacity. This share repurchase program allows us, which includes an indirect wholly subsidiary of Herbalife Ltd., to repurchase our common shares, at such times and prices as determined by management as market conditions warrant. The Credit Facility permits us to repurchase common shares as long as no default or event of default exists and other conditions such as specified consolidated leverage ratios are met.

In conjunction with the issuance of the Convertible Notes during February 2014, we paid approximately \$685.8 million to enter into prepaid forward share repurchase transactions, or the Forward Transactions, with certain financial institutions, or the Forward Counterparties, pursuant to which we purchased approximately 9.9 million common shares, at an average cost of \$69.02 per share, for settlement on or around the August 15, 2019 maturity date for the Convertible Notes, subject to the ability of each Forward Counterparty to elect to settle all or a portion of its Forward Transactions early. The shares are treated as retired shares for basic and diluted EPS purposes although they remain legally outstanding. See Note 10, Shareholders' Equity, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, for a further discussion on the Forward Transactions.

During the three months ended March 31, 2017, an indirect wholly owned subsidiary of the Company purchased 1.1 million of Herbalife Ltd.'s common shares through open market purchases at an aggregate cost of approximately \$60.7 million, or an average cost of \$56.10 per share, which reduced the Company's total shareholders' equity and is reflected at cost within the Company's accompanying condensed consolidated balance sheet. During the three months ended June 30, 2017, an indirect wholly owned subsidiary of the Company purchased 2.7 million of Herbalife Ltd.'s common shares through open market purchases at an aggregate cost of approximately \$179.8 million, or an average cost of \$67.06 per share, which reduced the Company's total shareholders' equity and is reflected at cost within the Company's accompanying condensed consolidated balance sheet. Although these shares are owned by the Company's indirect wholly owned subsidiary, they are reflected as treasury shares under U.S. GAAP and therefore reduce the number of common shares outstanding within our condensed consolidated financial statements and the weighted-average number of common shares outstanding used in calculating our earnings per share. The common shares of Herbalife Ltd. held by the indirect wholly owned subsidiary, however, remain outstanding on the books and records of the Company's transfer agent and therefore still carry voting and other share rights related to ownership of the Company's common shares, which may be exercised. We did not repurchase any common shares in the open market during the three and six months ended June 30, 2016. As of June 30, 2017, the remaining authorized capacity under our \$1.5 billion share repurchase program was \$1,259.5 million. See Note 10, Shareholders' Equity, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, for a further discussion on our share repurchases.

#### Capped Call Transactions

In February 2014, in connection with the issuance of Convertible Notes, we paid approximately \$123.8 million to enter into capped call transactions with respect to our common shares, or the Capped Call Transactions, with certain financial institutions. The Capped Call Transactions are expected generally to reduce the potential dilution upon conversion of the Convertible Notes in the event that the market price of the common shares is greater than the strike price of the Capped Call Transactions, initially set at \$86.28 per common share, with such reduction of potential dilution subject to a cap based on the cap price initially set at \$120.79 per common share. See Note 10, Shareholders' Equity, to the Condensed Consolidated Financial Statements for a further discussion of the Capped Call Transactions.

#### Working Capital and Operating Activities

As of June 30, 2017 and December 31, 2016, we had positive working capital of \$1,406.6 million and \$671.0 million, respectively, or an increase of \$735.6 million. This increase was primarily due to the increase in cash and cash equivalents; partially offset by the increase in the current portion of long-term debt primarily related to the Credit Facility entered into on February 15, 2017.

We expect that cash and funds provided from operations, available borrowings under the Credit Facility, and access to capital markets will provide sufficient working capital to operate our business, to make expected capital expenditures and to meet foreseeable liquidity requirements, including payment of amounts outstanding under the Credit Facility, for the next twelve months and thereafter.

The majority of our purchases from suppliers are generally made in U.S. dollars, while sales to our Members generally are made in local currencies. Consequently, strengthening of the U.S. dollar versus a foreign currency can have a negative impact on net sales and contribution margins and can generate transaction gains or losses on intercompany transactions. For discussion of our foreign exchange contracts and other hedging arrangements, see Part I, Item 3 of this Quarterly Report on Form 10-Q — Quantitative and Qualitative Disclosures about Market Risk.

#### Contingencies

See Note 5, Contingencies, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, for a further discussion of our contingencies as of June 30, 2017.



## Subsequent Events

See Note 14, Subsequent Events, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, for information regarding subsequent events.

## Critical Accounting Policies

U.S. GAAP requires 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. We regularly evaluate our estimates and assumptions related to revenue recognition, allowance for product returns, inventory, goodwill and purchased intangible asset valuations, deferred income tax asset valuation allowances, uncertain tax positions, tax contingencies, and other loss contingencies. We base our estimates and assumptions on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of revenue, costs and expenses. 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 operating results, financial condition and cash flows.

We are a nutrition company that sells a wide range of weight management, targeted nutrition, energy, sports & fitness, and outer nutrition products. Our products are manufactured by us in our Changsha, Hunan, China extraction facility, Suzhou, China facility, Nanjing, China facility, Lake Forest, California facility, and in our Winston-Salem, North Carolina facility, and by third party providers, and then are sold to Members who consume and sell Herbalife products to retail consumers or other Members. As of June 30, 2017, we sold products in 94 countries throughout the world and we are organized and managed by geographic region. We aggregate our operating segments into one reporting segment, except China, 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 to whom products are sold, the methods used to distribute the products, the nature of the regulatory environment, and their economic characteristics.

We generally recognize revenue upon delivery and when both the title and risk and rewards pass to the Member or importer, or as products are sold in China to and through independent service providers, sales representatives, and sales officers to customers and preferred customers, as well as through Company-operated retail stores when necessary. Product sales are recognized net of product returns, and discounts referred to as “distributor allowances.” We generally receive the net sales price in cash or through credit card payments at the point of sale. Royalty overrides are generally recorded when revenue is recognized. See Note 2, Significant Accounting Policies, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, for a further discussion of distributor compensation in the U.S.

Allowances for product returns, primarily in connection with our buyback program, are provided at the time the sale is recorded. This accrual is based upon historical return rates for each country and the relevant return pattern, which reflects anticipated returns to be received over a period of up to 12 months following the original sale. Historically, product returns and buybacks have not been significant. Product returns and buybacks were approximately 0.1% for both the three and six months ended June 30, 2017 and 2016.

We adjust our inventories to lower of cost and net realizable value. Additionally we adjust the carrying value of our inventory based on assumptions regarding future demand for our products and market conditions. If future demand and market conditions are less favorable than management’s assumptions, additional inventory write-downs could be

required. Likewise, favorable future demand and market conditions could positively impact future operating results if previously written down inventories are sold. We have obsolete and slow moving inventories which have been adjusted downward \$30.5 million and \$25.5 million to present them at their lower of cost and net realizable value in our condensed consolidated balance sheets as of June 30, 2017 and December 31, 2016, respectively.

Goodwill and marketing related intangible assets 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. As discussed below, for goodwill impairment testing, we have the option to perform a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If we conclude it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then there is no need to perform the two-step impairment test. Currently, we do not use this qualitative assessment option but we could in the future elect to use this option. For our marketing related intangible assets a similar qualitative option is also currently available. However, we currently use a discounted cash flow model, or the income approach, under the relief-from-royalty method to determine the fair value of our marketing related intangible assets in order to confirm there is no impairment required. For our marketing related intangible assets, if we do not use this qualitative assessment option, we could still in the future elect to use this option.

In order to estimate the fair value of goodwill, we also primarily use an income approach. The determination of impairment is made at the reporting unit level and consists of two steps. First, we determine the fair value of a reporting unit and compare it to its carrying amount. The determination of the fair value of the reporting units requires us to make significant estimates and assumptions. These estimates and assumptions include estimates of future revenues and expense growth rates, capital expenditures and the depreciation and amortization related to these capital expenditures, discount rates, and other inputs. Due to the inherent uncertainty involved in making these estimates, actual future results could differ. Changes in assumptions regarding future results or other underlying assumptions could have a significant impact on the fair value of the reporting unit. 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 as determined in Step 2 of the goodwill impairment test. Also, if during Step 1 of a goodwill impairment test we determine we have reporting units with zero or negative carrying amounts, then we perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. During Step 2 of a goodwill impairment test, the implied fair value of goodwill is determined in a similar manner as how the amount of goodwill recognized in a business combination is determined, in accordance with the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 805, Business Combinations. We would assign the fair value of a reporting unit to all of the assets and liabilities of that reporting unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. As of June 30, 2017 and December 31, 2016, we had goodwill of approximately \$94.6 million and \$89.9 million, respectively. As of both June 30, 2017 and December 31, 2016, we had marketing related intangible assets of approximately \$310 million. The increase in goodwill during the six months ended June 30, 2017 was due to cumulative translation adjustments. No marketing related intangibles or goodwill impairment was recorded during the three and six months ended June 30, 2017 and 2016.

Contingencies are accounted for in accordance with FASB ASC Topic 450, Contingencies, or ASC 450. ASC 450 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. We also disclose material contingencies when we believe a loss is not probable but reasonably possible as required by ASC 450. Accounting for contingencies such as legal and non-income tax matters requires us to use judgment related to both the likelihood of a loss and the estimate of the amount or range of loss. 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.

The Company evaluates the realizability of its deferred tax assets by assessing the valuation allowance and by adjusting the amount of such allowance, if necessary. Although realization is not assured, we believe it is more likely than not that the net carrying value will be realized. The amount of the carryforwards that is considered realizable, however, could change if estimates of future taxable income are adjusted. In the ordinary course of our business, there are many transactions and calculations where the tax law and ultimate tax determination is uncertain. As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate prior to the completion and filing of tax returns for such periods. These estimates involve complex issues and require us to make judgments about the likely application of the tax law to our situation, as well as with respect to other matters, such as anticipating the positions that we will take on tax returns prior to us actually preparing the returns and the outcomes of disputes with tax authorities. The ultimate resolution of these issues may take extended periods of time due to examinations by tax authorities and statutes of limitations. In addition, changes in our business, including acquisitions, changes in our international corporate structure, changes in the geographic location of business functions or assets, changes in the geographic mix and amount of income, as well as changes in our agreements with tax authorities, valuation allowances, applicable accounting rules, applicable tax laws and regulations, rulings and interpretations thereof, developments in tax audit and other matters, and variations in the estimated and actual level of annual pre-tax income can affect the overall effective income tax rate.

We account for uncertain tax positions in accordance with FASB ASC Topic 740, Income Taxes, or ASC 740, which provides guidance on the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC 740, we must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution.

We account for foreign currency transactions in accordance with FASB ASC Topic 830, Foreign Currency Matters. In a majority of the countries where we operate, the functional currency is the local currency. Our foreign subsidiaries' asset and liability accounts are translated for consolidated financial reporting purposes into U.S. dollar amounts at period-end exchange rates. Revenue and expense accounts are translated at the average rates during the year. Our foreign exchange translation adjustments are included in accumulated other comprehensive loss on our accompanying condensed consolidated balance sheets. Foreign currency transaction gains and losses and foreign currency remeasurements are generally included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income (loss).

#### New Accounting Pronouncements

See discussion under Note 2, Significant Accounting Policies, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, for information on new accounting pronouncements.

#### 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 apply FASB ASC Topic 815, Derivatives and Hedging, or ASC 815, which 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 (loss) and are recognized in the condensed consolidated statements of income (loss) when the hedged item affects earnings. ASC 815 defines the 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 transact business globally and are subject to risks associated with changes in foreign exchange rates. Our objective is to minimize the impact to earnings and cash flow associated with foreign exchange rate fluctuations. We enter into

foreign exchange derivatives in the ordinary course of business primarily to reduce exposure to currency fluctuations attributable to intercompany transactions, translation of local currency revenue, inventory purchases subject to foreign currency exposure, and to partially mitigate the impact of foreign currency rate fluctuations. Due to volatility in foreign exchange markets, our current strategy, in general, is to hedge some of the significant exposures on a short-term basis. We will continue to monitor the foreign exchange markets and evaluate our hedging strategy accordingly. With the exception of our foreign exchange forward contracts relating to forecasted inventory purchases and intercompany management fees discussed below, all of our foreign exchange contracts are designated as free standing derivatives for which hedge accounting does not apply. The changes in the fair value of the derivatives not qualifying as cash flow hedges are included in selling, general and administrative expenses in our condensed consolidated statements of income (loss).

The foreign exchange forward contracts designated as free standing derivatives are used to hedge advances between subsidiaries and to partially mitigate the impact of foreign currency fluctuations. The fair value of foreign exchange derivative contracts is based on third-party quotes. Our foreign currency derivative contracts are generally executed on a monthly basis.

We also purchase foreign currency forward contracts in order to hedge forecasted inventory transactions and intercompany management fees that are designated as cash-flow hedges and are subject to foreign currency exposures. We applied the hedge accounting rules as required by ASC 815 for these hedges. These contracts allow us to buy and sell certain currencies at specified contract rates. As of June 30, 2017 and December 31, 2016, the aggregate notional amounts of these contracts outstanding were approximately \$126.9 million and \$90.0 million, respectively. At June 30, 2017, the outstanding contracts were expected to mature over the next fifteen months. Our derivative financial instruments are recorded on the condensed consolidated balance sheet at fair value based on quoted market rates. For the forecasted inventory transactions, the forward contracts are used to hedge forecasted inventory transactions over specific months. Changes in the fair value of these forward contracts, excluding forward points, designated as cash-flow hedges are recorded as a component of accumulated other comprehensive income (loss) within shareholders' equity, and are recognized in cost of sales in the condensed consolidated statements of income (loss) during the period which approximates the time the hedged inventory is sold. We also hedge forecasted intercompany management fees over specific months. Changes in the fair value of these forward contracts designated as cash flow hedges are recorded as a component of accumulated other comprehensive income (loss) within shareholders' equity, and are recognized in selling, general and administrative expenses in the condensed consolidated statements of income (loss) in the period when the hedged item and underlying transaction affects earnings. As of June 30, 2017, we recorded assets at fair value of \$0.1 million and liabilities at fair value of \$5.9 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. As of December 31, 2016, we recorded assets at fair value of \$4.6 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. During the three and six months ended June 30, 2017 and 2016, the ineffective portion relating to these hedges was immaterial and the hedges remained effective as of June 30, 2017 and December 31, 2016.

As of June 30, 2017 and December 31, 2016, the majority of our outstanding foreign currency forward contracts had maturity dates of less than twelve months with the majority of freestanding derivatives expiring within two months and one month as of June 30, 2017 and December 31, 2016, respectively.

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

Foreign Currency	Average	Fair	
	Contract	Notional	Value
	Rate	Amount	Gain
		(In	(Loss)
		millions)	(In
			millions)
At June 30, 2017			
Buy Argentine peso sell Euro	19.38	\$ 1.4	\$ —
Buy Chinese yuan sell Euro	7.70	27.7	(0.4 )
Buy Colombian peso sell U.S. dollar	3,048.00	0.8	—
Buy Euro sell Argentine peso	17.24	5.1	0.6
Buy Euro sell Australian dollar	1.48	3.9	—
Buy Euro sell Brazilian real	3.80	0.9	—
Buy Euro sell Chilean peso	742.65	0.9	—
Buy Euro sell Ghanaian cedi	5.10	2.6	—
Buy Euro sell Hong Kong dollar	8.77	13.3	0.3
Buy Euro sell Indonesian rupiah	15,057.61	6.2	0.1
Buy Euro sell Japanese yen	128.14	0.6	—
Buy Euro sell Mexican peso	21.80	85.2	(2.5 )
Buy Euro sell Peruvian sol	3.71	3.3	—
Buy Euro sell Philippine peso	56.74	4.0	0.1
Buy Euro sell Russian ruble	68.30	1.4	—
Buy Euro sell Thai baht	38.12	1.5	—
Buy Euro sell Taiwan dollar	34.95	1.1	—
Buy Euro sell U.S. dollar	1.13	33.1	0.5
Buy Euro sell South African rand	14.72	2.7	0.1
Buy British pound sell Euro	0.88	3.2	—
Buy British pound sell U.S. dollar	1.25	2.6	0.1
Buy Indonesian rupiah sell Euro	14,903.00	3.2	(0.1 )
Buy Indonesian rupiah sell U.S. dollar	13,582.25	6.3	0.1
Buy South Korean won sell U.S. dollar	1,142.30	5.1	—
Buy Kazakhstani tenge sell U.S. dollar	332.25	0.9	—
Buy Mexican peso sell Euro	20.99	14.2	—
Buy Norwegian krone sell U.S. dollar	8.47	1.2	—
Buy Swedish krona sell U.S. dollar	8.77	2.8	0.1
Buy Taiwan dollar sell U.S. dollar	30.22	18.2	(0.1 )
Buy U.S. dollar sell Chilean peso	3,022.27	1.5	—
Buy U.S. dollar sell Euro	1.11	132.3	(4.7 )
Buy U.S. dollar sell British pound	1.27	4.5	(0.1 )
Buy U.S. dollar sell Japanese yen	110.97	0.5	—
Buy U.S. dollar sell South African rand	13.17	2.8	—
Total forward contracts		\$ 395.0	\$ (5.9 )



The majority of our foreign subsidiaries designate their local currencies as their functional currencies. See Liquidity and Capital Resources — Cash and cash equivalents in Part I, Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations, for further discussion of our foreign subsidiary cash and cash equivalents.

## Interest Rate Risk

As of June 30, 2017, the aggregate annual maturities of the Credit Facility were expected to be \$48.8 million for the remainder of 2017, \$97.5 million for 2018, \$97.5 million for 2019, \$97.5 million for 2020, \$97.5 million for 2021, \$97.5 million for 2022, and \$739.4 million for 2023. As of June 30, 2017, the fair value of the Term Loan was approximately \$1.28 billion and the carrying value was \$1,235.0 million. There were no outstanding borrowings on the Revolving Credit Facility as of June 30, 2017. The fair value of the Prior Credit Facility approximated its carrying value of \$410.0 million as of December 31, 2016. The Credit Facility bears and the Prior Credit Facility bore variable interest rates, and on June 30, 2017 and December 31, 2016, the weighted average interest rate of the Credit Facility and the Prior Credit Facility was 6.53% and 4.29%, respectively. As of June 30, 2017 the fair value of the liability component of our \$1.15 billion Convertible Notes was approximately \$1,064.5 million and the carrying value was \$1,047.0 million. As of December 31, 2016, the fair value of the liability component of our \$1.15 billion Convertible Notes was approximately \$961.3 million and the carrying value was \$1,024.8 million. The Convertible Notes pay interest at a fixed rate of 2.00% per annum payable semiannually in arrears on February 15 and August 15 of each year, beginning on August 15, 2014. The Convertible Notes mature on August 15, 2019, unless earlier repurchased or converted. We may not redeem the Convertible Notes prior to their stated maturity date. Since our Credit Facility is based on variable interest rates, and as we have not entered into any interest swap arrangements, if interest rates were to increase or decrease by 1% for the year, our annual interest expense could increase or decrease by approximately \$13 million.

## Item 4. Controls And Procedures

**Evaluation of Disclosure Controls and Procedures.** Our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of June 30, 2017.

**Changes in Internal Control over Financial Reporting.** There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## FORWARD-LOOKING STATEMENTS

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

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and to inherent risks and uncertainties, such as those disclosed or incorporated by reference 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 Members;
- improper action by our employees or Members in violation of applicable law;
- adverse publicity associated with our products or network marketing organization, including our ability to comfort the marketplace and regulators regarding our compliance with applicable laws;
- 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, including the direct selling market in which we operate;
- legal challenges to our network marketing program;
- the consent order entered into with the FTC, the effects thereof and any failure to comply therewith;
  - risks associated with operating internationally and the effect of economic factors, including foreign exchange, inflation, disruptions or conflicts with our third party importers, pricing and currency devaluation risks, especially in countries such as Venezuela;
- uncertainties relating to interpretation and enforcement of legislation in China governing direct selling and anti-pyramiding;
- our inability to obtain the necessary licenses to expand our direct selling business in China;
- adverse changes in the Chinese economy;
- 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 upon, or the loss or departure of any member of, our senior management team which could negatively impact our Member relations and operating results;
- U.S. and foreign laws and regulations applicable to our international operations;
- uncertainties relating to the United Kingdom’s vote to exit from the European Union;
- restrictions imposed by covenants in our credit facility;
- 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;

54

---

- taxation relating to our Members;
- product liability claims;
- our incorporation under the laws of the Cayman Islands;
- whether we will purchase any of our shares in the open markets or otherwise; and
- share price volatility related to, among other things, speculative trading and certain traders shorting our common shares.

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 Condensed Consolidated 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 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.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

See discussion under Note 5, Contingencies, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

### Item 1A. RISK FACTORS

#### Risks Related to Us and Our Business

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

We distribute our products exclusively to and through independent Members, and we depend upon them directly for substantially all of our sales. Our Members, including our sales leaders, may voluntarily terminate their Member agreements with us at any time. To increase our revenue, we must increase the number of, or the productivity of, our Members. Accordingly, our success depends in significant part upon our ability to recruit, retain and motivate a large base of Members. The loss of a significant number of Members for any reason could negatively impact sales of our products and could impair our ability to attract new Members. In our efforts to attract and retain Members, we compete with other network marketing organizations, including those in the weight management, 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 Members and attract new Members.

Our Member organization has a high turnover rate, which is a common characteristic found in the direct selling industry. See Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, of this Quarterly Report on Form 10-Q for additional information regarding sales leader retention rates.

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

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

Extensive federal, state and local laws regulate our business, products and network marketing program. Because we have expanded into foreign countries, our policies and procedures for our independent Members differ due to the different legal requirements of each country in which we do business. While we have implemented Member policies and procedures designed to govern Member 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 Members and their independent status. Violations by our independent Members 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 Members.

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 the 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 Members;
- our network marketing program; and
- the direct selling business generally.

Adverse publicity concerning any actual or purported failure of our Company or our Members to comply with applicable laws and regulations regarding product claims and advertising, good manufacturing practices, the regulation of our network marketing program, the registration 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 Members, which would negatively impact our ability to generate revenue. We cannot ensure that all of our Members will comply with applicable legal requirements relating to the advertising, labeling, licensing or distribution of our products.

In addition, our Members' 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 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 lead to lawsuits or other legal challenges and could negatively impact our reputation, the market demand for our products, or our general business.

From time to time, we receive inquiries from government agencies and third parties requesting information concerning our products. We fully cooperate with these inquiries including, when requested, by the submission of detailed technical dossiers addressing product composition, manufacturing, process control, quality assurance, and contaminant testing. Further, we periodically respond to requests from regulators for additional information regarding product-specific adverse events. We are confident in the safety of our products when used as directed. However, there can be no assurance that regulators in these or other markets will not take actions that might delay or prevent the introduction of new products, or require the reformulation or the temporary or permanent withdrawal of certain of our existing products from their markets.

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 Members, and it could also affect our share price. In the mid-1980s, 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 Members, including impermissible therapeutic claims. The resulting adverse publicity caused a rapid, substantial loss of Members in the United States and a corresponding reduction in sales beginning in 1985. In addition, in late 2012, a hedge fund manager publicly raised allegations regarding the legality of our network marketing program and announced that his fund had taken a significant short position regarding our common shares, leading to intense public scrutiny and governmental inquiries, and significant stock price volatility. We expect that negative publicity will, from time to time, continue to negatively impact our business in particular markets and may adversely affect our share price.



Our failure to appropriately respond to changing consumer preferences and demand for new products or product enhancements could significantly harm our Member and customer relationships and product sales and harm our financial condition and operating results.

Our business is subject to changing consumer trends and preferences, especially with respect to weight management products. Our continued success depends in part on our ability to anticipate and respond to these changes, and we may not respond in a timely or commercially appropriate manner to such changes. Furthermore, the nutritional supplement industry is characterized by rapid and frequent changes in demand for products and new product introductions and enhancements. Our failure to accurately predict these trends could negatively impact consumer opinion of our products, which in turn could harm our customer and Member 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 Members, 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 management products 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 Members 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 Members 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, Omnilife, Tupperware 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 Members and customers. In addition, the fact that our Members may easily enter and exit our network marketing program contributes to the level of competition that we face. For example, a Member 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 to become a Herbalife Member, (2) we do not require any specific amount of time to work as a Member, (3) we do not charge Members for any training that we might require, (4) we do not prohibit a new Member from working with another company, and (5) in substantially all jurisdictions, we maintain a buyback program pursuant to which we will repurchase products sold to a Member who has decided to leave the business. Our ability to remain competitive therefore depends, in significant part, on our success in recruiting and retaining Members 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 Members 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 Members' failure to comply with these constraints 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, advertising, importation, exportation, licensing, sale and storage of our products are affected by extensive laws, governmental regulations, administrative determinations, court decisions and other 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 Members are in compliance with all of these regulations. Our failure or our Members' failure to comply with these regulations or new regulations could disrupt our Members' sale of our products, or 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, such as those relating to genetically modified foods, 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.

The Consent Order prohibits us from making, or allowing our Members to make, any representation regarding the amount or level of income, including full-time or part-time income, that a participant can reasonably expect to earn in our network marketing program, unless the representation is non-misleading and we possess competent and reliable evidence sufficient to substantiate that the representation is true. The Consent Order also prohibits us and other persons who act in active concert with us from representing that participation in the network marketing program will result in a lavish lifestyle and from using images or descriptions to represent or imply that participation in the program is likely to result in a lavish lifestyle. In addition, the Consent Order prohibits specified misrepresentations in connection with marketing the program, including misrepresentations regarding any fact material to participation such as the cost to participate or the amount of income likely to be earned. The Consent Order also requires us to clearly and conspicuously disclose all information material to participation in the marketing program, including our refund and buyback policy before the participant pays any money to us.

The FTC revised its Guides Concerning the Use of Endorsements and Testimonials in Advertising, or Guides, which became effective on December 1, 2009. Although the Guides are not binding, they explain how the FTC interprets Section 5 of the FTC Act's prohibition on unfair or deceptive acts or practices. Consequently, the FTC could bring a Section 5 enforcement action based on practices that are inconsistent with the Guides. Under the revised Guides, advertisements that feature a consumer and convey his or her atypical experience with a product or service are required to clearly disclose the results that consumers can generally expect. In contrast to the 1980 version of the Guides, which allowed advertisers to describe atypical results in a testimonial as long as they included a disclaimer

such as “results not typical”, the revised Guides no longer contain such a safe harbor. The revised Guides also add new examples to illustrate the long-standing principle that “material connections” between advertisers and endorsers (such as payments or free products), connections that consumers might not expect, must be disclosed. Herbalife has revised its marketing materials to be compliant with the revised Guides and the Consent Order. However, it is possible that our use, and that of our Members, of testimonials in the advertising and promotion of our products, including but not limited to our weight management products and our income opportunity, will be significantly impacted and therefore might negatively impact our sales.

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. 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 Members and, consequently, on sales.

We are subject to rules of the Food and Drug Administration, or FDA, for current good manufacturing practices, or cGMPs, for the manufacture, packing, labeling and holding of dietary supplements and over-the-counter drugs distributed in the United States. Herbalife has implemented a comprehensive quality assurance program that is designed to maintain compliance with the cGMPs products manufactured by or on behalf of Herbalife for distribution in the United States. However, if Herbalife should be found not to be in compliance with cGMPs for the products we self-manufacture, it could negatively impact our reputation and ability to sell our products even after any such situation had been rectified. Further, if contract manufacturers whose products bear Herbalife labels fail to comply with the cGMPs, this could negatively impact Herbalife's reputation and ability to sell its products even though Herbalife is not directly liable under the cGMPs for such compliance. In complying with the dietary supplement cGMPs, we have experienced increases in production costs as a result of the necessary increase in testing of raw ingredients, work in process and finished products.

Since late 2012, a hedge fund manager has made and continues to make allegations regarding the Company and its network marketing program. We believe these allegations are without merit and are vigorously defending ourselves against such claims, including proactively reaching out to governmental authorities about what we believe is manipulative activity with respect to our securities. Because of these allegations, we and others have received and may receive additional regulatory and governmental inquiries. For example, we have previously disclosed inquiries from the FTC, SEC and other governmental authorities. In the future, these and other governmental authorities may determine to seek information from us and other persons relating to these same or other allegations. If we believe any governmental or regulatory inquiry or investigation is or becomes material, it will be disclosed individually. Consistent with our policies, we have cooperated and will continue to fully cooperate with any governmental or regulatory inquiries or investigations.

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 or require us to alter compensation practices under our network marketing program, 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 FTC and various federal and 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 by federal, state or foreign regulators not to be in compliance with applicable law or regulations or we may be required to alter compensation practices under our network marketing program in order to comply with applicable law or regulations. As previously disclosed, we entered into the Consent Order with the FTC to settle the FTC's multi-year investigation into our business for compliance with these regulations. Another example is the 1986 permanent injunction entered in California in proceedings initiated by the California Attorney General. There can be no assurances other federal, state attorneys general or foreign regulators will not take similar action.

Regulations applicable to network marketing organizations generally are directed at preventing fraudulent or deceptive schemes, sometimes 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, 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. While we believe we are in compliance with these regulations, including those enforced by the FTC and the permanent injunction in California, and are compliant with the Consent Order, there is no assurance any federal, state or foreign courts or agencies or the independent compliance auditor under the Consent Order would agree, including a federal court or the FTC in respect of the Consent Order or a court or the California Attorney General in respect to the permanent injunction.

The ambiguity surrounding these laws can also affect the public perception of the Company. Specifically, in late 2012, a hedge fund manager publicly raised allegations regarding the legality of our network marketing program and announced that his fund had taken a significant short position regarding our common shares, leading to intense public scrutiny and significant stock price volatility. The failure of our network marketing program to comply with current or newly adopted regulations, the Consent Order or California injunction or any allegations or charges to that effect brought by federal, state, or foreign regulators could negatively impact our business in a particular market or in general and may adversely affect our share price.

We are also subject to the risk of private party challenges to the legality of our network marketing program, whether as a result of the Consent Order or otherwise. Some network marketing programs of other companies have been successfully challenged in the past, while other challenges to network marketing programs of other companies have been defeated. Adverse judicial determinations with respect to our network marketing program, or in proceedings not involving us directly but which challenge the legality of network marketing systems, in any other market in which we operate, could negatively impact our business.

We are subject to the Consent Order with the FTC, the effects of which, or any failure to comply therewith, could harm our financial condition and operating results.

As previously disclosed, on July 15, 2016, we reached a consensual resolution with the FTC regarding its multi-year investigation of our business resulting in the entry into a Stipulation to Entry of Order for Permanent Injunction and Monetary Judgment in the U.S. District Court for the Central District of California. The Consent Order became effective on July 25, 2016 upon final approval by the Court. As part of the Consent Order, we agreed to make a payment of \$200 million and to implement certain new procedures and enhance certain existing procedures in the United States. We also agreed to be subject to certain audits by an independent compliance auditor, or the ICA, for a period of seven years; requirements regarding compliance certification and record creation and maintenance; and a prohibition on misrepresentations and misleading claims regarding, among other things, income and lavish lifestyles. The FTC and ICA will also have the right to inspect Company records and request additional compliance reports for purposes of conducting audits pursuant to the Consent Order. In September 2016, we and the FTC mutually selected Affiliated Monitors, Inc. to serve as the ICA. The terms of the Consent Order are described in greater detail in our Current Report on Form 8-K filed on July 15, 2016.

The Consent Order includes a number of restrictions and requirements and therefore creates compliance risks, and while we believe we are fully compliant with the Consent Order, there is no guarantee that we are fully compliant or in the future will continue to be fully compliant with the Consent Order. We do not believe the Consent Order changes our business model as a direct selling company. However, compliance with the Consent Order required us to implement new and enhanced procedures regarding, among other things, tracking retail sales and internal consumption by distributors. We have instituted controls and procedures and developed technology solutions that we believe address these Consent Order requirements, including tools and software used by distributors to, among other things, document their sales and more efficiently track and manage their customer base. However, there can be no assurances that some or all of these controls and procedures and technology solutions will operate as expected. Any failure of these systems to operate as designed could cause us to fail to maintain the records required under, or otherwise violate terms of, the Consent Order. Compliance with the Consent Order will require the cooperation of Members and, while we have updated our training programs and policies to address the Consent Order and expect our Members to cooperate, we do not have the same level of influence or control over our Members as we could were they our own employees. Failure by our Members to comply with the relevant aspects of the Consent Order could be a violation of the Consent Order and impact our ability to comply. While we believe we are compliant with the Consent Order and our board of directors has established the Implementation Oversight Committee, a committee which meets regularly with management to oversee our compliance with the terms of the Consent Order, there can be no assurances that the FTC or ICA would agree now or will agree in the future. In the event we are found to be in violation of the Consent Order, the FTC could, among other things, take corrective actions such as initiating enforcement actions, seeking an injunction or other restrictive orders and imposing civil monetary penalties against us and our officers and directors.

The Consent Order may also impact our business operations, including our net sales and profitability. For example, the Consent Order imposes certain requirements regarding the verification and receipting of sales and there can be no assurances that these or other requirements of the Consent Order, our compliance therewith and the new and enhanced business procedures implemented as a result thereof, will not lead to reduced sales, whether as a result of undocumented sales activity or otherwise. The Consent Order also imposes restrictions on distributors' ability to open Nutrition Clubs in the United States. Additionally, the new and enhanced procedures described above, and any other actions taken in respect of compliance with the Consent Order, could be costly. These extensive costs or any amounts in excess of our cost estimates could have a material adverse effect on our financial condition and results of operations. Our Members may also disagree with our decision to enter into the Consent Order, whether because they

disagree with certain terms thereof, they believe it will negatively impact their personal business or they would not have settled the investigation on any terms. The Consent Order also provides that if the total eligible U.S. sales on which compensation may be paid falls below 80% of the Company's total U.S. sales for a given year, compensation payable to distributors on eligible U.S. sales will be capped at 41.75% of the Net Rewardable Sales amount as defined in the Consent Order. While we believe we will achieve the required 80% threshold necessary to pay full distributor compensation, this result is subject to the review and audit of the FTC and ICA and they may not agree with our conclusions. Because our business is dependent on our Members, our business operations and net sales could be adversely affected if U.S. distributor compensation is restricted or if any meaningful number of Members are dissatisfied, choose to reduce activity levels or leave our business altogether. Member dissatisfaction may also negatively impact the willingness of new Members to join Herbalife as a distributor. Further, management and the board of directors may be required to focus a substantial amount of time on compliance activities, which could divert their attention from running and growing our business. We may also be required to suspend or defer many or all of our current or anticipated business development, capital deployment and other projects unrelated to compliance with the Consent Order to allow resources to be focused on our compliance efforts, which could cause us to fall short of our guidance or analyst or investor expectations. In addition, while we believe the Consent Order will set a new standard within the industry, our competitors are not required to comply with the Consent Order and may not be subject to similar actions, which could limit our ability to effectively compete for Members, customers and ultimately net sales.



The Consent Order also creates additional third-party risks. Although the Consent Order resolved the FTC's multi-year investigation into the Company, it does not prevent other third-parties from bringing actions against us, whether in the form of other state, federal or foreign regulatory investigations or proceedings, or private litigation, any of which could lead to, among other things, monetary settlements, fines, penalties or injunctions. Although we neither admitted nor denied the allegations in the FTC's complaint in agreeing to the terms of the Consent Order (except as to the Court having jurisdiction over the matter), third-parties may use specific statements or other matters addressed in the Consent Order as the basis for their action. The Consent Order or any subsequent legal or regulatory claim may also lead to negative publicity, whether because some view it as a condemnation of the Company or our direct selling business model or because other third parties use it as justification to make unfounded and baseless assertions against us, our business model or our Members. An increase in the number, severity or scope of third-party claims, actions or public assertions may result in substantial costs and harm to our reputation. The Consent Order may also impact third parties willingness to work with us as a company.

The impact of the Consent Order on our business, including the effectiveness of the controls, procedures and technology solutions implemented to comply therewith, and on our business and our member base, could be significant. If our business is adversely impacted, it is uncertain as to whether, or how quickly, we would be able to rebuild, irrespective of market conditions. Our financial condition and results of operations could be harmed if we are not able to comply with the Consent Order, if costs related to compliance exceed our estimates, if it has a negative impact on net sales, or if it leads to further legal, regulatory, or compliance claims, proceedings, or investigations or litigation.

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, disruptions or conflicts with our third party importers and similar risks associated with foreign operations.

Approximately 80% of our net sales for the year ended December 31, 2016 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, or otherwise limit or restrict our ability to import products into a country, any of 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 Members 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. Additionally, we may be negatively impacted by conflicts with or disruptions caused or faced by our third party importers, as well as conflicts between such importers and local governments or regulating agencies. Our operations in some markets also may be adversely affected by political, economic and social instability in foreign countries. Our operations, both domestically and internationally, could also be affected by laws and regulations related to immigration. For example, current and future tightening of U.S. immigration controls may adversely affect the residence status of non-U.S. employees in our U.S. locations or our ability to hire new non-U.S. employees in such locations and may adversely affect the ability of non-U.S. Members from entering the U.S. 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.

Another risk associated with our international operations is the possibility that a foreign government may impose foreign currency remittance restrictions. Due to the possibility of government restrictions on transfers of cash out of the country and control of exchange rates, we may not be able to immediately repatriate cash at the official exchange rate. If this should occur, or if the official exchange rate devalues, it may have a material adverse effect on our business, assets, financial condition, liquidity, results of operations or cash flows. For example, currency restrictions enacted by the Venezuelan government continue to be restrictive and have impacted the ability of our subsidiary in

Venezuela, or Herbalife Venezuela, to obtain U.S. dollars in exchange for Venezuelan Bolivars at the official foreign exchange rate. These currency restrictions and current pricing restrictions continue to limit Herbalife Venezuela's ability to import U.S. dollar denominated raw materials and finished goods which in addition to the Venezuelan Bolivar devaluations has significantly negatively impacted our Venezuelan operations. If we are unsuccessful in implementing any financially and economically viable strategies, including local manufacturing, we may be required to fundamentally change our business model or suspend or cease operations in Venezuela. Also, if the foreign currency and pricing or other restrictions in Venezuela intensify or do not improve and, as a result, impact our ability to control our Venezuelan operations, we may be required to deconsolidate Herbalife Venezuela for U.S. GAAP purposes and would be subject to the risk of further impairments.

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

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

China has published regulations governing direct selling and prohibiting pyramid promotional schemes, and a number of administrative methods and proclamations have been issued. These regulations require us to use a modified version of the business model we use in other markets. To allow us to operate under these regulations, we have created and introduced a model specifically for China based on our understanding as to how regulators are interpreting and enforcing these regulations, our interpretation of applicable regulations and our understanding of the practices of other international direct selling companies in China.

In China, we have sales representatives who are permitted by the terms of our direct selling licenses to sell away from fixed retail locations in the provinces of Jiangsu, Guangdong, Shandong, Zhejiang, Guizhou, Beijing, Fujian, Sichuan, Hubei, Shanxi, Shanghai, Jiangxi, Liaoning, Jilin, Henan, Chongqing, Hebei, Shaanxi, Tianjin, Heilongjiang, Hunan, Guangxi, Hainan, Anhui, Yunnan, Gansu, Ningxia, and Inner Mongolia. In Xinjiang province where the Company does not have a direct selling license, it has a Company-operated retail store that can directly serve customers and preferred customers. With online orderings throughout China, there has been a declining demand in Company-operated retail stores.

We also engage independent service providers who meet both the requirements to operate their own business under Chinese law as well as the conditions set forth by Herbalife to sell products and provide marketing, sales support and other services to Herbalife customers. In China, our independent service providers are compensated for marketing, sales support, and other services instead of the distributor allowances and royalty overrides utilized in our global marketing plan. The service hours and related fees eligible to be earned by and then paid to independent service providers are based on a number of factors including the sales generated by them and by others to whom they may provide marketing, sales support and other services, the quality of their service and other factors as well as any potential future sales generated from the recently announced and expanded online ordering platform. Total compensation available to our independent service providers in China can generally be comparable to the total compensation available to other sales leaders globally.

These business model features in China are not common to the business model we employ elsewhere in the world, and based on the direct selling licenses we have received and the terms of those which we hope to receive in the future to conduct a direct selling enterprise in China, our business model in China will continue to incorporate some or all of these features. The direct selling regulations require us to apply for various approvals to conduct a direct selling enterprise in China. The process for obtaining the necessary licenses to conduct a direct selling business is protracted and cumbersome and involves multiple layers of Chinese governmental authorities and numerous governmental employees at each layer. While direct selling licenses are centrally issued, such licenses are generally valid only in the jurisdictions within which related approvals have been obtained. Such approvals are generally awarded on local and provincial bases, and the approval process requires involvement with multiple ministries at each level. Our

participation and conduct during the approval process is guided not only by distinct Chinese practices and customs, but is also subject to applicable laws of China and the other jurisdictions in which we operate our business, including the U.S., as well as our internal code of ethics. There is always a risk that in attempting to comply with local customs and practices in China during the application process or otherwise, we will fail to comply with requirements applicable to us in China itself or in other jurisdictions, and any such failure to comply with applicable requirements could prevent us from obtaining the direct selling licenses or related local or provincial approvals. Furthermore, we rely on certain key personnel in China to assist us during the approval process, and the loss of any such key personnel could delay or hinder our ability to obtain licenses or related approvals. For all of the above reasons, there can be no assurance that we will obtain additional direct selling licenses, or obtain related approvals to expand into any or all of the localities or provinces in China that are important to our business. Our inability to obtain, retain, or renew any or all of the licenses or related approvals that are required for us to operate in China could negatively impact our business.

Additionally, although certain regulations have been published with respect to obtaining and operating under such approvals and otherwise conducting business in China, other regulations are pending and there continues to be uncertainty regarding the interpretation and enforcement of Chinese regulations. The regulatory environment in China is evolving, and officials in the Chinese government, including at the local and central level, exercise broad discretion in deciding how to interpret, apply, and enforce regulations as they deem appropriate, including to promote social order. Regulators in China may change how they interpret and enforce the direct selling regulations, both current interpretations and enforcement thereof or future iterations. Regulators in China may also modify the regulations. We cannot be certain that our business model will continue to be deemed by national or local Chinese regulatory authorities to be compliant with any such regulations. The Chinese government rigorously monitors the direct selling market in China, and in the past has taken serious action against companies that the government believed were engaging in activities they regarded to be in violation of applicable law, including shutting down their businesses and imposing substantial fines. As a result, there can be no guarantee that the Chinese government's current or future interpretation and application of the existing and new regulations will not negatively impact our business in China, result in regulatory investigations or lead to fines or penalties against us or our Chinese Members. If our business practices are deemed to be in violation of applicable regulations as they are or may be interpreted or enforced, or modified regulations, in particular with respect to the factors used in determining the services a service provider is eligible to perform and service fees they are eligible to earn and to receive, then we could be sanctioned and/or required to change our business model, either of which could have a significant adverse impact on our business in China.

Chinese regulations prevent persons who are not Chinese nationals from engaging in direct selling in China. We cannot guarantee that any of our Members living outside of China or any of our sales representatives or independent service providers in China have not engaged or will not engage in activities that violate our policies in this market, or that violate Chinese law or other applicable law, and therefore result in regulatory action and adverse publicity.

China has also enacted labor contract and social insurance legislation. We have reviewed our employment contracts and contractual relations with employees in China, which include certain of our employed sales personnel, and have transferred those employed sales personnel to independent service providers and have made such other changes as we believe to be necessary or appropriate to bring these contracts and contractual relations into compliance with these laws and their implementing regulations. In addition, we continue to monitor the situation to determine how these laws and regulations will be implemented in practice. There is no guarantee that these laws will not adversely impact us, cause us to change our operating plan for China or otherwise have an adverse impact on our business operations in China.

We may continue to experience rapid growth in China, and there can be no assurances that we will be able to successfully manage expansion of manufacturing operations and a growing and dynamic sales force. If we are unable to effectively scale our supply chain and manufacturing infrastructure to support future growth in China, our operations in China may be adversely impacted.

If we fail to further penetrate existing markets, then the growth in sales of our products, along with our operating results, could be negatively impacted.

The success of our business is to a large extent contingent on our ability to further penetrate existing markets which is subject to numerous factors, many of which are out of our control. 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 or consumers willing to purchase Herbalife products. Moreover, our growth will depend upon improved training and other activities that enhance Member retention in our

markets. While we have recently experienced significant growth in certain of our markets, we cannot assure you that such growth levels will continue in the immediate or long term future. Furthermore, our efforts to support growth in such international markets could be hampered to the extent that our infrastructure in such markets is deficient when compared to our infrastructure in our more developed markets, such as the U.S. Therefore, we cannot assure you that our general efforts to increase our market penetration and Member retention in existing markets will be successful. If we are unable to further penetrate existing markets, our operating results could suffer.

Our contractual obligation to sell our products only through our Herbalife Member network and to refrain from changing certain aspects of our Marketing Plan may limit our growth.

We are a party to an agreement with our Members that provides assurances, to the extent legally permitted, we will not sell Herbalife products worldwide through any distribution channel other than our network of independent Herbalife Members. 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 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, this agreement with our Members provides that we will not make any material changes adverse to our Members to certain aspects of our Marketing Plan without the approval described below. For example, our agreement with our Members provides that we may increase, but not decrease, the discount percentages available to our Members for the purchase of products or the applicable royalty override percentages, and production and other bonus percentages available to our Members at various qualification levels within our Member 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 Members further provides that we may not vary the criteria for qualification for each Member tier within our Member 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 Members 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, we may initiate other changes that are adverse to our Members based on an assessment of what will be best for the Company and its Members. Under the agreement with our Members, these other adverse changes would then be submitted to our Member leadership for a vote. The vote would require the approval of at least 51% of our Members then at the level of President's Team earning at the production bonus level of 6% who vote, provided that at least 50% of those Members entitled to vote do in fact vote. Therefore, while we believe that this agreement has strengthened our relationship with our existing Members, improved our ability to recruit new Members and generally increased the long-term stability of our business, there can be no assurance that our agreement with our Members 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 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 provide products and services to our Members depends on the performance and availability of our core transactional systems. We upgraded our back office systems globally to the Oracle Enterprise Suite which is supported by a robust hardware and network infrastructure. The Oracle Enterprise Suite is a scalable and stable solution that provides a solid foundation upon which we are building our next generation Member facing Internet toolset. While we continue to invest in our information technology infrastructure, there can be no assurance that there will not be any significant interruptions to such systems or that the systems will be adequate to meet all of our future business needs.

The most important aspect of our information technology infrastructure is the system through which we record and track Member 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 adverse 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 Members 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. Any such errors could create compliance risks under the Consent Order or any applicable laws or regulations. 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.

Our ability to effectively manage our network of Members, and to ship products, and track royalty and bonus payments on a timely basis, depends significantly on our information systems. The failure of our information systems to operate effectively, or a breach in security of these systems, could adversely impact the promptness and accuracy of

our product distribution and transaction processing. We could be required to make significant additional expenditures to remediate any such failure, problem or breach.

Anyone who is able to circumvent our security measures could misappropriate confidential or proprietary information, including that of third parties such as our Members, cause interruption in our operations, damage our computers or otherwise damage our reputation and business. We may need to expend significant resources to protect against security breaches or to address problems caused by such breaches. Any actual security breaches could damage our reputation and expose us to a risk of loss or litigation and possible liability under various laws and regulations. In addition, employee error or malfeasance or other errors in the storage, use or transmission of any such information could result in a disclosure to third parties. If this should occur we could incur significant expenses addressing such problems. Since we collect and store Member and vendor information, including credit card information, these risks are heightened.

In addition, the use and handling of this information is regulated by evolving and increasingly demanding laws and regulations. As such, we may be required to upgrade our current information technology infrastructure and systems and incur additional costs.



Since we rely on independent third parties for the manufacture and supply of certain of our products, if these third parties fail to reliably supply products to us at required levels of quality and which are manufactured in compliance with applicable laws, including the dietary supplement and OTC drug cGMPs, then our financial condition and operating results would be harmed.

A significant portion of our products are manufactured at third party contract manufacturers. We cannot assure you that our outside contract manufacturers will continue to reliably supply products to us at the levels of quality, or the quantities, we require, and in compliance with applicable laws, including under the FDA's cGMP regulations. Additionally, while we are not presently aware of any current liquidity issues with our suppliers, we cannot assure you that they will not experience financial hardship.

For the portion of our product supply that is self-manufactured, we believe we have significantly lowered the product supply risk, as the risk factors of financial health, liquidity, capacity expansion, reliability and product quality are all within our control. However, increases to the volume of products that we self-manufacture in our Winston Salem and Lake Forest facilities and in Nanjing and Suzhou for the support of China raise the concentration risk that a significant interruption of production at any of our facilities due to, for example, natural disasters including earthquakes, hurricanes and floods, technical issues or work stoppages could impede our ability to conduct business. While our business continuity programs contemplate and plan for such events, if we were to experience such an event resulting in the temporary, partial or complete shutdown of one of these manufacturing facilities, we could be required to transfer manufacturing to the surviving facility and/or third-party contract manufacturers if permissible. When permissible, converting or transferring manufacturing to a third-party contract manufacturer could be expensive, time-consuming, result in delays in our production or shipping, reduce our net sales, damage our relationship with Members and damage our reputation in the marketplace, any of which could harm our business, results of operations and financial condition.

Our product supply contracts generally have a three-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 50 product suppliers, with Fine Foods (Italy) being a major supplier for meal replacements, protein powders and nutritional supplements. Additionally, we use contract manufacturers in India, Brazil, Korea, Japan, Taiwan, Germany and the Netherlands to support our global business. In the event any of our contract 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 contract 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, because 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.

We permit the limited use of our trademarks by our Members to assist them in marketing our products. It is possible that doing so may increase the risk of unauthorized use or misuse of our trademarks in markets where their registration status differs from that asserted by our Members, or they may be used in association with claims or products in a manner not permitted under applicable laws and regulations. Were these to occur it is possible that this could diminish the value of these marks or otherwise impair our further use of these marks.

If our Members 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 Members, our Members must nevertheless advertise our products in compliance with the extensive regulations that exist in certain jurisdictions, such as the United States, which considers product advertising to be labeling for regulatory purposes.

Our products are sold principally as foods, dietary supplements and cosmetics and are subject to rigorous FDA and related legal regimens limiting the types of therapeutic claims that can be made for our products. The treatment or cure of disease, for example, is not a permitted claim for these products. While we train our Members and attempt to monitor our Members' marketing materials, we cannot ensure that all such materials comply with applicable regulations, including bans on therapeutic claims. If our Members fail to comply with these restrictions, then we and our Members 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 Members in such an instance would be dependent on a determination that we either controlled or condoned a noncompliant advertising practice, there can be no assurance that we could not be held vicariously liable for the actions of our Members.

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 Members 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 common law and contractual proprietary rights in our products provide only limited protection and may be time-consuming and expensive to enforce and/or maintain. Further, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our proprietary rights or from independently developing non-infringing products that are competitive with, equivalent to and/or superior to our products.

Monitoring infringement and/or misappropriation of intellectual property can be difficult and expensive, and we may not be able to detect every 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.

Additionally, third parties may claim that products or marks that we have independently developed or which bear certain of our trademarks infringe upon their intellectual property rights and there can be no assurance that one or more of our products or marks will not be found to infringe upon third party intellectual property rights in the future.

Since one of our products constitutes a significant portion of our net 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.

For 2016, 2015 and 2014, our Formula 1 Healthy Meal, our best-selling product line, approximated 30% of our net sales. 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 could be harmed.

We have depended, and will continue to depend, on the continued services of our senior management team as it works closely with the senior Member leadership to create an environment of inspiration, motivation and entrepreneurial business success. Effective June 1, 2017, Richard P. Goudis, our previous Chief Operating Officer, became the Chief Executive Officer of the Company and Michael O. Johnson, our previous Chairman and Chief Executive Officer, became Executive Chairman of the Company, consistent with a succession strategy plan previously approved by our board of directors. Any significant leadership change or senior management transition involves inherent risk and any failure to ensure a smooth transition could hinder our strategic planning, execution and future performance. While we strive to mitigate the negative impact associated with changes to our senior management team, there may be uncertainty among investors, employees, Members and others concerning our future direction and performance. Any disruption in our operations or uncertainty could have a material adverse effect on our business, financial condition or results of operations.

Additionally, although we have entered into employment agreements with certain 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 adversely impact our Member relations and operating results. If any of these executives do not remain with us, our business could suffer. Also, the loss of key personnel, including our regional and country managers, could negatively impact our ability to implement our business strategy, and our continued success will also be dependent on our ability to retain existing, and attract additional, qualified personnel to meet our needs. We currently do not maintain “key person” life insurance with respect to our senior management team.

Our international operations are subject to the laws and regulations of the United States and many foreign countries, including the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and other similar laws in a number of countries.

We are subject to a variety of laws regarding our international operations, including the U.S. Foreign Corrupt Practices Act, or the FCPA, the U.K. Bribery Act of 2010, or the UK Bribery Act, and regulations issued by U.S. Customs and Border Protection, U.S. Treasury Department’s Office of Foreign Assets Control, or OFAC, and various foreign governmental agencies. The FCPA, the UK Bribery Act and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments for the purpose of obtaining or retaining business as well as requiring companies to maintain accurate books and records. In recent years there has been a substantial increase in anti-bribery law enforcement activity with more frequent and aggressive investigations and enforcement proceedings by both the Department of Justice and the SEC, increased enforcement activity by non-U.S. regulators and increases in criminal and civil proceedings brought against companies and individuals. Our policies mandate compliance with these anti-bribery laws, including the requirements to maintain accurate information and internal controls. We operate in many parts of the world that have experienced governmental corruption to some degree and in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. Notwithstanding our compliance programs, which include annual training and certification requirements, there is no assurance that our internal control policies and procedures will protect us from acts committed by our employees or agents. Additionally, we cannot predict the nature, scope or effect of future regulatory requirements to which our international operations might be subject or the manner in which existing or new laws might be administered or interpreted. Alleged or actual violations of any such existing or future laws (either due to our own acts or our inadvertence, or due to the acts or inadvertence of others) may result in criminal or civil sanctions, including contract cancellations or debarment, and loss of reputation, which could have a material adverse effect on our business, financial condition, and results of operations.

The United Kingdom’s vote to exit from the European Union could adversely impact us.

On June 23, 2016, in a referendum vote commonly referred to as “Brexit,” a majority of British voters voted to exit the European Union and, in March 2017, the British government delivered formal notice of the U.K.’s intention to leave the European Union. The British government is currently in negotiations with the European Union to determine the terms of the U.K.’s exit. A withdrawal could potentially disrupt the free movement of goods, services and people between the U.K. and the European Union, undermine bilateral cooperation in key geographic areas and significantly disrupt trade between the U.K. and the European Union or other nations as the U.K. pursues independent trade relations. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which European Union laws to replace or replicate. The effects of Brexit will depend on any agreements the U.K. makes to retain access to European Union or other markets either during a transitional period or more permanently. It is unclear what long-term economic, financial, trade and legal implications the withdrawal of the U.K. from the European Union would have and how such withdrawal would affect our business globally and in the region. In addition, Brexit may lead other European Union member countries to consider referendums regarding their European Union membership. Any of these events, along with any political, economic and regulatory changes that

may occur, could cause political and economic uncertainty in Europe and internationally and harm our business and financial results.

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

Our credit facility contains 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 or guarantee additional debt;
- impose dividend or other distribution restrictions on our subsidiaries; and
- create liens on our and our subsidiaries' assets.

67

---

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

We may use from time to time a certain amount of cash in order to satisfy the obligations relating to our convertible notes. The maturity or conversion of any of our convertible notes may adversely affect our financial condition and operating results, which could adversely affect the amount or timing of future potential share repurchases or the payment of dividends to our shareholders.

In February 2014, we issued convertible senior notes due on August 15, 2019, or the Convertible Notes, in the aggregate principal amount of \$1.15 billion. At maturity, we will have to pay the holders of the Convertible Notes the full aggregate principal amount of the Convertible Notes then outstanding.

Holder of our Convertible Notes may convert their notes at their option under the following circumstances: (i) during any calendar quarter commencing after the calendar quarter ending March 31, 2014, if the last reported sale price of our common shares for at least 20 trading days (whether or not consecutive) in a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter exceeds 130% of the conversion price for the Convertible Notes on each applicable trading day; (ii) during the five business-day period immediately after any five consecutive trading day period, or the measurement period, in which the trading price per \$1,000 principal amount of Convertible Notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of our common shares and the conversion rate for the Convertible Notes for each such day; or (iii) upon the occurrence of specified corporate events. On and after May 15, 2019, holders may convert their Convertible Notes at any time, regardless of the foregoing circumstances. The Convertible Notes are net-share settled. If one or more holders elect to convert their Convertible Notes when conversion is permitted, we could be required to make cash payments equal to the par amount of each Convertible Note, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Convertible Notes, because our Convertible Notes are net-share settled, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of our Convertible Notes as a current rather than long-term liability, which could result in a material reduction of our net working capital. The requirement to pay cash upon conversion of the Convertible Notes or any adverse accounting treatment of the Convertible Notes may adversely affect our financial condition and operating results, each of which could in turn adversely impact the amount or timing of future potential share repurchases or the payment of dividends to our shareholders.

The conversion of any of the Convertible Notes into common shares could have a dilutive effect that could cause our share price to go down.

The Convertible Notes, until May 15, 2019, are convertible into common shares only if specified conditions are met and thereafter convertible at any time, at the option of the holder. We have reserved common shares for issuance upon conversion of the Convertible Notes. Upon conversion, the principal amount is due in cash, and to the extent that the conversion value exceeds the principal amount, the difference is due in common shares. While we have entered into capped call transactions to effectively increase the conversion of the Convertible Notes and lessen the risk of dilution to shareholders upon conversion, if the market price of our common shares, as measured under the terms of the capped call transactions, exceeds the cap price of the capped call transactions, the number of our common shares we receive upon exercise of the capped call transactions will be capped. In that case, there would be dilution in respect of our common shares, because the number of our common shares or amounts of cash that we would owe upon conversion of the Convertible Notes in excess of the principal amount of converted Convertible Notes would exceed the number of common shares that we would be entitled to receive upon exercise of the capped call transactions, which would cause

a dilutive effect that could cause our share price to go down. If any or all of the Convertible Notes are converted into common shares, our existing shareholders will experience immediate dilution of voting rights and our common share price may decline. Furthermore, the perception that such dilution could occur may cause the market price of our common shares to decline.

The conversion rate for the Convertible Notes as of February 7, 2014, the date of issuance thereof, was 11.5908 common shares per \$1,000 principal amount or a conversion price of approximately \$86.28 per common share. Because the conversion rate of the Convertible Notes adjusts upward upon the occurrence of certain events, such as a dividend payment, our existing shareholders may experience more dilution if any or all of the Convertible Notes are converted into common shares after the adjusted conversion rates became effective.



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

As a multinational corporation, operating 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 post surety, in order to challenge the assessments.

The imposition of new taxes, even pass-through taxes such as VAT, could have an impact on our perceived product pricing and will likely require that we increase prices in certain jurisdictions and therefore could have a potential negative impact on our business and results of operations. 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 which could potentially be material. Ultimate resolution of these matters may take several years, and the outcome is uncertain. If the United States Internal Revenue Service or the taxing authorities of any other jurisdiction were to successfully challenge our transfer pricing practices or our positions regarding the payment of income taxes, customs duties, value added taxes, withholding taxes, sales and use, and other taxes, we could become subject to higher taxes, we may determine it is necessary to raise prices in certain jurisdictions accordingly and our revenue and earnings and our results of operations could be adversely affected.

See Note 5, Contingencies, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on contingencies relating to VAT and other related matters.

We could become a “controlled foreign corporation” for U.S. federal income tax purposes.

We believe that we are currently not a “controlled foreign corporation” for U.S. federal income tax purposes. However, this conclusion depends upon whether United States persons or entities who own 10% or more of the total combined voting power (10% shareholders”) own in the aggregate more than 50% of (i) the total combined voting power, or (ii) the total value of all our stock. In determining voting power, in addition to voting stock any special voting rights to appoint directors, whether by law, agreement or other arrangement, may also be taken into account. For purposes of applying the voting and value tests, certain constructive ownership rules apply, which attribute ownership among certain family members and certain entities and their owners. These rules may also attribute ownership of our stock to a person or entity that is entitled to acquire our stock pursuant to an option, such as the holders of our Convertible Notes. These constructive ownership rules are very complex and their application to specific circumstances is subject to uncertainty.

If we were to be or become a “controlled foreign corporation,” our 10% shareholders would be subject to special tax treatment. Any shareholders who contemplate owning 10% or more of our outstanding shares (taking into account the impact of any share repurchases we may undertake pursuant to share repurchase programs) are urged to consult with their tax advisors with respect to the special rules applicable to 10% shareholders of controlled foreign corporations.

Changes in tax laws, treaties or regulations, or their interpretation could adversely affect us.

A change in applicable tax laws, treaties or regulations or their interpretation could result in a higher effective tax rate on our worldwide earnings and such change could be significant to our financial results. The Organisation for Economic Co-operation and Development has released guidance covering various international tax standards as part of its “base erosion and profit shifting” or “BEPS” initiative. The implementation of BEPS by jurisdictions in which we operate could result in changes to tax laws and regulations, including with respect to transfer pricing, that could materially increase our effective tax rate. Additionally, tax legislative proposals intending to eliminate some perceived tax advantages of companies that have legal domiciles outside the U.S. but have certain U.S. connections have repeatedly been introduced in the U.S. Congress. If these proposals are enacted, the result would increase our effective tax rate and could have a material adverse effect on the Company’s financial condition and results of operations.

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

Our Members 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 social contributions, and to maintain appropriate records. In addition, we are subject to the risk in some jurisdictions of being responsible for social security, withholding or other taxes with respect to payments to our Members. In addition, in the event that local laws and regulations or the interpretation of local laws and regulations change to require us to treat our Members as employees, or that our Members 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 contributions, withholding and related taxes in those jurisdictions, plus any related assessments and penalties, which could harm our financial condition and operating results. See Note 5, Contingencies, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a more specific discussion of contingencies related to the activities of our Members.

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

Our ingestible products include vitamins, minerals and botanicals and other ingredients and 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 some ingredients that do not have long histories of human consumption. We rely upon published and unpublished safety information including clinical studies on ingredients used in our products and conduct limited clinical studies on some key products but not all products. 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 \$15 million, in certain cases we may be subject to the full amount of liability associated with any injuries, which could be substantial.

On February 6, 2004, the FDA banned the sale and use of dietary supplements containing botanical sources of ephedrine alkaloids. A number of jurisdictions have imposed similar bans or restrictions. 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. We have been in the past, and may be in the future, 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. There can be no assurance that we will prevail if we are named as a defendant in the future to product liability lawsuits related to the ingestion of ephedrine alkaloids contained in those products.

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 (2016 Revision), or the Companies Law, 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 or board of directors 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.

Shareholders of Cayman Islands exempted companies such as Herbalife 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.

A shareholder can bring a suit personally where its individual rights have been, or are about to be, infringed. Our Cayman Islands counsel, Maples and Calder, is not aware of any reported class action having been brought in a Cayman Islands court. Derivative actions have been brought in the Cayman Islands courts, and the Cayman Islands courts have confirmed the availability of such actions. In most cases, we would be the proper plaintiff where an action is brought to redress any loss or damage suffered by us, or based on a breach of duty owed to us, and a claim against, for example, our officers or directors usually may not be brought by a shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority and be applied by a court in the Cayman Islands, exceptions to the foregoing principle may apply and a shareholder may be permitted to bring a claim derivatively on a company's behalf, where:

- a company is acting or proposing to act illegally or outside the scope of its corporate authority;
- the act complained of, although not acting outside the scope of its corporate authority, could be effected only if authorized by more than a simple majority vote; or
- those who control the company are perpetrating a “fraud on the minority”.

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 reduce shareholders' opportunity to influence management of the Company.

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 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.

The Cayman Islands have provisions under the Companies Law to facilitate mergers and consolidations between Cayman Islands companies and non-Cayman Islands companies. These provisions, contained within Part XVI of the Companies Law, are broadly similar to the merger provisions as provided for under Delaware Law.

There are however a number of important differences that could impede a takeover. First, the threshold for approval of the merger plan by shareholders is higher. The threshold is a special resolution of the shareholders (being 66 2/3% of those present in person or by proxy and voting) together with such other authorization, if any, as may be specified in the articles of association.

Additionally, the consent of each holder of a fixed or floating security interest (in essence a documented security interest as opposed to one arising by operation of law) is required to be obtained unless the Grand Court of the Cayman Islands waives such requirement.

The merger provisions contained within Part XVI of the Companies Law do contain shareholder appraisal rights similar to those provided for under Delaware law. Such rights are limited to a merger under Part XVI and do not apply to schemes of arrangement as discussed below.

The Companies Law also contains separate statutory provisions that provide for the merger, reconstruction and amalgamation of companies. These 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 a majority of each class of the company's shareholders who are present and voting (either in person or by proxy) at such meeting. The shares voted in favor of the scheme of arrangement must also represent at least 75% of the value of each relevant class of the company's shareholders present and voting at the meeting. 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 materially adversely affect creditors' interests. Furthermore, the 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 who voted at the meeting in question fairly represent the relevant class of shareholders to which they belong;
- the scheme of arrangement is such as a businessman would reasonably approve; and
- the scheme of arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

If the scheme of arrangement is approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of U.S. corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

In addition, if an offer by a third party to purchase shares in us has been approved by the holders of at least 90% of our outstanding shares (not including such a third party) pursuant to an offer within a four-month period of making such an offer, the purchaser may, during the two months following expiration of the four-month period, require the holders of the remaining shares to transfer their shares on the same terms on which the purchaser acquired the first 90% of our outstanding shares. An objection can be made to the Grand Court of the Cayman Islands, but this is unlikely to succeed unless there is evidence of fraud, bad faith, collusion or inequitable treatment of the shareholders.

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 natural justice or the public policy of the Cayman Islands. There is doubt, however, as to whether the Grand Court of the Cayman Islands will (1) 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 (2) 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.

72

---



Our stock price may be adversely affected by third parties who raise allegations about our Company.

Short sellers and others who raise allegations regarding the legality of our business activities, some of whom are positioned to profit if our stock declines, can negatively affect our stock price. In late 2012, a hedge fund manager publicly raised allegations regarding the legality of our network marketing program and announced that his fund had taken a significant short position regarding our common shares, leading to intense public scrutiny and significant stock price volatility. Following this public announcement in December 2012, our stock price dropped significantly. This hedge fund manager continues to make allegations regarding the legality of our network marketing program, our product safety, our accounting practices and other matters. Additionally, from time to time the Company is subject to governmental and regulatory inquiries and inquiries from legislators that may adversely affect our stock price. Our stock price has continued to exhibit heightened volatility and the short interest in our common shares continues to remain high. Short sellers expect to make a profit if our common shares decline in value, and their actions and their public statements may cause further volatility in our share price. While a number of traders have publicly announced that they have taken long positions contrary to the hedge fund shorting our shares, the existence of such a significant short interest position and the related publicity may lead to continued volatility. The volatility of our stock may cause the value of a shareholder's investment to decline rapidly.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) None.

(b) None.

(c) On February 21, 2017, our board of directors authorized a new three-year \$1.5 billion share repurchase program that will expire on February 21, 2020, which replaced our prior share repurchase authorization which was set to expire on June 30, 2017 which, as of December 31, 2016, had \$232.9 million of remaining authorized capacity. This share repurchase program allows us, which includes a wholly owned subsidiary of Herbalife Ltd., to repurchase our common shares, at such times and prices as determined by our management as market conditions warrant, and to the extent Herbalife Ltd.'s distributable reserves are available under Cayman Islands law. The Credit Facility permits us to repurchase our common shares as long as no default or event of default exists and other conditions such as specified consolidated leverage ratios are met. As of June 30, 2017, the remaining authorized capacity under the Company's share repurchase program was approximately \$1,259.5 million. The following is a summary of our repurchases of common shares during the three months ended June 30, 2017, all of which were repurchased by our indirect wholly owned subsidiary. For further information on our share repurchases, see Note 10, Shareholders' Equity, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as	Approximate Dollar Value of Shares
--------	---	---------------------------------------	---	--

Edgar Filing: HERBALIFE LTD. - Form 10-Q

			Part of Publicly	that May Yet Be
			Announced Plans or Programs	Purchased Under the Plans or Programs
April 1 — April 30	974,222	\$ 59.49	974,222	\$1,381,312,733
May 1 — May 31	412,208	\$ 71.28	412,208	\$1,351,931,209
June 1 — June 30	1,293,726	\$ 71.41	1,293,726	\$1,259,546,210
	2,680,156		2,680,156	

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

(a) None

(b) None.

Item 6. Exhibits

(a) Exhibit Index:

## EXHIBIT INDEX

## Exhibit

Number	Description	Reference
3.1	Form of Amended and Restated Memorandum and Articles of Association of Herbalife Ltd.	(h)
4.1	Form of Share Certificate	(c)
4.2	Indenture between Herbalife Ltd. and Union Bank, N.A., as trustee, dated February 7, 2014, governing the 2.00% Convertible Senior Notes due 2019	(f)
4.3	Form of Global Note for 2.00% Convertible Senior Note due 2019 (included as Exhibit A to Exhibit 4.2 hereto)	(f)
10.1#	Herbalife International of America, Inc.'s Senior Executive Deferred Compensation Plan, effective January 1, 1996, as amended	(a)
10.2#	Herbalife International of America, Inc.'s Management Deferred Compensation Plan, effective January 1, 1996, as amended	(a)
10.3#	Herbalife International Inc. 401K Profit Sharing Plan and Trust, as amended	(a)
10.4	Notice to Distributors regarding Amendment to Agreements of Distributorship, dated as of July 18, 2002 between Herbalife International, Inc. and each Herbalife Distributor	(a)
10.5#	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)
10.6	Form of Indemnification Agreement between Herbalife Ltd. and the directors and certain officers of Herbalife Ltd.	(b)
10.7#	Amended and Restated Herbalife Ltd. 2005 Stock Incentive Plan	(h)
10.8#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement	(k)
10.9#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement	(k)
10.10#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Michael O. Johnson.	(k)
10.11#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Richard P. Goudis.	(k)
10.12#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Michael O. Johnson.	*

Edgar Filing: HERBALIFE LTD. - Form 10-Q

- 10.13# Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Richard Goudis. \*
- 10.14# Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement \*
- 10.15# Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement \*
- 10.16# Herbalife Ltd. Employee Stock Purchase Plan (d)
- 10.17# Employment Agreement dated as of March 27, 2008 between Michael O. Johnson and Herbalife International of America, Inc. (d)
- 10.18# Stock Appreciation Right Award Agreement by and between Herbalife Ltd. and Michael O. Johnson, dated March 27, 2008 (d)
- 10.19# Stock Appreciation Right Award Agreement by and between Herbalife Ltd. and Michael O. Johnson, dated March 27, 2008 (d)
- 10.20# Amendment to Herbalife International Inc. 401K Profit Sharing Plan and Trust (g)
- 10.21# Form of Independent Directors Stock Appreciation Right Award Agreement (h)

Edgar Filing: HERBALIFE LTD. - Form 10-Q

Exhibit

Number	Description	Reference
10.22#	Herbalife Ltd. Amended and Restated Independent Directors Deferred Compensation and Stock Unit Plan	(h)
10.23#	Amended and Restated Employment Agreement by and between Richard P. Goudis and Herbalife International of America, Inc., dated as of January 1, 2010	(i)
10.24#	First Amendment to the Amended and Restated Employment Agreement by and between Richard P. Goudis and Herbalife International of America, Inc., dated as of December 28, 2010	(j)
10.25#	Amended and Restated Non-Management Directors Compensation Plan	(i)
10.26#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Non-Employee Directors Stock Appreciation Right Award Agreement	(i)
10.27#	Severance Agreement by and between John DeSimone and Herbalife International of America, Inc., dated as of February 23, 2011	(k)
10.28#	Amended and Restated Severance Agreement, dated as of February 23, 2011, by and between Desmond Walsh and Herbalife International of America, Inc.	(k)
10.29	Credit Agreement, dated as of March 9, 2011, by and among Herbalife International, Inc., Herbalife Ltd., Herbalife International Luxembourg S.a.R.L., certain subsidiaries of HII as guarantors, the lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer	(k)
10.30	First Amendment, dated July 26, 2012, to Credit Agreement, dated as of March 9, 2011, by and among Herbalife International, Inc., Herbalife Ltd., Herbalife International Luxembourg S.a.R.L., certain subsidiaries of HII as guarantors, the lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer	*
10.31#	Amendment to Amended and Restated Herbalife Ltd. 2005 Stock Incentive Plan	(k)
10.32	Second Amendment, dated February 3, 2014, to Credit Agreement, dated as of March 9, 2011, by and among Herbalife International, Inc. Herbalife Ltd., Herbalife International Luxembourg S.a.R.L., certain subsidiaries of HII as guarantors, the lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer	(e)
10.33	Form of Forward Share Repurchase Confirmation	(f)
10.34	Form of Base Capped Call Confirmation	(f)
10.35	Form of Additional Capped Call Confirmation	(f)
10.36#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Performance Condition Stock Appreciation Right Award Agreement	(f)

- 10.37# Amended and Restated Herbalife Ltd. 2014 Stock Incentive Plan (k)
- 10.38 Confirmation between Merrill Lynch International and Herbalife Ltd., dated May 6, 2014 (g)
- 10.39 Third Amendment to Credit Agreement dated as of May 4, 2015, among Herbalife Ltd., Herbalife International, Inc., Herbalife International Luxembourg S.a.R.L., the guarantors part thereto, the lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer (h)
- 10.40# Herbalife Ltd. Executive Incentive Plan (k)
- 10.41 Stipulation to Entry of Order for Permanent Injunction and Monetary Judgment (l)
- 10.42 Second Amended and Restated Support Agreement, dated July 15, 2016, by and among Herbalife Ltd., Carl C. Icahn, Icahn Partners Master Fund LP, Icahn Offshore LP, Icahn Partners LP, Icahn Onshore LP, Beckton Corp., Hopper Investments LLC, Barberry Corp., High River Limited Partnership, Icahn Capital LP, IPH GP LLC, Icahn Enterprises Holdings LP, and Icahn Enterprises GP Inc. (l)
- 10.43# Amended and Restated Employment Agreement by and between Richard P. Goudis and Herbalife International of America, Inc., dated as of November 1, 2016 (m)

Edgar Filing: HERBALIFE LTD. - Form 10-Q

Exhibit

Number	Description	Reference
10.44#	Letter Agreement by and between Michael O. Johnson and Herbalife International of America, Inc., dated November 1, 2016	(m)
10.45#	Herbalife International of America, Inc. Executive Officer Severance Plan	(m)
10.46	Credit Agreement, dated as of February 15, 2017, by and among HLF Financing S.à r.l., HLF Financing US, LLC, Herbalife Ltd., Herbalife International Luxembourg S.à R.L., Herbalife International, Inc., the several banks and other financial institutions or entities from time to time party thereto, Credit Suisse AG, Cayman Islands Branch, as Term Administrative Agent and Collateral Agent, and Coöperatieve Rabobank U.A., New York Branch, as an Issuing Bank and the Revolver Administrative Agent	(m)
10.47#	Stock Appreciation Right Award Agreement (Performance-Vesting) by and between Herbalife Ltd. and Richard P. Goudis dated as of June 6, 2017	*
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	*
101.INS	XBRL Instance Document	*
101.SCH	XBRL Taxonomy Extension Schema Document	*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	*

\* 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 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.

(c) 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.

(d) Previously filed on April 29, 2013 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 and is incorporated herein by reference.

(e)

Edgar Filing: HERBALIFE LTD. - Form 10-Q

Previously filed on February 7, 2014 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.

- (f) Previously filed on February 18, 2014 as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2013 and is incorporated by reference.
- (g) Previously filed on July 28, 2014 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 and is incorporated herein by reference.
- (h) Previously filed on May 5, 2015 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 and is incorporated herein by reference.
- (i) Previously filed on August 5, 2015 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 and is incorporated herein by reference.
- (j) Previously filed on February 25, 2016 as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and is incorporated herein by reference.
- (k) Previously filed on May 5, 2016 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 and is incorporated herein by reference.
- (l) Previously filed on July 15, 2016 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (m) Previously filed on February 23, 2017 as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2016 and is incorporated herein by reference.



SIGNATURES

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

HERBALIFE LTD.

By: /s/ JOHN G. DESIMONE  
John G. DeSimone

Chief Financial Officer

Dated: August 1, 2017