

HERBALIFE LTD.  
Form 10-Q  
April 28, 2014  
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**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 March 31, 2014**

**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**  
**(State or other jurisdiction of**  
**incorporation or organization)**

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

**P.O. Box 309GT**

**Ugland House, South Church Street**

**Grand Cayman, Cayman Islands**

**(Address of principal executive offices) (Zip code)**

**(213) 745-0500**

**(Registrant's telephone number, including area code)**

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

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

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

Number of shares of registrant's common shares outstanding as of April 23, 2014 was 98,107,055.

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**HERBALIFE LTD.**

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****HERBALIFE LTD. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

|  | <b>March 31,<br/>2014</b>                                     | <b>December 31,<br/>2013</b> |
|--|---|------------------------------|
|  | <b>(In thousands, except share and<br/>par value amounts)</b> |                              |
| <b>ASSETS</b>  |   |                              |
| <b>CURRENT ASSETS:</b>   |   |                              |
| Cash and cash equivalents  | \$ 1,261,921  | \$ 972,974                   |
| Receivables, net of allowance for doubtful accounts of \$1,991 (2014) and \$2,211 (2013)                     | 118,610   | 100,326                      |
| Inventories  | 324,992   | 351,201                      |
| Prepaid expenses and other current assets  | 162,842   | 148,774                      |
| Deferred income taxes  | 67,739  | 69,845                       |
| <b>Total current assets</b>  | <b>1,936,104</b>  | <b>1,643,120</b>             |
| Property, at cost, net of accumulated depreciation and amortization of \$345,950 (2014) and \$327,864 (2013) | 346,363   | 318,860                      |
| Deferred compensation plan assets  | 26,969  | 26,821                       |
| Deferred financing costs, net  | 27,367  | 4,896                        |
| Other assets   | 103,567   | 63,713                       |
| Marketing related intangibles and other intangible assets, net   | 310,729   | 310,801                      |
| Goodwill   | 105,490   | 105,490                      |
| <b>Total assets</b>  | <b>\$ 2,856,589</b>   | <b>\$ 2,473,701</b>          |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |   |                              |
| <b>CURRENT LIABILITIES:</b>  |   |                              |
| Accounts payable   | \$ 87,174   | \$ 82,665                    |
| Royalty overrides  | 259,758   | 266,952                      |
| Accrued compensation   | 74,940  | 111,905                      |
| Accrued expenses   | 276,532   | 267,501                      |
| Current portion of long-term debt  | 87,509  | 81,250                       |
| Advance sales deposits   | 83,592  | 68,079                       |
| Income taxes payable   | 32,400  | 43,826                       |
| <b>Total current liabilities</b>   | <b>901,905</b>  | <b>922,178</b>               |

## NON-CURRENT LIABILITIES:

|  |                  |                  |
|--|------------------|------------------|
| Long-term debt, net of current portion | 1,760,778        | 850,019          |
| Deferred compensation plan liability   | 40,523           | 37,226           |
| Deferred income taxes                  | 63,182           | 66,026           |
| Other non-current liabilities          | 48,095           | 46,806           |
| <b>Total liabilities</b>               | <b>2,814,483</b> | <b>1,922,255</b> |

## CONTINGENCIES

## SHAREHOLDERS EQUITY:

|   |                     |                     |
|---|---------------------|---------------------|
| Common shares, \$0.001 par value; 1.0 billion shares authorized; 101.3 million (2014) and 101.1 million (2013) shares outstanding | 101                 | 101                 |
| Paid-in-capital in excess of par value  | 423,515             | 323,860             |
| Accumulated other comprehensive loss  | (22,485)            | (19,794)            |
| (Accumulated deficit) retained earnings   | (359,025)           | 247,279             |
| <b>Total shareholders equity</b>  | <b>42,106</b>       | <b>551,446</b>      |
| <b>Total liabilities and shareholders equity</b>  | <b>\$ 2,856,589</b> | <b>\$ 2,473,701</b> |

See the accompanying notes to unaudited condensed consolidated financial statements.

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**HERBALIFE LTD. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**(Unaudited)**

|  | <b>Three Months Ended</b>                       |                   |
|--|---|-------------------|
|  | <b>March 31,</b>                                | <b>March 31,</b>  |
|  | <b>2014</b>                                     | <b>2013</b>       |
|  | <b>(In thousands, except per share amounts)</b> |                   |
| Product sales                              | \$ 1,156,134                                    | \$ 951,583        |
| Shipping & handling revenues               | 106,515   | 172,064           |
| Net sales                                  | 1,262,649                                       | 1,123,647         |
| Cost of sales                              | 251,165   | 225,977           |
| Gross profit                               | 1,011,484                                       | 897,670           |
| Royalty overrides                          | 381,819   | 364,029           |
| Selling, general & administrative expenses | 502,062   | 364,720           |
| Operating income                           | 127,603   | 168,921           |
| Interest expense, net                      | 14,961  | 5,373             |
| Other expense, net                         | 3,161   |                   |
| Income before income taxes                 | 109,481   | 163,548           |
| Income taxes                               | 34,853  | 44,675            |
| <b>NET INCOME</b>                          | <b>\$ 74,628</b>                                | <b>\$ 118,873</b> |
| Earnings per share:                        |   |                   |
| Basic                                      | \$ 0.78   | \$ 1.14           |
| Diluted                                    | \$ 0.74   | \$ 1.10           |
| Weighted average shares outstanding:       |   |                   |
| Basic                                      | 95,397  | 104,121           |
| Diluted                                    | 100,780   | 108,068           |
| Dividends declared per share               | \$ 0.30   | \$ 0.30           |

See the accompanying notes to unaudited condensed consolidated financial statements.

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**HERBALIFE LTD. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Unaudited)**

|   | <b>Three Months Ended</b> |                  |
|---|---------------------------|------------------|
|   | <b>March 31,</b>          | <b>March 31,</b> |
|   | <b>2014</b>               | <b>2013</b>      |
|   | <b>(In thousands)</b>     |                  |
| Net income  | \$ 74,628                 | \$ 118,873       |
| Other comprehensive income (loss):  |                           |                  |
| Foreign currency translation adjustment, net of income taxes of \$(73) and \$(305) for the three months ended March 31, 2014 and 2013, respectively | (2,183)                   | (8,684)          |
| Unrealized loss on derivatives, net of income taxes of \$(104) and \$(507) for the three months ended March 31, 2014 and 2013, respectively         | (413)                     | (1,332)          |
| Unrealized loss on available-for-sale investments, net of income taxes of \$(51) for the three months ended March 31, 2014                          | (95)                      |                  |
| Total other comprehensive income (loss)   | (2,691)                   | (10,016)         |
| Total comprehensive income  | \$ 71,937                 | \$ 108,857       |

See the accompanying notes to unaudited condensed consolidated financial statements.

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**HERBALIFE LTD. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

|   | <b>Three Months Ended</b> |                  |
|---|---------------------------|------------------|
|   | <b>March 31,</b>          | <b>March 31,</b> |
|   | <b>2014</b>               | <b>2013</b>      |
|   | <b>(In thousands)</b>     |                  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                           |                  |
| Net income  | \$ 74,628                 | \$ 118,873       |
| Adjustments to reconcile net income to net cash provided by operating activities:   |                           |                  |
| Depreciation and amortization   | 21,283                    | 20,964           |
| Excess tax benefits from share-based payment arrangements                           | (3,154)                   | (447)            |
| Share-based compensation expenses   | 10,995                    | 7,866            |
| Non-cash interest expense and amortization of deferred financing and issuance costs | 7,154                     | 650              |
| Deferred income taxes   | (2,313)                   | (3,773)          |
| Inventory write-downs   | 11,037                    | 6,554            |
| Unrealized foreign exchange transaction loss (gain)                                 | 3,390                     | (10,971)         |
| Foreign exchange loss relating to Venezuela   | 86,108                    | 15,116           |
| Other   | 4,462                     | (890)            |
| Changes in operating assets and liabilities:  |                           |                  |
| Receivables   | (17,953)                  | 3,216            |
| Inventories   | 14,198                    | (1,542)          |
| Prepaid expenses and other current assets   | (23,850)                  | (8,200)          |
| Other assets  | (5,180)                   | (15)             |
| Accounts payable  | 6,224                     | 4,900            |
| Royalty overrides   | (3,703)                   | (21,472)         |
| Accrued expenses and accrued compensation   | (12,487)                  | (15,517)         |
| Advance sales deposits  | 17,416                    | (3,857)          |
| Income taxes  | (903)                     | 23,097           |
| Deferred compensation plan liability  | 3,297                     | 3,075            |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                    | <b>190,649</b>            | <b>137,627</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                           |                  |
| Purchases of property, plant and equipment  | (58,517)                  | (24,856)         |
| Proceeds from sale of property, plant and equipment                                 | 2                         | 24               |
| Investments in Venezuelan bonds   | (3,224)                   |                  |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>  | <b>(61,739)</b>           | <b>(24,832)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                           |                  |
| Dividends paid  | (30,399)                  | (30,904)         |
| Dividends received  | 3,444                     |                  |



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|  |                     |                   |
|--|---------------------|-------------------|
| Payments for Capped Call Transactions  | (123,825)           |                   |
| Borrowings from Long-Term Debt   | 1,150,000           | 513,223           |
| Principal payments on long-term debt   | (18,750)            | (25,509)          |
| Debt issuance costs  | (28,837)            |                   |
| Share repurchases  | (694,503)           | (164,485)         |
| Excess tax benefits from share-based payment arrangements                                    | 3,154               | 447               |
| Proceeds from exercise of stock options and sale of stock under employee stock purchase plan | 60                  | 425               |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>   | <b>260,344</b>      | <b>293,197</b>    |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>   | <b>(100,307)</b>    | <b>(17,052)</b>   |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>   | <b>288,947</b>      | <b>388,940</b>    |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>  | <b>972,974</b>      | <b>333,534</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>  | <b>\$ 1,261,921</b> | <b>\$ 722,474</b> |
| <b>CASH PAID DURING THE PERIOD</b>   |                     |                   |
| Interest paid  | \$ 7,533            | \$ 5,486          |
| Income taxes paid  | \$ 39,403           | \$ 31,853         |
| <b>NON CASH ACTIVITIES</b>   |                     |                   |
| Accrued capital expenditures   | \$ 20,452           | \$ 10,070         |

See the accompanying notes to unaudited condensed consolidated financial statements.

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**HERBALIFE LTD. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Organization**

Herbalife Ltd., a Cayman Islands exempt limited liability company, or Herbalife, was incorporated on April 4, 2002. Herbalife Ltd. (and together with its subsidiaries, the Company) is a global nutrition company that sells weight management products, nutritional supplements, energy, sports & fitness products and personal care products. As of March 31, 2014, the Company sold its products to and through a network of 3.9 million independent members, or Members, which included 0.2 million in China. In China, the Company sells its products through retail stores, sales representatives, sales officers and independent service providers. The Company reports revenue in six geographic regions: North America; Mexico; South and Central America; EMEA, which consists of Europe, the Middle East and Africa; Asia Pacific (excluding China); and China.

**2. Significant Accounting Policies**

*Basis of Presentation*

The unaudited condensed 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, 2013 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 March 31, 2014, and for the three months ended March 31, 2014 and 2013, include Herbalife and all of its direct and indirect subsidiaries. In the opinion of management, the accompanying financial information contains all adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company's unaudited condensed consolidated financial statements as of March 31, 2014, and for the three months ended March 31, 2014 and 2013. 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, 2013, or the 2013 10-K. Operating results for the three months ended March 31, 2014, are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

*Reclassifications*

Certain reclassifications were made to the prior period statement of cash flows, within cash flows from operating activities, to conform to current period presentation. These reclassifications did not impact the prior period total net cash provided by (used in) operating activities, investing activities and financing activities, nor did it impact the Company's accompanying condensed consolidated balance sheets and related condensed consolidated statements of income and comprehensive income.

*Venezuela*

Currency restrictions enacted by the Venezuelan government have become more restrictive and have impacted the ability of the Company's subsidiary in Venezuela, Herbalife Venezuela, to timely obtain U.S. dollars in exchange for

Venezuelan Bolivars, or Bolivars, at the official foreign exchange rate. The application and approval process continues to be delayed and the Company's ability to timely obtain U.S. dollars using the official exchange rate mechanisms described below remains uncertain. In recent instances, the Company has been unsuccessful in obtaining U.S. dollars at these official rates and it remains uncertain whether the Company's future anticipated applications will be approved. The current operating environment in Venezuela also continues to be challenging for the Company's Venezuela business, with high inflation in the country, government restrictions on foreign exchange and pricing controls, and the possibility of the government announcing further devaluations to its currency. These foreign exchange controls in Venezuela limit Herbalife Venezuela's ability to repatriate earnings and settle the Company's intercompany obligations at any official rate which is causing its Bolivar denominated cash and cash equivalents to accumulate in Venezuela.

In February 2013, the Venezuela government announced that it devalued its Bolivar currency and eliminated the SITME regulated system. The SITME 5.3 Bolivars per U.S. dollar rate was eliminated and the CADIVI rate was devalued from 4.3 Bolivars to 6.3 Bolivars per U.S. dollar. This CADIVI rate was approximately 16% less favorable than the previously published 5.3 SITME rate. The Company recognized approximately \$15.1 million of net foreign exchange losses within its condensed consolidated statement of income for the three months ended March 31, 2013, as a result of remeasuring the Company's Bolivar denominated monetary assets and liabilities at the CADIVI rate of 6.3 Bolivars per U.S. dollar.

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In March 2013, the Venezuelan government also announced they will introduce an additional complimentary exchange mechanism known as SICAD. During the first quarter of 2014, the Venezuelan government announced the establishment of CENCOEX which replaced the previous foreign exchange commission, CADIVI. Also, during the first quarter of 2014, additional activities, such as processing of dividend payments, which were previously administered by CADIVI, are now required to be processed at the SICAD auction rate, or SICAD I rate. During the fourth quarter of 2013, the Company received an approval through the SICAD mechanism for a bid of approximately 6.8 million Bolivars, or approximately \$1.1 million U.S. dollars remeasured using the CADIVI rate, for a distribution of approximately \$0.6 million in U.S. dollars, which resulted in a foreign exchange loss of approximately \$0.5 million during the fourth quarter of 2013, or an effective exchange rate of 11.3 Bolivars per U.S. dollar.

During March 2014, the government introduced an additional exchange mechanism known as SICAD II. During March 2014, the Company submitted a SICAD II bid to exchange its 5.3 million Bolivars for \$0.1 million U.S. dollars which was approved and resulted in the Company recognizing a \$0.7 million U.S. dollar foreign exchange loss at an effective exchange rate of approximately 56.2 Bolivars per U.S. dollar. The Company is currently evaluating the viability of this SICAD II mechanism and its public availability and accessibility to the Company in future periods. The SICAD II mechanism is still in its early stages and there is limited information being published around this mechanism so it is currently difficult to determine how the SICAD II mechanism functions and if there are any volume constraints around this mechanism.

Based on the events above and the Company's latest facts and circumstances, the Company remeasured its financial statements at the SICAD I rate of 10.7 Bolivars per U.S. dollar at March 31, 2014. As a result of using the less favorable SICAD I rate for remeasurement, during the three months ended March 31, 2014 the Company's cash and cash equivalents were reduced by approximately \$96.0 million, and the Company recognized \$86.1 million of foreign exchange losses in selling, general & administrative expenses within its condensed consolidated statement of income.

As of March 31, 2014, if the Company had used the SICAD II rate of approximately 50 Bolivars per U.S. dollar to remeasure its net monetary assets and liabilities denominated in Bolivars, the Company would have incurred an additional approximate foreign exchange loss of \$99.3 million during the three months ended March 31, 2014, and its Herbalife Venezuela cash and cash equivalents would have been further reduced by approximately \$108.0 million at March 31, 2014.

Due to the evolving foreign exchange control environment in Venezuela, it is possible that the Company's ability to access certain foreign exchange mechanisms, including the SICAD I and SICAD II exchange mechanisms, could change in future quarters which may have an impact on what rate the Company uses in the future to remeasure Herbalife Venezuela's net monetary Bolivar denominated assets and liabilities. The Company is closely monitoring the SICAD I and SICAD II exchange mechanisms as they continue to evolve.

As of March 31, 2014, the Company's net monetary assets and liabilities denominated in Bolivars were approximately \$129.0 million, and included approximately \$137.5 million in Bolivar denominated cash and cash equivalents. These Bolivar denominated assets and liabilities were remeasured at the SICAD I rate. These remeasured amounts, including cash and cash equivalents, being reported on the Company's condensed consolidated balance sheet using the published official SICAD I rate may not accurately represent the amount of U.S. dollars that the Company could ultimately realize. Herbalife Venezuela's net sales represented approximately 4% of the Company's consolidated net sales for the three months ended March 31, 2014 and 2013, and its total assets represented approximately 6% and 10% of the Company's consolidated total assets as of March 31, 2014 and December 31, 2013, respectively. As of March 31, 2014 and December 31, 2013, the majority of Herbalife Venezuela's total assets consisted of Bolivar denominated cash and cash equivalents.

*Investments in Bolivar-Denominated Bonds*

During the first quarter of 2014, the Company invested in additional Bolivar denominated bonds with a purchase price of 20.3 million Bolivars, or approximately \$3.2 million. The Company classifies these bonds as long-term available-for-sale investments which are carried at fair value, inclusive of unrealized gains and losses, and net of discount accretion and premium amortization. The fair value of these bonds are determined using Level 2 inputs which include prices of similar assets traded in active markets in Venezuela and observable yield curves. Net unrealized gains and losses on these bonds are included in other comprehensive income (loss) and are net of applicable income taxes. During the three months ended March 31, 2014, the Company did not sell any of its bonds.

The Company's investments in Bolivar denominated bonds as of March 31, 2014 are summarized as follows:

|                                 | <b>Amortized<br/>Costs</b> | <b>Gross<br/>Unrealized<br/>Gain</b> | <b>Gross<br/>Unrealized<br/>Loss</b> | <b>Net<br/>Unrealized<br/>Gain</b> | <b>Other-Than-<br/>Temporary<br/>Impairment</b> | <b>Market<br/>Value</b> |
|---------------------------------|----------------------------|--------------------------------------|--------------------------------------|------------------------------------|---|-------------------------|
|                                 | <b>(In thousands)</b>      |                                      |                                      |                                    |   |                         |
| Investments in Venezuelan bonds | \$ 7,253                   | \$                                   | \$                                   | \$                                 | \$ 3,161  | \$ 4,092                |

There were no bonds with gross unrealized losses recorded within accumulated other comprehensive income (loss) as of March 31, 2014.

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The Company evaluates securities for other-than-temporary impairment on a quarterly basis. The impairment evaluation considers numerous factors, and their relative significance varies depending on the situation. Factors considered include the length of time and extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer of the securities; when applicable, the foreign exchange rates that are available to the Company; and the intent and ability of the Company to retain the security in order to allow for an anticipated recovery in fair value. If, based upon the analysis, it is determined that the impairment is other-than-temporary, the security is written-down to fair value, and a loss is recognized in other expense, net in the Company's condensed consolidated income statement. Other-than-temporary impairments relating to available-for-sale securities for the three months ended March 31, 2014 was \$3.2 million which was primarily due to the less favorable SICAD I 10.7 Bolivars per U.S. dollar rate being used to determine the U.S. dollar equivalent fair value of these Bolivar denominated bonds as opposed to the previous CADIVI 6.3 Bolivars per U.S. dollar rate that was used.

The amortized cost and estimated fair value of these bonds as of March 31, 2014 by contractual maturity are as follows:

| <b>Contractual Maturity</b> | <b>Amortized Cost</b> | <b>Estimated<br/>Market Value</b> |
|-----------------------------|-----------------------|-----------------------------------|
|                             | <b>(In thousands)</b> |                                   |
| Due in 1 year or less       | \$                    | \$                                |
| Due in 1-2 years            |                       |                                   |
| Due in 2-5 years            |                       |                                   |
| Due after 5 years           | 7,253                 | 4,092                             |
| Total investments           | \$ 7,253              | \$ 4,092                          |

Expected disposal dates may be less than the contractual dates as indicated in the table above.

See the Company's 2013 10-K for further information on Herbalife Venezuela and Venezuela's highly inflationary economy.

**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) or market. The following are the major classes of inventory:

|                 | <b>March 31,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|-----------------|---------------------------|------------------------------|
|                 | <b>(In millions)</b>      |                              |
| Raw materials   | \$ 29.0                   | \$ 23.1                      |
| Work in process | 2.8                       | 2.8                          |
| Finished goods  | 293.2                     | 325.3                        |
| Total           | \$ 325.0                  | \$ 351.2                     |

**4. Long-Term Debt**

Long-term debt consists of the following:

|   | <b>March 31,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|---|---------------------------|------------------------------|
|   | <b>(In millions)</b>      |                              |
| Borrowings under the senior secured credit facility             | \$ 912.5                  | \$ 931.3                     |
| Convertible senior notes, carrying value of liability component | 935.8                     |                              |
| <b>Total</b>  | <b>1,848.3</b>            | <b>931.3</b>                 |
| Less: current portion   | 87.5                      | 81.3                         |
| <b>Long-term portion</b>  | <b>\$ 1,760.8</b>         | <b>\$ 850.0</b>              |

*Senior Secured Credit Facility*

On March 9, 2011, the Company entered into a \$700.0 million senior secured revolving credit facility, or the Credit Facility, with a syndicate of financial institutions as lenders and terminated its prior senior secured credit facility, or the Prior Credit Facility. The Credit Facility has a five year maturity and expires on March 9, 2016. Based on the Company's consolidated leverage ratio, U.S.

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dollar borrowings under the Credit Facility bear interest at either LIBOR plus the applicable margin between 1.50% and 2.50% or the base rate plus the applicable margin between 0.50% and 1.50%. The base rate under the Credit Facility represents the highest of the Federal Funds Rate plus 0.50%, one-month LIBOR plus 1.00%, and the prime rate offered by Bank of America. The Company, based on its consolidated leverage ratio, pays a commitment fee between 0.25% and 0.50% per annum on the unused portion of the Credit Facility. The Credit Facility also permits the Company to borrow limited amounts in Mexican Peso and Euro currencies based on variable rates.

In March 2011, the Company used \$196.0 million in U.S. dollar borrowings under the Credit Facility to repay all amounts outstanding under the Prior Credit Facility. The Company incurred approximately \$5.7 million of debt issuance costs in connection with the Credit Facility. These debt issuance costs were recorded as deferred financing costs on the Company's consolidated balance sheet and are being amortized over the term of the Credit Facility.

On July 26, 2012, the Company amended the Credit Facility to include a \$500.0 million term loan with a syndicate of financial institutions as lenders, or the Term Loan. The Term Loan is a part of the Credit Facility and is in addition to the Company's current revolving credit facility. The Term Loan matures on March 9, 2016. The Company will make regular scheduled payments for the Term Loan consisting of both principal and interest components. Based on the Company's consolidated leverage ratio, the Term Loan bears interest at either LIBOR plus the applicable margin between 1.50% and 2.50% or the base rate plus the applicable margin between 0.50% and 1.50% which are the same terms as the Company's revolving credit facility.

In July 2012, the Company used all \$500.0 million of the borrowings under the Term Loan to pay down amounts outstanding under the Company's revolving credit facility. The Company incurred approximately \$4.5 million of debt issuance costs in connection with the Term Loan. The debt issuance costs are recorded as deferred financing costs on the Company's consolidated balance sheet and will be amortized over the life of the Term Loan.

In February 2014, in connection with issuing the \$1.15 billion Convertible Notes described below, the Company amended the Credit Facility. Pursuant to this amendment, the Company amended the terms of the Credit Facility to provide for technical amendments to the indebtedness, asset sale and dividend covenants and the cross-default event of default to accommodate the issuance of the Convertible Notes and the capped call and prepaid forward share repurchase transactions described in greater detail in Note 10, *Shareholders' Equity*. The amendment also increased by 0.50% the highest applicable margin payable by Herbalife in the event that Herbalife's consolidated total leverage ratio is equal to or exceeds 2.50 to 1.00 and increased the permitted consolidated total leverage ratio of Herbalife under the Credit Facility. The Company incurred approximately \$2.3 million of debt issuance costs in connection with the amendment. The debt issuance costs are recorded as deferred financing costs on the Company's consolidated balance sheet and will be amortized over the life of the Credit Facility. On March 31, 2014 and December 31, 2013, the weighted average interest rate for borrowings under the Credit Facility, including borrowings under the Term Loan, was 3.16% and 2.17%, respectively.

The Credit Facility requires the Company to comply with a leverage ratio and a coverage ratio. In addition, the Credit Facility contains customary covenants, including covenants that limit or restrict the Company's ability to incur liens, incur indebtedness, make investments, dispose of assets, make certain restricted payments, pay dividends, repurchase its common shares, merge or consolidate and enter into certain transactions with affiliates. As of March 31, 2014, and December 31, 2013, the Company was compliant with its debt covenants under the Credit Facility.

During the three months ended March 31, 2014, the Company repaid a total amount of \$18.8 million under the Credit Facility. As of March 31, 2014, and December 31, 2013, the U.S. dollar amount outstanding under the Credit Facility was \$912.5 million and \$931.3 million, respectively. Of the \$912.5 million U.S. dollar amount outstanding under the Credit Facility as of March 31, 2014, \$412.5 million was outstanding on the Term Loan and \$500.0 million was



outstanding on the revolving credit facility. Of the \$931.3 million U.S. dollar amount outstanding under the Credit Facility as of December 31, 2013, \$431.3 million was outstanding on the Term Loan and \$500.0 million was outstanding on the revolving credit facility. There were no outstanding foreign currency borrowings as of March 31, 2014 and December 31, 2013 under the Credit Facility.

The fair value of the outstanding borrowings on the Company's revolving credit facility and Term Loan approximated their carrying values as of March 31, 2014, due to their variable interest rates which reprice frequently and represent floating market rates. The fair value of the outstanding borrowings on the Company's revolving credit facility and Term Loan are 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 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

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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, which we refer to as 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. 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 debt issuance costs during the first quarter of 2014 as a result of issuing the Convertible Notes. Of the \$26.6 million incurred, \$21.5 million and \$5.1 million were recorded to deferred financing costs and additional paid-in capital, respectively, in proportion to the allocation of the proceeds of the Convertible Notes. The \$21.5 million recorded to deferred financing costs on the Company's 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 consolidated statements of income 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 March 31, 2014, the outstanding principal on the Convertible Notes was \$1.15 billion, the unamortized debt discount was \$214.2 million, and the carrying amount of the liability component was \$935.8 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 March 31, 2014, the fair value of the liability component relating to the Convertible Notes was approximately \$871 million. At March 31, 2014, the Company determined the fair value of the liability component of the Convertible Notes by reviewing 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 interest rates, credit standing, and yield curves, all of which are defined as level 2 observable inputs. The Company also used a lattice model, which primarily included level 2 inputs such as stock price, volatility, debt yield and dividend yield rates, and level 3 inputs, such as the price of the Convertible Notes at March 31, 2014. Since the Convertible Notes are not publicly traded, the price of the Convertible Notes at March 31, 2014, was obtained from third party sources; these third party sources used level 3 inputs, including private transactions, bid and offer prices, and other market

adjustments in order to determine the price of the Convertible Notes at March 31, 2014. 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 except that the price of the Convertible Notes on the February 7, 2014, issuance date would not be considered a level 3 input as the Convertible Notes price paid by the market participants on the issuance date was an observable input.

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 months ended March 31, 2014, the Company recognized \$8.8 million of interest expense relating to the Convertible Notes, which included \$4.9 million relating to non-cash interest expense relating to the debt discount and \$0.5 million relating to amortization of deferred financing costs. The Company's total interest expense, including the Credit Facility, was \$17.8 million and \$6.8 million for the three months ended March 31, 2014 and 2013, respectively, which was recognized within its condensed consolidated statement of income.

As of March 31, 2014, the aggregate annual maturities of the Credit Facility were expected to be \$62.5 million for the remainder of 2014, \$100.0 million for 2015, and \$750.0 million for 2016. The \$1.15 billion Convertible Notes are due 2019.

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**5. Contingencies**

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

As a marketer of 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, and the reasonably possible range of exposure on currently existing claims is not material to the Company. The Company believes that it has meritorious defenses to the allegations contained in the lawsuits. The Company currently maintains product liability insurance with an annual deductible of \$10 million.

Certain of the Company's subsidiaries have been subject to tax audits by governmental authorities in their respective countries. In certain of these tax audits, governmental authorities are proposing that significant amounts of additional taxes and related interest and penalties are due. The Company and its tax advisors believe that there are substantial defenses to governmental allegations that additional taxes are owed, and the Company is vigorously contesting the additional proposed taxes and related charges. On May 7, 2010, the Company received an assessment from the Mexican Tax Administration Service in an amount equivalent to approximately \$88 million, translated at the period ended spot rate, for various items, the majority of which was Value Added Tax, or VAT, allegedly owed on certain of the Company's products imported into Mexico during the years 2005 and 2006. This assessment is subject to interest and inflationary adjustments. On July 8, 2010, the Company initiated a formal administrative appeal process. On May 13, 2011, the Mexican Tax Administration Service issued a resolution on the Company's administrative appeal. The resolution nullified the assessment. Since the Mexican Tax Administration Service can further review the tax audit findings and re-issue some or all of the original assessment, the Company commenced litigation in the Tax Court of Mexico in August 2011 to dispute the assertions made by the Mexican Tax Administration Service in the case. The Mexican Tax Administration Service filed a response which was received by the Company in April 2012. The response challenged the assertions that the Company made in its August 2011 filing. Litigation in this case is currently ongoing.

Prior to the nullification of the Mexican Tax Administration Service assessment relating to the 2005 and 2006 years the Company entered into agreements with certain insurance companies to allow for the potential issuance of surety bonds in support of its appeal of the assessment. Such surety bonds, if issued, would not affect the availability of the Company's Credit Facility. These arrangements with the insurance companies remain in place in the event that the assessment is re-issued.

The 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 \$22 million, translated at the period ended spot rate, related to that period. On July 11, 2013, the Company filed an administrative appeal disputing the assessment. In addition, the Mexican Tax Administration Service has requested additional information in response to Company filings for VAT refunds. The Company has not recognized a loss as the Company does not believe a loss is probable.

The Mexican Tax Administration Service audited the Company's Mexican subsidiaries for the 2011 year. The audit focused on importation and VAT issues. On June 25, 2013, the Mexican Tax Administration Service closed the audit of the 2011 year without any assessment.

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 the assessment was re-issued or any additional assessments were to be issued for these or other periods. The Company believes that it has meritorious defenses if the assessment is re-issued or would have meritorious defenses if any additional assessment is issued.

The Mexican Tax Administration Service has requested information related to the Company's 2010 year. This information has been provided. The Company expects that the Mexican Tax Administration Service will request additional information as this process continues.

The Company received an assessment from the Spanish Tax Authority in an amount equivalent to approximately \$4.4 million translated at the period ended spot rate, for withholding taxes, interest and penalties related to payments to Spanish Members for the 2003-2004 periods. The Company appealed the assessment to the National Appellate Court (Audiencia Nacional). Based on the ruling of the National Appellate Court, substantially all of the assessment was nullified. The Company began withholding taxes on payments to Spanish Members for the 2012 year. If the Spanish Tax Authority raises the same issue in later years, the Company believes that it has meritorious defenses. The Company has not recognized a loss as the Company does not believe a loss is probable. The Company is currently unable to reasonably estimate a possible loss or range of loss that could result from an unfavorable outcome if additional assessments for other periods were to be issued.

The Company received a tax assessment in September 2009, from the Federal Revenue Office of Brazil in an amount equivalent to approximately \$3.8 million U.S. dollars, translated at the period ended spot rate, related to withholding/contributions based on payments to the Company's Members during 2004. The Company has appealed this tax assessment to the Administrative Council of Tax Appeals (2nd level administrative appeal) as it believes it has meritorious defenses and it has not recognized a loss as the Company does not believe a loss is probable. On March 6, 2014, the Company was notified of a similar audit of the 2011 year. 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.

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The Company received an order from a Rome Labor Court on behalf of the Social Security Authority on March 1, 2012, to pay an amount equivalent to approximately \$7.3 million U.S. dollars, translated at the period ended spot rate, for social contributions, interest and penalties related to payments to Italian Members from 2002 through 2005. The Company has filed a writ with the Rome Labor Court appealing the order and the Social Security Authority filed a response brief. At a hearing on July 12, 2012, the Social Security Authority announced its intention to withdraw their claim as well as the order to pay the assessment. A hearing on this matter was originally scheduled for October 23, 2012 but it has been postponed and is rescheduled for June 26, 2014. The Company has not recognized a loss as the Company does not believe a loss is probable.

The Korea Customs Service is currently auditing the importation activities of Herbalife Korea for the 2009-2013 period. If an assessment is issued, the Company would be required to pay the amount requested in order to appeal the assessment. Based on the Company's analysis and guidance from its advisors, the Company does not believe a loss is probable. Further, the Company is currently unable to reasonably estimate a possible loss or range of loss.

These matters may take several years to resolve. While the Company believes it has meritorious defenses, it cannot be sure of their ultimate resolution. Although the Company 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 products, nutritional supplements and personal care products. The Company's products are manufactured by third party providers and by the Company in its Changsha, Hunan, China extraction facility, Suzhou, China facility and in its Lake Forest, California facility, 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 March 31, 2014, the Company sold products in 91 countries throughout the world and was organized and managed by geographic regions. The Company aggregates its operating segments, excluding China, into one reporting segment, or the Primary Reporting Segment, as management believes that the Company's operating segments have similar operating characteristics and similar long term operating performance. In making this determination, management believes that the operating segments are similar in the nature of the products sold, the product acquisition process, the types of customers to whom products are sold, the methods used to distribute the products, and the nature of the regulatory environment. China has been identified as a separate reporting segment as it does not meet the criteria for aggregation. The operating information for the Primary Reporting Segment and China, and sales by product line are as follows:

|                           | <b>Three Months Ended</b> |                  |
|---------------------------|---------------------------|------------------|
|                           | <b>March 31,</b>          | <b>March 31,</b> |
|                           | <b>2014</b>               | <b>2013</b>      |
|                           | <b>(In millions)</b>      |                  |
| <b>Net Sales:</b>         |                           |                  |
| Primary Reporting Segment |                           |                  |
| United States             | \$ 234.0                  | \$ 216.2         |
| Mexico                    | 142.7                     | 132.9            |

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|  |                   |                   |
|--|-------------------|-------------------|
| South Korea                            | 99.0              | 110.0             |
| Others                                 | 651.1             | 596.0             |
| <b>Total Primary Reporting Segment</b> | <b>1,126.8</b>    | <b>1,055.1</b>    |
| China                                  | 135.8             | 68.5              |
| <b>Total Net Sales</b>                 | <b>\$ 1,262.6</b> | <b>\$ 1,123.6</b> |

**Contribution Margin(1)(2):**

|  |              |              |
|--|--------------|--------------|
| <b>Primary Reporting Segment</b>       |              |              |
| United States                          | \$ 100.6     | \$ 94.7      |
| Mexico                                 | 61.4         | 58.6         |
| South Korea                            | 55.4         | 55.2         |
| Others                                 | 287.9        | 264.7        |
| <b>Total Primary Reporting Segment</b> | <b>505.3</b> | <b>473.2</b> |
| China                                  | 124.4        | 60.5         |

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|   | <b>Three Months Ended</b> |                  |
|---|---------------------------|------------------|
|   | <b>March 31,</b>          | <b>March 31,</b> |
|   | <b>2014</b>               | <b>2013</b>      |
|   | <b>(In millions)</b>      |                  |
| Total Contribution Margin                       | \$ 629.7                  | \$ 533.7         |
| Selling, general and administrative expenses(2) | 502.0                     | 364.7            |
| Interest expense, net                           | 15.0                      | 5.4              |
| Other expense, net                              | 3.2                       |                  |
| Income before income taxes                      | 109.5                     | 163.6            |
| Income taxes                                    | 34.9                      | 44.7             |
| Net Income                                      | \$ 74.6                   | \$ 118.9         |
| <b>Net sales by product line:</b>               |                           |                  |
| Weight Management                               | \$ 807.6                  | \$ 711.6         |
| Targeted Nutrition                              | 284.0                     | 256.9            |
| Energy, Sports and Fitness                      | 66.7                      | 58.3             |
| Outer Nutrition                                 | 39.7                      | 38.2             |
| Literature, promotional and other(3)            | 64.6                      | 58.6             |
| Total Net Sales                                 | \$ 1,262.6                | \$ 1,123.6       |
| <b>Net sales by geographic region:</b>          |                           |                  |
| North America                                   | \$ 247.8                  | \$ 221.5         |
| Mexico  | 142.7                     | 132.9            |
| South and Central America                       | 244.7                     | 219.4            |
| EMEA  | 211.2                     | 169.5            |
| Asia Pacific                                    | 280.4                     | 311.8            |
| China   | 135.8                     | 68.5             |
| Total Net Sales                                 | \$ 1,262.6                | \$ 1,123.6       |

- (1) Contribution margin consists of net sales less cost of sales and royalty overrides.
- (2) Service fees to China independent service providers totaling \$61.6 million and \$31.4 million for the three months ended March 31, 2014 and 2013, respectively, are included in selling, general and administrative expenses while Member compensation for all other countries is included in contribution margin.
- (3) Product buybacks and returns in all product categories are included in the literature, promotional and other category.

As of March 31, 2014 and December 31, 2013, total assets for the Company's Primary Reporting Segment were \$2,618.8 million and \$2,253.7 million, respectively. Total assets for the China segment were \$237.8 million and \$220.0 million as of March 31, 2014 and December 31, 2013, respectively. As of March 31, 2014 and December 31, 2013, goodwill allocated to the Company's reporting units included in the Company's Primary Reporting Segment was \$102.4 million for both periods. Goodwill allocated to the China segment was \$3.1 million as of March 31, 2014 and December 31, 2013.



## 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 2013 10-K. During the three months ended March 31, 2014, the Company granted stock awards subject to continued service, consisting of stock appreciation rights, or SARs, with vesting terms fully described in the 2013 10-K.

For the three months ended March 31, 2014 and 2013, share-based compensation expense amounted to \$11.0 million and \$7.9 million, respectively. As of March 31, 2014, the total unrecognized compensation cost related to all non-vested stock awards was \$47.5 million and the related weighted-average period over which it is expected to be recognized is approximately 1.4 years.

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The following tables summarize the activity under all share-based compensation plans for the three months ended March 31, 2014:

| <b>Stock Options &amp; SARs</b>             | <b>Awards<br/>(In thousands)</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term</b> | <b>Aggregate<br/>Intrinsic<br/>Value(1)<br/>(In millions)</b> |
|---|----------------------------------|--|--|---|
| Outstanding at December 31, 2013(2) (3) (4) | 12,143                           | \$ 33.24   | 5.3 years  | \$ 552.9  |
| Granted                                     | 17                               | \$ 69.80   |  |   |
| Exercised                                   | (303)                            | \$ 24.21   |  |   |
| Forfeited                                   | (4)                              | \$ 46.01   |  |   |
| Outstanding at March 31, 2014(2) (3) (4)    | 11,853                           | \$ 33.52   | 5.0 years  | \$ 307.0  |
| Exercisable at March 31, 2014(2)            | 7,521                            | \$ 20.25   | 3.6 years  | \$ 279.5  |

- (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 1.5 million market condition SARs.  
(3) Includes 0.9 million market and performance condition SARs.  
(4) Includes 0.4 million performance condition SARs.

The weighted-average grant date fair value of SARs granted during the three months ended March 31, 2014 and 2013 was \$28.68 and \$11.15, respectively. The total intrinsic value of stock options and SARs exercised during the three months ended March 31, 2014 and 2013 was \$14.8 million and \$0.3 million, respectively.

| <b>Incentive Plan and Independent Directors Stock Units</b> | <b>Shares<br/>(In thousands)</b> | <b>Weighted<br/>Average<br/>Grant Date<br/>Fair<br/>Value</b> |
|---|----------------------------------|---|
| Outstanding and nonvested December 31, 2013                 | 144.5                            | \$ 14.36  |
| Granted   |                                  |   |
| Vested  | (130.7)                          | \$ 9.62   |
| Forfeited   |                                  |   |
| Outstanding and nonvested at March 31, 2014                 | 13.8                             | \$ 59.34  |

The total vesting date fair value of stock units which vested during the three months ended March 31, 2014 and 2013, was \$8.2 million and \$4.3 million, respectively.

The Company recognizes excess tax benefits associated with share-based compensation to shareholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, the Company follows the with-and-without approach. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company, which are also subject to applicable limitations. As of March 31, 2014 and December 31, 2013, the Company had \$16.5 million and \$15.4 million, respectively, of unrealized excess tax benefits.

## 8. Income Taxes

Income taxes were \$34.9 million for the three months ended March 31, 2014, as compared to \$44.7 million for the same period in 2013. The effective income tax rate was 31.8% for the three months ended March 31, 2014, as compared to 27.3% for the same period in 2013. The increase in the effective tax rate for the three months ended March 31, 2014, as compared to the same period in 2013, was primarily due to the inability to fully realize a tax benefit relating to Herbalife Venezuela's foreign exchange losses, the impact of changes in the geographic mix of the Company's income, and a decrease in net benefits from discrete events.

As of March 31, 2014, the total amount of unrecognized tax benefits, including related interest and penalties was \$36.6 million. If the total amount of unrecognized tax benefits was recognized, \$29.6 million of unrecognized tax benefits, \$4.1 million of interest and \$1.1 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 \$10.6 million within the next twelve months. Of this possible decrease, \$6.8 million would be due to the settlement of audits or resolution of administrative or judicial proceedings. The remaining possible decrease of \$3.8 million would be due to the expiration of statute of limitations in various jurisdictions.

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The Company previously engaged in an interest rate hedging strategy for which the hedged transactions were the forecasted interest payments on the Credit Facility. The hedged risk was the variability of forecasted interest rate cash flows, where the hedging strategy involved the purchase of interest rate swaps. These interest rate swaps expired in July 2013 and the Company has not entered into new interest swap arrangements as of March 31, 2014.

***Foreign Currency Instruments***

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

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 statement of income during the period which approximates the time the hedged inventory is sold. The Company also hedges forecasted intercompany management fees over specific months. 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 statement of income during the period when the hedged item and underlying transaction affect earnings.

As of March 31, 2014 and December 31, 2013, the aggregate notional amounts of all foreign currency contracts outstanding designated as cash flow hedges were approximately \$215.2 million and \$244.7 million, respectively. At March 31, 2014, these outstanding contracts were expected to mature over the next twelve 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 March 31, 2014, the Company recorded assets at fair value of \$2.9 million and liabilities at fair value of \$3.3 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. As of December 31, 2013, the Company recorded assets at fair value of \$5.7 million and liabilities at fair value of \$4.4 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. The Company assesses hedge effectiveness and measures hedge ineffectiveness at least quarterly. During the three months ended March 31, 2014, and 2013, the ineffective portion relating to these hedges was immaterial and the hedges remained effective as of March 31, 2014, and December 31, 2013.

As of March 31, 2014 and December 31, 2013, 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 three months as of March 31, 2014 and December 31, 2013. There were no foreign currency option contracts

outstanding as of March 31, 2014 and December 31, 2013. As of March 31, 2014, the Company had aggregate notional amounts of approximately \$559.6 million of foreign currency contracts, inclusive of freestanding contracts and contracts designated as cash flow hedges.

***Gains and Losses on Derivative Instruments***

The following table summarizes gains (losses) relating to derivative instruments recorded in other comprehensive income (loss) during the three months ended March 31, 2014, and 2013:

**Amount of Gain (Loss) Recognized  
in Other Comprehensive Income (Loss)  
For the Three Months Ended  
March 31, 2014      March 31, 2013  
(In millions)**

| <b>Derivatives designated as hedging instruments:</b>  |    |       |
|--|----|-------|
| Foreign exchange currency contracts relating to inventory and intercompany management fee hedges | \$ | (0.2) |
|  | \$ | (4.1) |

The following table summarizes gains (losses) relating to derivative instruments recorded to income during the three months ended March 31, 2014 and 2013:

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|   | Location of Gain<br>(Loss)<br>Recognized in Income | Amount of Gain (Loss)<br>Recognized in Income<br>For the Three Months Ended |                |
|---|--|---|----------------|
|   |  | March 31, 2014  | March 31, 2013 |
| (In millions)   |  |   |                |
| <b>Derivatives designated as hedging instruments:</b>   |  |   |                |
| Foreign exchange currency contracts relating to inventory hedges and intercompany management fee hedges (1) | Selling, general and administrative expenses       | \$ (1.6)  | \$ (1.1)       |
| <b>Derivatives not designated as hedging instruments:</b>   |  |   |                |
| Foreign exchange currency contracts   | Selling, general and administrative expenses       | \$ (2.9)  | \$ (8.7)       |

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

The following table summarizes gains (losses) relating to derivative instruments reclassified from accumulated other comprehensive loss into income during the three months ended March 31, 2014 and 2013:

|  | Location of Gain<br>(Loss)<br>Reclassified<br>from Accumulated<br>Other Comprehensive<br>Loss into Income<br>(Effective Portion) | Amount of Gain (Loss) Reclassified<br>from Accumulated<br>Other Comprehensive<br>Loss into Income<br>For the Three Months<br>Ended |                |
|--|--|--|----------------|
|  |  | March 31, 2014   | March 31, 2013 |
| (In millions)  |  |  |                |
| <b>Derivatives designated as hedging instruments:</b>                              |  |  |                |
| Foreign exchange currency contracts relating to inventory hedges                   | Cost of sales  | \$ 0.3   | \$ (1.3)       |
| Foreign exchange currency contracts relating to intercompany management fee hedges | Selling, general and administrative expenses   |  | \$ (0.1)       |
| Interest rate contracts  | Interest expense, net  |  | \$ (0.9)       |

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 March 31, 2014, and December 31, 2013.

**10. Shareholders Equity**

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Changes in shareholders' equity for the three months ended March 31, 2014 were as follows (in thousands):

|   |            |
|---|------------|
| Total shareholders' equity as of December 31, 2013  | \$ 551,446 |
| Net income  | 74,628     |
| Issuance of common shares from exercise of stock options, SARs, restricted stock grants, and employee stock purchase plan | 60         |
| Excess tax benefit from exercise of stock options, SARs and restricted stock grants                                       | 3,154      |
| Additional capital from share-based compensation  | 10,995     |
| Repurchases of common shares, including Forward Transactions  | (694,503)  |
| Allocation to additional paid-in capital due to issuance of senior convertible notes and Forward Transactions.            | 249,797    |
| Reduction in additional paid-in capital from purchased capped call  | (123,825)  |
| Dividends paid and received, net  | (26,955)   |
| Foreign currency translation adjustment, net of income taxes  | (2,183)    |
| Unrealized loss on derivatives, net of income taxes   | (413)      |
| Unrealized loss on available-for-sale investments, net of income taxes  | (95)       |
| Total shareholders' equity as of March 31, 2014   | \$ 42,106  |

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

On February 18, 2014, the Company announced that its board of directors approved a cash dividend of \$0.30 per common share in an aggregate amount of \$30.4 million that was paid to shareholders on March 18, 2014. The aggregate total amount of dividends declared and paid during the three months ended March 31, 2014, and 2013, were \$30.4 million and \$30.9 million, respectively. During the three months ended March 31, 2014, the Company received \$3.4 million of dividends primarily relating to the Forward Transactions described below which was recorded directly to its (accumulated deficit) retained earnings.

***Share Repurchases***

On July 30, 2012, the Company announced that its board of directors authorized a new \$1 billion share repurchase program that will expire on June 30, 2017. On February 3, 2014, the Company announced that its board of directors authorized an increase in the existing share repurchase authorization to an available balance of \$1.5 billion. This share repurchase program allows the Company to repurchase its 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 the consolidated leverage ratio specified in the Credit Facility is not exceeded.

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 Forward Counterparties, pursuant to which the Company purchased approximately 9.9 million common shares 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 Transaction early. The Forward Transactions are 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. As a result of this transaction, the Company's total shareholders' equity within its 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) retained earnings and additional paid-in-capital, respectively, within total shareholders' equity. Also, upon executing the Forward Transactions, the Company recorded \$35.8 million in non-cash issuance costs with a corresponding amount to additional paid-in-capital, reflecting the fair value of the Forward Transactions. The non-cash issuance costs will be amortized over the term of the Forward Transactions. For the three months ended March 31, 2014, the Company recognized \$1.0 million of non-cash interest expense within its consolidated statement of income relating to amortization of these non-cash issuance costs.

As a result of the Forward Transaction, the Company had effectively purchased approximately 9.9 million common shares at an average cost of \$69.02 per share which are treated as retired for basic and diluted EPS purposes although they remain legally outstanding. As of March 31, 2014, the remaining authorized capacity under the Company's share



repurchase program was \$814.2 million and had been reduced as a result of the Forward Transactions.

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

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

**Table of Contents*****Capped Call Transactions***

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 \$120.79. As a result of the Capped Call Transactions, the Company's additional paid-in capital within shareholders' equity on its 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 March 31, 2014:

|  | <b>Changes in Accumulated Other Comprehensive<br/>Income (Loss) by Component<br/>Three Months Ended March 31, 2014</b> |  |  |  |              |
|--|--|--|--|--|--------------|
|  | <b>Foreign<br/>Currency<br/>Translation<br/>Adjustments</b>  | <b>Unrealized<br/>Gain (Loss) on<br/>Derivatives</b> | <b>Unrealized Gain<br/>(Loss) on<br/>Available-For-<br/>Sale Investments</b> |  | <b>Total</b> |
|  | <b>(In millions)</b>   |  |  |  |              |
| Beginning Balance  | \$ (25.6)  | \$ 5.7   | \$ 0.1   |  | \$ (19.8)    |
| Other comprehensive income (loss)<br>before reclassifications, net of tax  | (2.2)  | (0.1)  | (2.1)  |  | (4.4)        |
| Amounts reclassified from accumulated<br>other comprehensive income (loss) to<br>income, net of tax <sup>(1)</sup> |  | (0.3)  | 2.0  |  | 1.7          |
| Total other comprehensive income (loss),<br>net of reclassifications   | (2.2)  | (0.4)  | (0.1)  |  | (2.7)        |
| Ending balance   | \$ (27.8)  | \$ 5.3   | \$   |  | \$ (22.5)    |

- (1) See Note 2, *Significant Accounting Policies*, and Note 9, *Derivative Instruments and Hedging Activities*, for information regarding the location in the condensed consolidated statements of income of gains (losses) reclassified from accumulated other comprehensive income (loss) into income during the three months ended March 31, 2014.

Other comprehensive income (loss) before reclassifications was net of tax benefits of \$0.1 million, \$0.1 million, and \$1.1 million for foreign currency translation adjustments, unrealized gain (loss) on derivatives, and unrealized gain (loss) on available-for-sale investments, respectively, for the three months ended March 31, 2014. Amounts reclassified from accumulated other comprehensive income (loss) to income was net of tax expense of \$1.0 million for unrealized gain (loss) on available-for-sale investments for the three months ended March 31, 2014.

## 11. Earnings Per Share

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

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

|  | <b>For the Three Months<br/>Ended March 31,</b> |             |
|--|---|-------------|
|  | <b>2014</b>                                     | <b>2013</b> |
|  | <b>(in thousands)</b>                           |             |
| Weighted average shares used in basic computations       | 95,397  | 104,121     |
| Dilutive effect of exercise of equity grants outstanding | 5,383   | 3,947       |
| Weighted average shares used in diluted computations     | 100,780   | 108,068     |

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There were an aggregate of 2.0 million and 4.2 million of equity grants that were outstanding during the three months ended March 31, 2014 and 2013, respectively, consisting of stock options, SARs, and stock units, but were not included in the computation of diluted earnings per share because their effect would be anti-dilutive or the market condition for the award has not been satisfied.

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 conversion price of \$86.28 per share. For the three months ended March 31, 2014, 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 stock for the three months ended March 31, 2014. The initial conversion rate and conversion price is described further in Note 4, *Long-Term Debt*.

The Capped Call Transactions executed in connection with the issuance of the Company's Convertible Notes are excluded from the calculation of diluted earnings per share because their impact is always anti-dilutive.

**12. Fair Value Measurements**

The Company applies the provisions of the Financial Accounting Standards Board 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 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 March 31, 2014 and December 31, 2013:

**Fair Value Measurements at Reporting Date**

| Derivative Balance<br>Sheet<br>Location   | Significant<br>Other<br>Observable<br>Inputs<br>(Level<br>2)<br>Fair Value at<br>March 31,<br>2014 | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2)<br>Fair<br>Value at<br>December 31,<br>2013 |
|---|--|---|
| <b>ASSETS:</b>  |  |   |
| <b>Derivatives designated as cash<br/>flow hedging instruments:</b>                                       |  |   |
| Foreign exchange currency<br>contracts relating to inventory<br>and intercompany management<br>fee hedges | Prepaid expenses and other<br>current assets   | \$ 2.9  |
|   |  | \$ 5.7  |
| <b>Derivatives not designated as<br/>cash flow hedging instruments:</b>                                   |  |   |
| Foreign exchange currency<br>contracts  | Prepaid expenses and other<br>current assets   | \$ 0.6  |
|   |  | \$ 2.3  |
|   |  | \$ 3.5  |
|   |  | \$ 8.0  |
| <b>LIABILITIES:</b>   |  |   |
| <b>Derivatives designated as cash<br/>flow hedging instruments:</b>                                       |  |   |
| Foreign exchange currency<br>contracts relating to inventory<br>and intercompany management<br>fee hedges | Accrued expenses   | \$ 3.3  |
|   |  | \$ 4.4  |
| <b>Derivatives not designated as<br/>hedging instruments:</b>   |  |   |
| Foreign exchange currency<br>contracts  | Accrued expenses   | \$ 2.3  |
|   |  | \$ 0.7  |
|   |  | \$ 5.6  |
|   |  | \$ 5.1  |

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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 Company's 2013 10-K for a further description of its 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 March 31, 2014 and December 31, 2013:

| <b>Offsetting of Derivative Assets</b> |   |  |   |
|--|---|--|---|
|  | <b>Gross<br/>Amounts of<br/>Recognized<br/>Assets</b> | <b>Gross<br/>Amounts<br/>Offset in the<br/>Balance Sheet<br/>(In millions)</b> | <b>Net<br/>Amounts<br/>of Assets<br/>Presented in<br/>the<br/>Balance<br/>Sheet</b> |
| <b>March 31, 2014</b>                  |   |  |   |
| Foreign exchange currency contracts    | \$ 3.5  | \$ (2.6)   | \$ 0.9  |
| <b>Total</b>                           | <b>\$ 3.5</b>   | <b>\$ (2.6)</b>  | <b>\$ 0.9</b>   |
| <b>December 31, 2013</b>               |   |  |   |
| Foreign exchange currency contracts    | \$ 8.0  | \$ (3.0)   | \$ 5.0  |
| <b>Total</b>                           | <b>\$ 8.0</b>   | <b>\$ (3.0)</b>  | <b>\$ 5.0</b>   |

| <b>Offsetting of Derivative Liabilities</b> |  |  |  |
|---|--|--|--|
|   | <b>Gross<br/>Amounts<br/>of<br/>Recognized<br/>Liabilities</b> | <b>Gross<br/>Amounts<br/>Offset in<br/>the<br/>Balance<br/>Sheet<br/>(In millions)</b> | <b>Net Amounts<br/>of<br/>Liabilities<br/>Presented<br/>in<br/>the<br/>Balance<br/>Sheet</b> |
| <b>March 31, 2014</b>                       |  |  |  |
| Foreign exchange currency contracts         | \$ 5.6   | \$ (2.6)   | \$ 3.0   |
| <b>Total</b>                                | <b>\$ 5.6</b>  | <b>\$ (2.6)</b>  | <b>\$ 3.0</b>  |
| <b>December 31, 2013</b>                    |  |  |  |

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|                                     |        |          |        |
|-------------------------------------|--------|----------|--------|
| Foreign exchange currency contracts | \$ 5.1 | \$ (3.0) | \$ 2.1 |
| Total                               | \$ 5.1 | \$ (3.0) | \$ 2.1 |

The Company offsets all of its derivative assets and derivative liabilities in its consolidated balance sheet to the extent it maintains master netting arrangements with related financial institutions. As of March 31, 2014, and December 31, 2013, 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.

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**13. Professional Fees and Other Expenses**

In late 2012, a hedge fund manager publicly raised allegations regarding the legality of the Company's network marketing program and announced that the hedge fund manager had taken a significant short position regarding the Company's common shares, leading to intense public scrutiny and significant stock price volatility. The Company believes that the hedge fund manager's allegations are inaccurate and misleading. The Company has engaged legal and advisory firms to assist with responding to the allegations and to perform other related services in connection to these events. The Company recognizes the related expenses as a part of selling, general & administrative expenses within its consolidated statement of income. For the three months ended March 31, 2014 and 2013, the Company recorded approximately \$4.3 million and \$9.5 million, respectively, of professional fees and other expenses related to this matter.

Of the approximately \$4.3 million and \$9.5 million in expenses incurred during the three months ended March 31, 2014 and 2013, respectively, discussed above, approximately \$1.3 million and \$1.5 million, respectively, were recognized for advisory retainer fees. The minimum guaranteed retainer fees were approximately \$3.0 million as of March 31, 2014 and the expense recognition of these fees could accelerate based on certain conditions.

The Company also had a cash settlement liability award, or the Liability Award, outstanding as of March 31, 2014 and December 31, 2013, which is tied to the Company's stock price and which only vests if certain conditions are met relating to the above matter. The fair value of the Liability Award will be revalued each quarter until settlement and the Company will recognize and adjust the expense over the expected requisite service period. The benefit and expense recognized during the three months ended March 31, 2014 and 2013, relating to the Liability Award was approximately \$0.5 million and \$1.0 million, respectively, and is included in the approximately \$4.3 million and \$9.5 million amounts described above. The remaining unrecognized expense relating to the Liability Award was approximately \$2.0 million as of March 31, 2014, based on the fair value of the Liability Award as of that date. The recognition of the unrecognized expense relating to the Liability Award could accelerate and change based on certain conditions.

**14. Subsequent Events**

As of April 25, 2014, the Company paid approximately \$255 million and repurchased approximately 4.5 million of its common shares through open market purchases during April 2014 pursuant to Rule 10b5-1 trading plans.



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

**Overview**

We are a global nutrition company that sells weight management products, nutritional supplements, energy, sports & fitness products and personal care products. As of March 31, 2014, we sold our products to and through a network of 3.9 million independent members, or Members, which included approximately 0.2 million in China. In China, we sell our products through retail stores, sales representatives, sales officers, and independent service providers. Other than in China, we are in the process of making the terminology change from distributors to Members, since most of them are discount customers. 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 financially rewarding business opportunity to those Members who seek part time or full time 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 34-year operating history. As of March 31, 2014, we sold our products in 91 countries.

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 and the aging of the worldwide population, 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 part time or full time 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, recruiting and retaining Members, improving Member productivity, opening new markets, further penetrating existing 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. Management also continues to monitor the Venezuelan market and especially the limited ability to repatriate cash.

We report revenue from our six regions:

North America;

Mexico;

South and Central America;

EMEA, which consists of Europe, the Middle East and Africa;

Asia Pacific (excluding China); and

China.

### **Volume Points by Geographic Region**

A key non-financial measure we focus on is Volume Points on a Royalty Basis, or Volume Points, which is essentially our weighted average measure of product sales volume. Volume Points, which are unaffected by exchange rates or price changes, are used by management as a proxy for sales trends because in general, an increase in Volume Points in a particular geographic region or country indicates an increase in our local currency net sales while a decrease in Volume Points in a particular geographic region or country indicates a decrease in our local currency net sales.

We assign a Volume Point value to a product when it is first introduced into 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.

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|                                | <b>Three Months Ended March 31,</b> |             |                 |
|--------------------------------|-------------------------------------|-------------|-----------------|
|                                | <b>2014</b>                         | <b>2013</b> | <b>% Change</b> |
|                                | <b>(Volume points in millions)</b>  |             |                 |
| North America                  | 336.5                               | 309.0       | 8.9%            |
| Mexico                         | 220.2                               | 206.3       | 6.7%            |
| South & Central America        | 227.7                               | 219.8       | 3.6%            |
| EMEA                           | 202.2                               | 161.3       | 25.4%           |
| Asia Pacific (excluding China) | 302.1                               | 320.0       | (5.6)%          |
| China                          | 91.1                                | 47.6        | 91.4%           |
| Worldwide                      | 1,379.8                             | 1,264.0     | 9.2%            |

**Average Active Sales Leaders by Geographic Region**

With the continued expansion of daily consumption DMOs in our different markets and our objective to improve Member retention, we believe the Average Active Sales Leader is a useful metric. It represents the monthly average number of sales leaders that place an order, including orders of non-sales leader Members in their downline sales organization, during a given period. We rely on this metric as an indication of the engagement level of sales leaders in a given region. Changes in the Average Active Sales Leader metric may be indicative of potential for changes in annual retention levels and future sales growth.

|                                | <b>Three Months Ended March 31,</b> |             |                 |
|--------------------------------|-------------------------------------|-------------|-----------------|
|                                | <b>2014</b>                         | <b>2013</b> | <b>% Change</b> |
| North America                  | 74,241                              | 68,352      | 8.6%            |
| Mexico                         | 63,568                              | 60,216      | 5.6%            |
| South & Central America        | 61,862                              | 52,049      | 18.9%           |
| EMEA                           | 54,113                              | 46,094      | 17.4%           |
| Asia Pacific (excluding China) | 71,627                              | 68,690      | 4.3%            |
| China                          | 16,648                              | 11,864      | 40.3%           |
| Worldwide(1)                   | 329,902                             | 296,916     | 11.1%           |

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

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

Our compensation system requires each sales leader to re-qualify for such status each year, prior to February, in order to maintain their 50% discount on products and be eligible to receive royalty payments. In February of each year, we demote from the rank of sales leader those 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). For the latest twelve month re-qualification period ending January 31, 2014, approximately 51.8% of our sales leaders, excluding China and temporarily Venezuela, re-qualified. We chose not to require Venezuelan sales leaders to re-qualify for the latest twelve month re-qualification period ending January 31, 2014, due to product supply limitation that may have prevented some sales leaders from re-qualifying. However, had we demoted those Venezuelan sales leaders that did not meet our

re-qualifying criteria, our overall retention rate would have been slightly higher than 51.8%.

| <b>Sales Leaders Statistics (Excluding China)</b> | <b>2014</b>           | <b>2013</b>  |
|---|-----------------------|--------------|
|   | <b>(In thousands)</b> |              |
| January 1 total sales leaders                     | 625.8                 | 583.1        |
| January & February new sales leaders              | 33.0                  | 37.1         |
| Demoted sales leaders (did not re-qualify)        | (201.2)               | (182.8)      |
| Other sales leaders (resigned, etc)               | (1.5)                 | (1.3)        |
| <b>End of February total sales leaders</b>        | <b>456.1</b>          | <b>436.1</b> |

The statistics below further highlight the calculation for retention.

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| <b>Sales Leaders Retention (Excluding China)</b> | <b>2014</b>           | <b>2013</b>  |
|--|-----------------------|--------------|
|  | <b>(In thousands)</b> |              |
| Sales leaders needed to re-qualify               | 417.7                 | 379.6        |
| Demoted sales leaders (did not re-qualify)       | (201.2)               | (182.8)      |
| <b>Total re-qualified</b>                        | <b>216.5</b>          | <b>196.8</b> |
| Retention rate                                   | 51.8%                 | 51.8%        |

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.

|                                | <b>Number of Sales Leaders</b> |             | <b>Sales Leaders Retention Rate</b> |             |
|--------------------------------|--------------------------------|-------------|-------------------------------------|-------------|
|                                | <b>2014</b>                    | <b>2013</b> | <b>2014</b>                         | <b>2013</b> |
| North America                  | 86,129                         | 86,469      | 55.1%                               | 54.7%       |
| Mexico                         | 78,818                         | 78,453      | 54.2%                               | 57.6%       |
| South & Central America        | 102,152                        | 79,351      | 54.9%                               | 53.6%       |
| EMEA                           | 62,723                         | 57,071      | 67.7%                               | 60.7%       |
| Asia Pacific (excluding China) | 126,229                        | 134,714     | 39.9%                               | 40.1%       |
| Total Sales Leaders            | 456,051                        | 436,058     | 51.8%                               | 51.8%       |
| China                          | 30,037                         | 30,304      |                                     |             |
| Worldwide Total Sales Leaders  | 486,088                        | 466,362     |                                     |             |

Sales leaders purchase most of our products for resale to other Members and 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.

We provide Members with products, support materials, training, special events and a competitive compensation program. If a Member wants to pursue the Herbalife business opportunity, the Member is responsible for growing his or her business and personally pays for the sales activities related to attracting new customers and recruiting Members. Activities may include hosting events such as Herbalife Opportunity Meetings or Success Training Seminars; advertising Herbalife's products; purchasing and using promotional materials such as t-shirts, buttons and caps; utilizing and paying for direct mail and print material such as brochures, flyers, catalogs, business cards, posters and banners and telephone book listings; purchasing inventory for sale or use as samples; and training and mentoring customers and recruits on how to use Herbalife products and/or pursue the Herbalife business opportunity.

**Presentation**

*Retail sales* represent the suggested retail price of products we sell to our Members and is the gross sales amount reflected on our invoices. 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 sales less distributor allowances as *Product Sales* .

Total distributor allowances for the three months ended March 31, 2014 and 2013 were 42.4% and 45.6% of Retail Sales, respectively. Distributor allowances as a percentage of retail sales may vary by country depending upon regulatory restrictions that limit or otherwise restrict distributor allowances. We also offer reduced distributor allowances with respect to certain products worldwide. 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.

During 2013 we simplified our pricing structure for most markets, increasing suggested retail prices and reducing total shipping and handling fees, eliminating a *packaging and handling* line item from our invoices to Members, with no impact on total Member cost. In conjunction, the method for Distributor Allowances and Marketing Plan payouts now generally utilizes 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. Consequently, the revision to our pricing structure did not have a meaningful impact on the amounts of Distributor Allowance or payouts under our Marketing Plan and did not materially impact our consolidated Net Sales and profitability.

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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 sales 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 sales because of its fundamental role in our systems, internal controls and operations, and its correlation to Member discounts and Royalty Overrides. In addition, it is used as the basis for certain information included in daily and monthly reports reviewed by our management. However, such a measure is not in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. Retail sales should not be considered in isolation from, nor as a substitute for, net sales and other consolidated income or cash flow statement data prepared in accordance with U.S. GAAP, or as a measure of profitability or liquidity. A reconciliation of retail sales 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 functional currencies of our foreign subsidiaries, by translating the current period net sales into U.S. dollars using the same foreign currency exchange rates that were used to translate the net sales for the previous comparable period. We believe presenting net sales in local currency is useful to investors because it allows a 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 all Members can potentially 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 can 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.

During the three months ended March 31, 2014 and 2013, total Royalty overrides were 30.2% and 32.4% of our net sales, respectively. 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 the Company and as such are recorded as an operating expense.

Due to restrictions on direct selling in China, our independent service providers in China are compensated with service fees instead of the distributor allowances and royalty overrides utilized in our traditional marketing program. Compensation to China independent service providers is 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, 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.

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 exchange forward and option contracts to partially mitigate our foreign currency exchange risk as discussed in further detail in Part I, Item 3 *Quantitative and Qualitative Disclosures about Market Risk*.



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**Table of Contents****Summary Financial Results**

Net sales for the three months ended March 31, 2014 increased 12.4% to \$1,262.6 million as compared to \$1,123.6 million for the same period in 2013. In local currency, net sales for the three months ended March 31, 2014 increased 16.9% as compared to the same period in 2013. The increase in net sales was primarily due to the continued successful adoption and operation of daily consumption DMOs; increased Member engagement and an increase in average active sales leaders; branding activities and increased Member recruiting.

Net income for the three months ended March 31, 2014 decreased 37.2% to \$74.6 million, or \$0.74 per diluted share, as compared to \$118.9 million, or \$1.10 per diluted share, for the same period in 2013. The decrease for the three months ended March 31, 2014 was primarily due to the higher selling, general and administrative expenses to support the growth of our business and the foreign exchange loss related to the remeasurement of our Venezuela Bolivar-denominated assets and liabilities described below, and higher interest expense, partially offset by higher contribution margin driven by the sales growth discussed above.

Net income for the three months ended March 31, 2014 included an \$89.3 million pre-tax unfavorable impact (\$66.6 million post-tax), comprised of an \$86.1 million foreign exchange loss related to the remeasurement of Venezuela Bolivar-denominated assets and liabilities at the SICAD I rate of 10.7 Bolivars per U.S. dollar and a \$3.2 million impairment loss on Venezuela bonds (See *Liquidity and Capital Resources – Venezuela* below for further discussion of currency exchange rate issues in Venezuela and *Other Expense, net* below for further discussion of Venezuela bonds); a \$4.3 million pre-tax unfavorable impact (\$3.3 million post-tax) related to legal, advisory services and other expenses for the Company's 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); a \$0.9 million pre-tax unfavorable impact (\$0.7 million post-tax) from expenses related to the Federal Trade Commission's (FTC) inquiry; and \$5.8 million unfavorable impact of non-cash interest expense related to the Convertible Notes and the Forward Transactions (See *Liquidity and Capital Resources – Convertible Senior Notes* below for further discussion). The income tax impact of the expenses discussed above is based on forecasted items affecting the Company's 2014 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 income for the three months ended March 31, 2013 included a \$15.1 million pre-tax unfavorable impact (\$10.5 million post-tax) related to the Venezuela Bolivar devaluation (See *Liquidity and Capital Resources – Venezuela* below for further discussion of currency exchange rate issues in Venezuela) and an approximately \$9.5 million pre-tax unfavorable impact (\$8.0 million post-tax) related to legal, advisory services and other expenses for the Company's response to allegations and other negative information put forward in the marketplace by the hedge fund manager noted above.

**Results of Operations**

Our results of operations for the periods below are not necessarily indicative of results of operations for the full year or future periods, which depend upon numerous factors, including our ability to recruit new Members and retain existing Members, open new markets, 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:

|   | <b>Three Months Ended</b> |                  |
|---|---------------------------|------------------|
|   | <b>March 31,</b>          | <b>March 31,</b> |
|   | <b>2014</b>               | <b>2013</b>      |
| <b>Operations:</b>                                  |                           |                  |
| Net sales   | 100.0%                    | 100.0%           |
| Cost of sales                                       | 19.9                      | 20.1             |
| Gross profit  | 80.1                      | 79.9             |
| Royalty overrides(1)                                | 30.2                      | 32.4             |
| Selling, general and administrative expenses(1) (2) | 39.8                      | 32.5             |
| Operating income                                    | 10.1                      | 15.0             |
| Interest expense, net                               | 1.2                       | 0.4              |
| Other expense, net                                  | 0.2                       |                  |
| Income before income taxes                          | 8.7                       | 14.6             |
| Income taxes  | 2.8                       | 4.0              |
| Net income  | 5.9%                      | 10.6%            |

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- (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.
- (2) During the three months ended March 31, 2014, selling, general and administrative expenses as a percentage of net sales were significantly higher than compared to the three months ended March 31, 2013, primarily due to the foreign exchange losses recognized by us relating to our Venezuela business as discussed further below.

**Net Sales**

The following chart reconciles retail sales to net sales:

**Sales by Geographic Region**

|  | 2014               |                          |                  |                                       |              | 2013               |                          |                  |                                       |              | Change in<br>Net<br>Sales |  |
|--|--------------------|--------------------------|------------------|---------------------------------------|--------------|--------------------|--------------------------|------------------|---------------------------------------|--------------|---------------------------|--|
|  | Retail<br>Sales(1) | Distributor<br>Allowance | Product<br>Sales | Shipping &<br>Handling<br>Revenues(1) | Net<br>Sales | Retail<br>Sales(1) | Distributor<br>Allowance | Product<br>Sales | Shipping &<br>Handling<br>Revenues(1) | Net<br>Sales |                           |  |
| Three Months Ended March 31,<br>(In million) |                    |                          |                  |                                       |              |                    |                          |                  |                                       |              |                           |  |
| North America                                | \$ 411.8           | \$ (187.3)               | \$ 224.5         | \$ 23.3                               | \$ 247.8     | \$ 350.0           | \$ (166.7)               | \$ 183.3         | \$ 38.2                               | \$ 221.5     | 11.9%                     |  |
| Mexico                                       | 245.7              | (111.8)                  | 133.9            | 8.8                                   | 142.7        | 215.0              | (105.1)                  | 109.9            | 23.0                                  | 132.9        | 7.4%                      |  |
| South & Central America                      | 385.8              | (177.1)                  | 208.7            | 36.0                                  | 244.7        | 343.3              | (161.5)                  | 181.8            | 37.6                                  | 219.4        | 11.5%                     |  |
| EMEA   | 363.5              | (164.5)                  | 199.0            | 12.2                                  | 211.2        | 274.7              | (132.5)                  | 142.2            | 27.3                                  | 169.5        | 24.6%                     |  |
| Asia Pacific                                 | 446.1              | (191.6)                  | 254.5            | 25.9                                  | 280.4        | 486.4              | (220.4)                  | 266.0            | 45.8                                  | 311.8        | (10.1)%                   |  |
| China  | 155.6              | (20.1)                   | 135.5            | 0.3                                   | 135.8        | 79.7               | (11.3)                   | 68.4             | 0.1                                   | 68.5         | 98.2%                     |  |
| Worldwide                                    | \$ 2,008.5         | \$ (852.4)               | \$ 1,156.1       | \$ 106.5                              | \$ 1,262.6   | \$ 1,749.1         | \$ (797.5)               | \$ 951.6         | \$ 172.0                              | \$ 1,123.6   | 12.4%                     |  |

- (1) During 2013 we simplified our pricing structure for most markets by increasing suggested retail prices and reducing total shipping and handling revenues by a similar amount, eliminating a packaging and handling line item from our invoices to Members. These changes did not materially impact our consolidated Net Sales and profitability.

Changes in net sales are directly associated with the retailing of our products, recruiting and retention of our Member force, the quality and completeness of our product offerings that the Member force has to sell and the number of countries in which we operate. Management's role, both 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 Member marketing program coupled with educational and motivational tools and promotions to encourage Members to increase recruiting, retention and retailing, which in turn affect net sales. Such tools include Company sponsored sales events such as Extravaganzas, Leadership Development Weekends and World Team Schools where

large groups of Members gather, thus allowing them to network with other Members, learn recruiting, retention and retailing 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. Sales are driven by several factors, including the number and productivity of Members, including sales leaders, who continually build, educate and motivate their respective distribution and sales organizations. We also use event and non-event product promotions to motivate Members to increase recruiting, retention and retailing activities. These promotions have prizes ranging from qualifying for events to product prizes and vacations. The costs of these promotions are included in selling, general and administrative expenses.

The factors described above have helped 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 by geographic region further details some of the specific drivers of growth of our business and causes of sales fluctuations during the three months ended March 31, 2014 as compared to the same period in 2013, as well as the unique growth or contraction factors specific to certain geographic regions or significant countries within a region during these periods. We believe that the correct business foundation, coupled with ongoing training and promotional

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initiatives, is required to increase recruiting and retention of Members and retailing of our products. The correct business foundation includes strong country management that works closely with the Member leadership, actively engaged and unified Member leadership, a broad product line that appeals to local consumer needs, a favorable regulatory environment, a scalable and stable technology platform and an attractive Member marketing plan. Initiatives, such as Success Training Seminars, Leadership Development Weekends, Promotional Events and regional Extravaganzas are integral components of developing a highly motivated and educated Member sales organization that will work toward increasing the recruitment and retention of Members.

We anticipate that our strategy will continue to include creating and maintaining growth within existing markets while expanding into new markets. In addition, new ideas and DMOs are being generated in many of our markets and are globalized where applicable through the combined efforts of Members, 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 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 Club concept in Mexico, Premium Herbalife Opportunity Meetings in Korea, the Healthy Breakfast concept in Russia, and the Internet/Sampling and Weight Loss Challenge in the U.S. Management's strategy is to review the applicability of expanding successful country initiatives throughout a region, and where appropriate, financially support the globalization of these initiatives.

***North America***

The North America region reported net sales of \$247.8 million for the three months ended March 31, 2014. Net sales increased \$26.3 million, or 11.9%, for the three months ended March 31, 2014, as compared to the same period in 2013. In local currency, net sales increased 12.1% for the three months ended March 31, 2014, as compared to the same period in 2013. The overall increase in net sales in the region was a result of net sales growth in the U.S. of \$17.8 million, or 8.2%, for the three months ended March 31, 2014, as compared to the same period in 2013.

In the U.S. we continue to see the success of our Members converting their business strategy toward daily consumption DMOs, especially the Nutrition Club. The success of these DMOs has resulted in higher levels of Member engagement and momentum as reflected by record sales leader retention of 55.1% in 2014 compared to 54.7% in 2013.

Average active sales leaders in the region increased 8.6% for the three months ended March 31, 2014 as compared to the same period in 2013. Average active sales leaders in the U.S. increased 8.9% for the three months ended March 31, 2014, as compared to the same period in 2013.

***Mexico***

The Mexico region reported net sales of \$142.7 million for the three months ended March 31, 2014. Net sales for the three months ended March 31, 2014 increased \$9.8 million, or 7.4%, as compared to the same period in 2013. In local currency, net sales for the three months ended March 31, 2014 increased 12.4%, as compared to the same period in 2013. The fluctuation of foreign currency rates had an unfavorable impact of \$6.7 million on net sales for the three months ended March 31, 2014.

The growth in net sales is primarily the result of increased Member engagement as well as the continued success of the Nutrition Club DMO. One of the ongoing growth drivers in Mexico has been the ongoing transition from home clubs to commercial clubs by many Members, which are able to generate higher volumes of sales through the servicing of more customers and longer operating hours. Sales leader retention in 2014 was 54.2% compared to 57.6% in 2013.

Average active sales leaders in Mexico increased 5.6% for the three months ended March 31, 2014, as compared to the same period in 2013.

### ***South and Central America***

The South and Central America region reported net sales of \$244.7 million for the three months ended March 31, 2014. Net sales increased \$25.3 million, or 11.5%, for the three months ended March 31, 2014, as compared to the same period in 2013. In local currency, net sales increased 24.2% for the three months ended March 31, 2014, as compared to the same period in 2013. The fluctuation of foreign currency rates had a \$28.0 million unfavorable impact on net sales for the three months ended March 31, 2014. The increase in local net sales for the three months ended March 31, 2014, as compared to the same period in 2013, was primarily driven by Brazil although almost every country in the region posted positive growth for the quarter. This growth was primarily driven by the adoption and expansion of daily consumption DMOs throughout the region.

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In Brazil, the region's largest market, net sales increased \$5.9 million, or 6.0%, for the three months ended March 31, 2014, as compared to the same period in 2013. In local currency, net sales increased 25.5% for the three months ended March 31, 2014, as compared to the same period in 2013. The fluctuation of foreign currency rates had a \$19.2 million unfavorable impact on net sales in Brazil for the three months ended March 31, 2014. The increase in net sales continues to be driven by the successful adoption of Nutrition Clubs and other daily consumption DMOs. Sales leader retention in 2014 was 51.6% compared to 45.9% in 2013.

Net sales in Venezuela increased \$2.8 million, or 5.4%, for the three months ended March 31, 2014, as compared to the same period in 2013. The sales growth was primarily due to cumulative price increases in 2013 of 123%. These price increases were implemented to better align product prices with the economic conditions of the market. The increase in net sales was partially offset by a decrease in volume due to order size limitations and local political and economic issues in Venezuela. During January 2014, an additional price increase was planned but not allowed after a review by local governmental agencies. Commencing in 2014, the Company has begun evaluating several options to reduce its economic exposure to this market. If we had used the SICAD I rate of 10.7 Venezuelan Bolivars per U.S. dollar to remeasure sales for the full first quarter of 2014, there would have been a \$22.2 million unfavorable impact on net sales in Venezuela for the three months ended March 31, 2014. See *Liquidity and Capital Resources – Working Capital and Operating Activities* below for further discussion of currency exchange rate issues in Venezuela. We chose not to require Venezuelan sales leaders to re-qualify in 2014 due to product supply limitation that may have prevented some sales leaders from re-qualifying. In 2013, when Venezuelan sales leaders were required to re-qualify, sales leader retention was 68.9%.

Average active sales leaders in the region increased 18.9% for the three months ended March 31, 2014, as compared to the same period in 2013.

***EMEA***

The EMEA region reported net sales of \$211.2 million for the three months ended March 31, 2014. Net sales increased \$41.7 million, or 24.6%, for the three months ended March 31, 2014, as compared to the same period in 2013. In local currency, net sales increased 26.3% for the three months ended March 31, 2014, as compared to the same period in 2013. The fluctuation of foreign currency rates had a \$3.0 million unfavorable impact on net sales for the three months ended March 31, 2014. The increase in net sales for the three months ended March 31, 2014 was primarily driven by increases in Russia, the United Kingdom, Spain, and Italy.

Net sales in Russia increased \$5.9 million, or 20.8%, for the three months ended March 31, 2014, as compared to the same period in 2013. In local currency, net sales increased 39.0% for the three months ended March 31, 2014, as compared to the same period in 2013. The increase in Russia was driven by the ongoing adoption of the Commercial Nutrition Club, additional sales centers which have increased access to our products and improving brand image including the sponsorship of FC Spartak Moscow football club. The fluctuation of foreign currency rates had a \$5.1 million unfavorable impact on net sales in Russia for the three months ended March 31, 2014. Sales leader retention for 2014 was 74.8% compared to 75.8% in 2013.

Net sales in Italy increased \$7.6 million, or 29.6%, for the three months ended March 31, 2014 as compared to the same period in 2013. In local currency, net sales increased 25.0% for the three months ended March 31, 2014, as compared to the same period in 2013. Italy has now had four consecutive quarters of positive year-over-year sales growth. Management believes this is a strong indication that the market is embracing the daily consumption DMO. The fluctuation of foreign currency rates had a \$1.2 million favorable impact on net sales in Italy for the three months ended March 31, 2014. Sales leader retention for 2014 was 65.0% compared to 57.0% in 2013.

Net sales in Spain increased \$7.1 million, or 50.7%, for the three months ended March 31, 2014, as compared to the same period in 2013. In local currency, net sales in Spain increased 45.4% for the three months ended March 31, 2014, as compared to the same period in 2013. The increase in Spain was mainly due to the positive effect of increased Member engagement and recruitment. The fluctuation of foreign currency rates had a \$0.7 million favorable impact on net sales in Spain for the three months ended March 31, 2014. Sales leader retention for 2014 was 67.8% compared to 64.4% in 2013.

Net sales in the United Kingdom increased \$8.0 million, or 74.7%, for the three months ended March 31, 2014, as compared to the same period in 2013. In local currency, net sales in the United Kingdom increased 64.0% for the three months ended March 31, 2014, as compared to the same period in 2013. The increase in the United Kingdom was primarily due to the successful adoption of Nutrition Clubs and Weight Loss Challenge DMO. The fluctuation of foreign currency rates had a \$1.2 million favorable impact on net sales in the United Kingdom for the three months ended March 31, 2014. Sales leader retention for 2014 was 69.0% compared to 68.8% in 2013.

Average active sales leaders in the region increased 17.4% for the three months ended March 31, 2014, as compared to the same period in 2013.

### ***Asia Pacific***

The Asia Pacific region, which excludes China, reported net sales of \$280.4 million for the three months ended March 31, 2014. Net sales decreased \$31.4 million, or 10.1%, for the three months ended March 31, 2014, as compared to the same period in 2013. In local currency, net sales decreased 5.0% for the three months ended March 31, 2014, as compared to the same period in 2013. The fluctuation of foreign currency rates had an unfavorable impact of \$15.7 million on net sales for the three months ended March 31, 2014. The decrease in net sales for the three months ended March 31, 2014 was driven primarily by declines in Malaysia, South Korea, and Taiwan.



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Net sales in South Korea decreased \$11.0 million, or 10.0%, for the three months ended March 31, 2014, as compared to the same period in 2013. In local currency, net sales decreased 11.4% for the three months ended March 31, 2014, as compared to the same period in 2013. South Korea continues to be impacted by a modest slowdown in the number of new Nutrition Clubs as well as a decline in productivity in certain Nutrition Clubs compared to the prior year period. We believe that several actions we took starting in the fourth quarter of 2013 have mitigated these issues and created a platform for stable growth going forward. The fluctuation of foreign currency rates had a favorable impact on net sales of \$1.5 million for the three months ended March 31, 2014. Sales leader retention in 2014 was 33.0% compared to 34.6% in 2013.

Net sales in India decreased \$0.6 million, or 1.6%, for the three months ended March 31, 2014, as compared to the same period in 2013. In local currency, net sales increased 12.2% for the three months ended March 31, 2014, as compared to the same period in 2013. The increase in net sales for the three months ended March 31, 2014 was primarily driven by increased product access and the successful adoption of the daily consumption DMOs, especially the Nutrition Club. The fluctuation of foreign currency rates had an unfavorable impact on net sales of \$5.5 million for the three months ended March 31, 2014. Sales leader retention in 2014 was 29.2% compared to 27.5% in 2013.

Net sales in Taiwan decreased \$7.7 million, or 19.1%, for the three months ended March 31, 2014, as compared to the same period in 2013. In local currency, net sales decreased 16.8% for the three months ended March 31, 2014, as compared to the same period in 2013. The fluctuation of foreign currency rates had an unfavorable impact on net sales of \$0.9 million for the three months ended March 31, 2014. Taiwan had their first price increase in almost three years in April of 2013 and volume in subsequent months was lower than normal as a result. In addition, in November 2013 Taiwan instituted a first order limitation rule which limits the amount of product a new Member may order after initially signing up. The benefit of the first order limitation rule is that it creates a more stable ordering base but does have a modest negative impact when first implemented. Sales leader retention in 2014 was 55.1% compared to 52.4% in 2013.

Net sales in Indonesia decreased \$2.4 million, or 7.2%, for the three months ended March 31, 2014, as compared to the same period in 2013. In local currency, net sales increased 13.0% for the three months ended March 31, 2014, as compared to the same period in 2013. The primary catalyst driving the sales increase in Indonesia was the growth in Nutrition Clubs. The fluctuation of foreign currency rates had an unfavorable impact on net sales of \$6.6 million for the three months ended March 31, 2014. Sales leader retention in 2014 was 47.1% compared to 52.4% in 2013.

Net sales in Malaysia decreased \$17.4 million, or 46.8%, for the three months ended March 31, 2014, as compared to the same period in 2013. In local currency, net sales decreased 42.9% for the three months ended March 31, 2014, as compared to the same period in 2013. A new competitor who entered Malaysia in October of 2013 continues to have an impact on the market. While the impact was particularly strong during the third and fourth quarters of 2013, it has remained an issue throughout the first quarter of this year. Although we are beginning to see some positive signs that the impact is decreasing and the business is stabilizing, it is likely that the market will not fully recover until later in 2014. In addition, during 2012 we saw tremendous growth in Nutrition Home Clubs and some of these clubs suffered from a lack of proper training and have declined in number and activity levels as a result. We are working with Member leadership in Malaysia to address these training issues. We believe that the underlying DMOs currently used by Members in the country (Nutrition Clubs, Road Shows, and Mega Herbalife Opportunity Meetings) provide for a solid base of growth going forward. The fluctuation of foreign currency rates had an unfavorable impact on net sales of \$1.4 million for the three months ended March 31, 2014. Sales leader retention in 2014 was 43.7% compared to 51.7% in 2013.

Average active sales leaders in the region increased 4.3% for the three months ended March 31, 2014, as compared to the same period in 2013.

*China*

Net sales in China were \$135.8 million for the three months ended March 31, 2014. Net sales increased \$67.3 million, or 98.2%, for the three months ended March 31, 2014, as compared to the same period in 2013. In local currency, net sales increased 94.8% for the three months ended March 31, 2014, as compared to the same period in 2013. The fluctuation of foreign currency rates had a favorable impact of \$2.6 million on net sales for the three months ended March 31, 2014.

The increase in net sales was driven by the continuing adoption and acculturation of daily consumption DMOs. In addition, sales have benefited from Member acceptance of a trial Preferred Customer program which was launched during 2013 as well as on-line ordering.

Average active sales leaders in China increased 40.3% for the three months ended March 31, 2014, as compared to the same period in 2013. We believe that the increase in the number of average active sales leaders in China is indicative of the market transitioning to daily consumption DMOs.

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As of March 31, 2014, we were operating in 66 retail stores in 29 provinces in China. As of March 31, 2014, we had direct selling licenses to 25 out of the 29 provinces in which we were operating. We continue to seek additional provincial licenses where appropriate.

**Sales by Product Category**

|  | Three Months Ended March 31, |                          |                   |                                    |                   |                   |                          |                  |                                    |                   | % Change<br>Net<br>Sales |
|--|------------------------------|--------------------------|-------------------|------------------------------------|-------------------|-------------------|--------------------------|------------------|------------------------------------|-------------------|--------------------------|
|  | 2014                         |                          |                   |                                    |                   | 2013              |                          |                  |                                    |                   |                          |
|  | Retail<br>Sales              | Distributor<br>Allowance | Product<br>Sales  | Shipping &<br>Handling<br>Revenues | Net<br>Sales      | Retail<br>Sales   | Distributor<br>Allowance | Product<br>Sales | Shipping &<br>Handling<br>Revenues | Net<br>Sales      |                          |
|  | (In millions)                |                          |                   |                                    |                   |                   |                          |                  |                                    |                   |                          |
| Weight Management                          | \$ 1,313.5                   | \$ (575.5)               | \$ 738.0          | \$ 69.6                            | \$ 807.6          | \$ 1,135.0        | \$ (534.9)               | \$ 600.1         | \$ 111.5                           | \$ 711.6          | 13.5%                    |
| Targeted Nutrition                         | 461.8                        | (202.3)                  | 259.5             | 24.5                               | 284.0             | 409.5             | (193.0)                  | 216.5            | 40.4                               | 256.9             | 10.5%                    |
| Energy, Sports<br>and Fitness              | 108.5                        | (47.6)                   | 60.9              | 5.8                                | 66.7              | 93.0              | (43.8)                   | 49.2             | 9.1                                | 58.3              | 14.4%                    |
| Outer Nutrition                            | 64.6                         | (28.3)                   | 36.3              | 3.4                                | 39.7              | 60.9              | (28.7)                   | 32.2             | 6.0                                | 38.2              | 3.9%                     |
| Literature,<br>Promotional and<br>Other(1) | 60.1                         | 1.3                      | 61.4              | 3.2                                | 64.6              | 50.7              | 2.9                      | 53.6             | 5.0                                | 58.6              | 10.2%                    |
| <b>Total</b>                               | <b>\$ 2,008.5</b>            | <b>\$ (852.4)</b>        | <b>\$ 1,156.1</b> | <b>\$ 106.5</b>                    | <b>\$ 1,262.6</b> | <b>\$ 1,749.1</b> | <b>\$ (797.5)</b>        | <b>\$ 951.6</b>  | <b>\$ 172.0</b>                    | <b>\$ 1,123.6</b> | <b>12.4%</b>             |

(1) Product buy backs and returns in all product categories are included in literature, promotional and other category. Net sales for all product categories increased for the three months ended March 31, 2014 as compared to the same period in 2013. The growth factors described in the above discussions of the individual geographic regions apply generally to all product categories.

**Gross Profit**

Gross profit was \$1,011.5 million for the three months ended March 31, 2014, as compared to \$897.7 million for the same period in 2013. As a percentage of net sales, gross profit for the three months ended March 31, 2014 increased to 80.1% as compared to 79.9% for the same period in 2013, or a favorable net increase of 20 basis points. The net 20 basis point increase for the three months ended March 31, 2014, as compared to the same period in 2013, was primarily due to the favorable impact of retail price increases and foreign currency fluctuations, partially offset by the unfavorable impact of higher inventory write-downs and other costs.

**Royalty Overrides**

Royalty overrides were \$381.8 million for the three months ended March 31, 2014, as compared to \$364.0 million for the same period in 2013. Royalty overrides as a percentage of net sales was 30.2% for the three months ended March 31, 2014, as compared to 32.4% for the same period in 2013. Generally, this ratio varies slightly from period to period due to changes in the mix of products and countries because full royalty overrides are not paid on certain

products and in certain countries. 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 under our worldwide marketing plan. We anticipate fluctuations in royalty overrides as a percentage of net sales reflecting the growth prospect of our China business relative to that of our worldwide business.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses were \$502.1 million for the three months ended March 31, 2014, as compared to \$364.7 million for the same period in 2013. Selling, general and administrative expenses as a percentage of net sales were 39.8% and 32.5% for the three months ended March 31, 2014 and 2013, respectively.

The increase in selling, general and administrative expenses for the three months ended March 31, 2014 included \$76.4 million in higher net foreign exchange loss primarily due to an \$86.1 million net foreign exchange loss related to the remeasurement of the Company's Bolivar-denominated monetary assets and liabilities (See *Liquidity and Capital Resources - Working Capital and Operating Activities*, for further discussion of currency exchange rate issues in Venezuela); \$30.2 million in higher expenses related to China independent service providers; and \$12.7 million in higher salaries, bonuses and benefits.

In late 2012, a hedge fund manager publicly raised allegations regarding the legality of the Company's 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

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responding to the allegations and to perform other related services in connection to these events. For the three months ended March 31, 2014 and 2013, we recorded approximately \$4.3 million and \$9.5 million, respectively, of expenses related to this matter, which includes approximately \$4.0 million and \$8.4 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.

**Net Interest Expense**

Net interest expense is as follows:

| <b>Net Interest Expense</b> | <b>Three Months Ended</b> |                           |
|-----------------------------|---------------------------|---------------------------|
|                             | <b>March 31,<br/>2014</b> | <b>March 31,<br/>2013</b> |
|                             | <b>(In millions)</b>      |                           |
| Interest expense            | \$ 17.8                   | \$ 6.8                    |
| Interest income             | (2.8)                     | (1.4)                     |
| Net interest expense        | \$ 15.0                   | \$ 5.4                    |

The increase in net interest expense for the three months ended March 31, 2014, as compared to the same period in 2013, was primarily due to higher weighted average outstanding balances and higher weighted average interest rates on the Credit Facility and our issuance of \$1.15 billion senior convertible notes in February 2014, including both cash and non-cash interest expense, discussed in *Liquidity and Capital Resources* below.

**Other expense, net**

The \$3.2 million increase in the other expense, net, for the three months ended March 31, 2014, as compared to the same period in 2013, was due to the other than temporary impairment loss recognized on our investments in bolivar denominated bonds. This impairment loss was primarily due to using the less favorable 10.7 Bolivars per U.S. dollar SICAD I rate to remeasure our Bolivar-denominated investments as opposed to the previous 6.3 Bolivars per U.S. dollar CADIVI rate.

**Income Taxes**

Income taxes were \$34.9 million for the three months ended March 31, 2014, as compared to \$44.7 million for the same period in 2013. The effective income tax rate was 31.8% for the three months ended March 31, 2014, as compared to 27.3% for the same period in 2013. The increase in the effective tax rate for the three months ended March 31, 2014, as compared to the same period in 2013, was primarily due to the inability to fully realize a tax benefit relating to Herbalife Venezuela's foreign exchange losses, the impact of changes in the geographic mix of our income, and a decrease in net benefits from discrete events.

**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, such as Venezuela as discussed below, 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, to meet debt service obligations in a timely manner and be able to continue to meet our objectives.

Our existing debt has not resulted from the need to fund our normal operations, but instead has resulted primarily from our previous and ongoing share repurchase program. Since inception in 2007, total share repurchases amounted to approximately \$2.5 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 \$1.3 billion cash and cash equivalents and our senior secured credit facility, which includes \$196.6 million of undrawn capacity as of March 31, 2014, in addition to cash flow from operations, can be used to support general corporate purposes, including, our future share repurchase programs, dividends, and strategic investment opportunities.

We also 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 March 31, 2014 and December 31, 2013.

For the three months ended March 31, 2014, we generated \$190.6 million of operating cash flow, as compared to \$137.6 million for the same period in 2013. The increase in cash generated from operations was primarily due to the increase in operating income excluding the impact of foreign exchange loss related to the remeasurement of its Venezuela Bolivar-denominated assets and liabilities described below, and the favorable impact of changes in working capital. The change in working capital was driven primarily by lower inventory, higher royalty overrides and advance sales deposits.

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Capital expenditures, including capital leases and accrued capital expenditures, for the three months ended March 31, 2014 and 2013 was \$49.7 million and \$24.9 million, respectively. The majority of these expenditures represented investments in management information systems, initiatives to develop web-based Member tools, and the expansion of our warehouse, sales centers and manufacturing facilities domestically and internationally. We expect to incur total capital expenditures of approximately \$175 million to \$195 million for the full year of 2014, which includes capital expenditures associated with the Winston-Salem, North Carolina facility that was acquired during December 2012.

In March 2014, Herbalife hosted its annual global Herbalife Summit event in Hawaii, U.S., where President Team members from around the world met and shared best practices, conducted leadership training and Herbalife management awarded Members \$71.6 million of Mark Hughes bonus payments related to their 2013 performance. In March 2013, Herbalife management awarded Members \$61.7 million of Mark Hughes bonus payments related to 2012 performance.

*Senior Secured Credit Facility*

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

On July 26, 2012, we amended the Credit Facility to include a \$500.0 million term loan with a syndicate of financial institutions as lenders, or the Term Loan. The Term Loan is a part of the Credit Facility and is in addition to our current revolving credit facility. The Term Loan matures on March 9, 2016. We will make regular scheduled payments for the Term Loan consisting of both principal and interest components. Based on our consolidated leverage ratio, the Term Loan bears interest at either LIBOR plus the applicable margin between 1.50% and 2.50% or the base rate plus the applicable margin between 0.50% and 1.50% which are the same terms as our revolving credit facility.

In February 2014, in connection with issuing the Convertible Notes described below, we amended the Credit Facility. Pursuant to this amendment, we amended the terms of the Credit Facility to provide for technical amendments to the indebtedness, asset sale and dividend covenants and the cross-default event of default to accommodate the issuance of the Convertible Notes and the capped call and prepaid forward share repurchase transactions described in greater detail below. The amendment also increased by 0.50% the highest applicable margin payable by us in the event that our consolidated total leverage ratio is equal to or exceeds 2.50 to 1.00 and increased our permitted consolidated total leverage ratio under the Credit Facility. We incurred approximately \$2.3 million of debt issuance costs in connection with the amendment. The debt issuance costs are recorded as deferred financing costs on our consolidated balance sheet and will be amortized over the life of the Credit Facility. On March 31, 2014 and December 31, 2013, the weighted average interest rate for borrowings under the Credit Facility, including borrowings under the Term Loan, was 3.16% and 2.17%, respectively.

The Credit Facility requires us to comply with a leverage ratio and a coverage 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. As of March 31, 2014 and December 31, 2013,

we were compliant with our debt covenants under the Credit Facility.

During the three months ended March 31, 2014, we repaid a total amount of \$18.8 million under the Credit Facility. The remaining outstanding borrowings have generated an increase in our cash and cash equivalents, which provides us with greater flexibility to execute strategic initiatives and to be opportunistically responsive to future events. As of March 31, 2014 and December 31, 2013, the U.S. dollar amount outstanding under the Credit Facility was \$912.5 million and \$931.3 million, respectively. Of the \$912.5 million U.S. dollar amount outstanding under the Credit Facility as of March 31, 2014, \$412.5 million was outstanding on the Term Loan and \$500.0 million was outstanding on the revolving credit facility. Of the \$931.3 million U.S. dollar amount outstanding under the Credit Facility as of December 31, 2013, \$431.3 million was outstanding on the Term Loan and \$500.0 million was outstanding on the revolving credit facility. There were no outstanding foreign currency borrowings as of March 31, 2014 and December 31, 2013 under the Credit Facility.

We use our revolving credit facility to manage normal variations in cash created by significant cash items such as taxes, dividends, share repurchases, capital expenditures and other large cash flow items. Our revolving credit facility provides us with the ability to access significant funds on a timely basis. We repay outstanding balances from cash from operations.



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**Table of Contents***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 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. We may not redeem the Convertible Notes prior to their stated maturity date. Holders 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, which we refer to as 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. Upon conversion, the Convertible Notes will be settled in cash and, if applicable, our 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). We incurred approximately \$26.6 million of debt issuance costs during the first quarter of 2014 as a result of issuing the Convertible Notes. During February 2014, the Company also executed capped call and prepaid forward share repurchase transactions as discussed further below. 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 for a further discussion on the Convertible Notes.

*Off-Balance Sheet Arrangements*

At March 31, 2014 and December 31, 2013, 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 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 our board of directors. The Credit Facility permits payments of dividends as long as no default or event of default exists and the consolidated leverage ratio specified in the Credit Facility is not exceeded.

On February 18, 2014, we announced that our board of directors approved a cash dividend of \$0.30 per common share in an aggregate amount of \$30.4 million that was paid to shareholders on March 18, 2014. The aggregate amount of dividends declared and paid during the three months ended March 31, 2014 and 2013 were \$30.4 million and \$30.9 million, respectively.

*Share Repurchases*

On July 30, 2012, we announced that our board of directors authorized a new \$1 billion share repurchase program that will expire on June 30, 2017. On February 3, 2014, we announced that our board of directors authorized an increase in

the existing share repurchase authorization to an available balance of \$1.5 billion. This share repurchase program allows us 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 the consolidated leverage ratio specified in the Credit Facility is not exceeded.

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 Forward Counterparties, pursuant to which we purchased approximately 9.9 million common shares 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 our Forward Transaction early. The Forward Transactions are 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. As a result of this transaction, our total shareholders' equity within our consolidated balance sheet was reduced by approximately \$685.8 million during the first quarter of 2014.

As of March 31, 2014, the remaining authorized capacity under our share repurchase program was \$814.2 million.

On April 28, 2014, the Company 's Board of Directors announced that, as part of its goal to accelerate cash returns to shareholders, it approved terminating the Company 's quarterly cash dividend and utilizing the cash to repurchase additional shares of the Company 's common stock during the second quarter.

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**Table of Contents*****Capped Call Transactions***

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. 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, we in effect will only be exposed to potential net dilution once the market price of our common shares exceeds \$120.79. As a result of the Capped Call Transactions, our total shareholders' equity within our consolidated balance sheet was reduced by \$123.8 million during the first quarter of 2014.

***Working Capital and Operating Activities***

As of March 31, 2014 and December 31, 2013, we had positive working capital of \$1,034.2 million and \$720.9 million, respectively, or an increase of \$313.3 million. This increase was primarily related to the increase in our cash and cash equivalents, receivables, and prepaid expenses and other current assets, and decreases in accrued compensation and income tax payable, partially offset by a decrease in inventories and an increase in advanced sales deposits.

We expect that cash and funds provided from operations and available borrowings under the Credit Facility 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 losses on intercompany transactions. For discussion of our foreign exchange contracts and other hedging arrangements, see Part I, Item 3 *Quantitative and Qualitative Disclosures about Market Risk*.

***Venezuela******Currency Restrictions***

Currency restrictions enacted by the Venezuelan government have become more restrictive and have impacted the ability of our subsidiary in Venezuela, Herbalife Venezuela, to timely obtain U.S. dollars in exchange for Venezuelan Bolívares, or Bolívares, at the official foreign exchange rate. The application and approval process continues to be delayed and our ability to timely obtain U.S. dollars using the official exchange rate mechanisms described below remains uncertain. In recent instances, we have been unsuccessful in obtaining U.S. dollars at these official rates and it remains uncertain whether our future anticipated applications will be approved. The current operating environment in Venezuela also continues to be challenging for Herbalife Venezuela, with high inflation in the country, government restrictions on foreign exchange and pricing controls, and the possibility of the government announcing further devaluations to its currency. These foreign exchange controls in Venezuela limit Herbalife Venezuela's ability to repatriate earnings and settle its obligations at any official rate which is causing its Bolívar denominated cash and cash equivalents to accumulate in Venezuela. See Note 2, *Significant Accounting Policies*, to the Condensed Consolidated Financial Statements for discussion on how the currency restrictions in Venezuela have impacted Herbalife

Venezuela's operations.

***Consolidation of Herbalife Venezuela***

We plan to continue our operation in Venezuela and to import products into Venezuela despite the foreign currency constraints that exist in the country. We are evaluating several options to limit our financial exposure from currency restrictions and devaluations in our Venezuela operation while we continue to support our Members and their consumers. These options include, but may not be limited to, sourcing products locally and reducing product importation, operating hour limitations, potential order size limitations, and limiting Member promotions and events to local Bolivar-denominated expenses. Herbalife Venezuela will continue to apply for legal exchange mechanisms to convert its Bolivars to U.S. dollars. Despite the currency exchange restrictions in Venezuela, we continue to control Herbalife Venezuela and its operations. Therefore, we continue to consolidate Herbalife Venezuela in our consolidated financial statements.

We plan to utilize the official rates to the extent allowable under current restrictions in order to exchange Bolivars for U.S. dollars. We also plan to access government, PDVSA bond offerings, and alternative legal exchange mechanisms when they are made available. As discussed above, these alternative legal exchange mechanisms or less favorable official exchange mechanisms, such as SICAD II, could cause us to recognize significant foreign exchange losses if they are less favorable than the SICAD I rate, which could also result in our Bolivar denominated cash and cash equivalents reported on our consolidated balance sheet being significantly reduced. To illustrate our sensitivity to potential future changes in the official rate, using unfavorable alternative legal exchange mechanisms or using the SICAD II mechanism to exchange Bolivars to U.S. dollars, if the exchange rate was approximately 50 bolivars per U.S. dollar and this unfavorable exchange rate was used to convert our Bolivar denominated cash and cash equivalents

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as of March 31, 2014, our \$137.5 million in Bolivar denominated cash and cash equivalents as of March 31, 2014, would be reduced by \$108.0 million and we would incur \$99.3 million of foreign exchange losses which would negatively impact our operating income. This less favorable exchange rate is not necessarily representative of exchange rates which could be available to us for future exchanges and represents the SICAD II rate that was published as of March 31, 2014. Our ability to access the official SICAD I exchange rate could impact what exchange rates will be used for remeasurement purposes in future periods. We continue to assess and monitor the current economic and political environment in Venezuela.

Herbalife Venezuela's net sales represented approximately 4% of our consolidated net sales for the three months ended March 31, 2014 and 2013, and its total assets represented approximately 6% and 10% of our consolidated total assets as of March 31, 2014 and December 31, 2013, respectively. As of March 31, 2014 and December 31, 2013, the majority of its total assets consisted of Bolivar denominated cash and cash equivalents.

See the 2013 10-K for further information on Herbalife Venezuela and Venezuela's highly inflationary economy.

## **Subsequent Events**

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

## **Contingencies**

See Note 5, *Contingencies*, to the Condensed Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q, for information on our contingencies as of March 31, 2014.

## **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 products, nutritional supplements, energy, sports & fitness products and personal care products. Our products are manufactured by third party providers and manufactured in our Suzhou, China facility, and in our manufacturing facility located in Lake Forest, California, and then are sold to Members who sell Herbalife products to retail consumers or other Members. As of March 31, 2014, we sold products in 91 countries throughout the world and we are organized and managed by geographic region. We have elected to 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, and the nature of the regulatory environment.

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 our retail stores in China or through our independent service providers in China. Net sales include product sales and shipping and handling revenues. 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. Related royalty overrides are recorded when revenue is recognized.

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% and 0.3% of product sales for the three months ended March 31, 2014 and 2013, respectively.

We adjust our inventories to lower of cost or market. 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 \$41.1 million and \$32.4 million to present them at their lower of cost or market in our consolidated balance sheets as of March 31, 2014 and December 31, 2013, respectively.

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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 both March 31, 2014 and December 31, 2013, we had goodwill of approximately \$105.5 million and marketing related intangible assets of approximately \$310.0 million. No marketing related intangibles or goodwill impairment was recorded during the three months ended March 31, 2014 and 2013, as their estimated fair value significantly exceeded their carrying amounts.

Contingencies are accounted for in accordance with the 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.

Deferred income tax assets have been established for net operating loss and interest carryforwards of certain foreign subsidiaries and have been reduced by a valuation allowance to reflect them at amounts estimated to be ultimately

realized. 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.



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We account for uncertain tax positions in accordance with the 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 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 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 consolidated statements of income.

**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 consolidated statements of income 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 the recent significant 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 consolidated statements of income.

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. Foreign exchange average rate option contracts are also used to mitigate the impact of foreign currency rate fluctuations. The objective of these contracts is to neutralize the impact of foreign currency movements on the operating results of our subsidiaries. The fair value of forward and option 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 March 31, 2014 and December 31, 2013, the aggregate notional amounts of these contracts outstanding were approximately \$215.2 million and \$244.7 million, respectively. At March 31, 2014, the outstanding contracts were expected to mature over the next twelve months. Our derivative financial instruments are recorded on the consolidated balance sheet at fair value based on

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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 consolidated statement of income 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 loss within shareholders' equity, and are recognized in selling, general and administrative expenses in the consolidated statement of income in the period when the hedged item and underlying transaction affects earnings. As of March 31, 2014, we recorded assets at fair value of \$2.9 million and liabilities at fair value of \$3.3 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. As of December 31, 2013, we recorded assets at fair value of \$5.7 million and liabilities at fair value of \$4.4 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. During the three months ended March 31, 2014 and 2013, the ineffective portion relating to these hedges was immaterial and the hedges remained effective as of March 31, 2014 and December 31, 2013.

As of March 31, 2014 and December 31, 2013, 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 three months as of March 31, 2014 and December 31, 2013. There were no foreign currency option contracts outstanding as of March 31, 2014 and December 31, 2013.

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

| Foreign Currency                       | Average<br>Contract<br>Rate | Notional<br>Amount<br>(In millions) | Fair<br>Value<br>Gain (Loss)<br>(In millions) |
|--|-----------------------------|-------------------------------------|---|
| <b>At March 31, 2014</b>               |                             |                                     |   |
| Buy Chinese yuan sell Euro             | 8.59                        | \$ 8.1                              | \$  |
| Buy Euro sell Indonesian rupiah        | 15,695.00                   | \$ 3.5                              | \$  |
| Buy Euro sell Mexican peso             | 17.49                       | \$ 127.6                            | \$ 2.3  |
| Buy Euro sell Russian Ruble            | 49.31                       | \$ 1.9                              | \$  |
| Buy Euro sell U.S. dollar              | 1.38                        | \$ 168.8                            | \$ 0.2  |
| Buy British pound sell Euro            | 0.83                        | \$ 2.5                              | \$  |
| Buy Malaysian ringgit sell U.S. dollar | 3.29                        | \$ 5.3                              | \$  |
| Buy Taiwan dollar sell U.S. dollar     | 29.54                       | \$ 14.9                             | \$ (0.4)                                      |
| Buy U.S. dollar sell Argentine peso    | 11.31                       | \$ 4.0                              | \$ (1.1)                                      |
| Buy U.S. dollar sell Brazilian Real    | 2.39                        | \$ 11.0                             | \$  |
| Buy U.S. dollar sell Chinese yuan      | 6.14                        | \$ 2.5                              | \$  |
| Buy U.S. dollar sell Colombian peso    | 1,972.70                    | \$ 3.0                              | \$  |
| Buy U.S. dollar sell Euro              | 1.35                        | \$ 139.0                            | \$ (2.5)                                      |
| Buy U.S. dollar sell South Korean won  | 1,073.55                    | \$ 67.5                             | \$ (0.6)                                      |
| Total forward contracts                |                             | \$ 559.6                            | \$ (2.1)                                      |

The majority of our foreign subsidiaries designate their local currencies as their functional currencies. At March 31, 2014 and December 31, 2013, the total amount of our foreign subsidiary cash was \$597.2 million and \$567.4 million,

respectively, of which \$10.9 million and \$6.8 million, respectively, was invested in U.S. dollars. At March 31, 2014 and December 31, 2013, the total amount of cash and cash equivalents held by our parent and its U.S. entities was \$664.7 million and \$405.6 million, respectively.

Currency restrictions enacted by the Venezuelan government have become more restrictive and have impacted the ability of our subsidiary in Venezuela, or Herbalife Venezuela, to obtain U.S. dollars in exchange for Venezuelan Bolivars, or Bolivars, at the official foreign exchange rates from the Venezuelan government. See Note 2, *Significant Accounting Policies*, to the Condensed Consolidated Financial Statements for discussion on how the currency restrictions in Venezuela have impacted Herbalife Venezuela's operations.

### **Interest Rate Risk**

As of March 31, 2014, the aggregate annual maturities of the Credit Facility were expected to be \$62.5 million for the remainder of 2014, \$100.0 million for 2015, and \$750.0 million for 2016. The fair value of the Credit Facility approximated its carrying value of \$912.5 million as of March 31, 2014. The fair value of the Credit Facility approximated its carrying value of \$931.3 million as of December 31, 2013. The Credit Facility bears a variable interest rate, and on March 31, 2014 and December 31, 2013, the weighted average interest rate of the Credit Facility, including borrowings under the Term Loan, was 3.16% and 2.17%, respectively. As of

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March 31, 2014, the fair value of the liability component of our \$1.15 billion Convertible Notes was approximately \$871 million and the carrying value was \$935.8 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, if interest rates were to increase or decrease by 1% for the year, and our borrowing amounts stayed constant on our Credit Facility, our annual interest expense would increase or decrease by approximately \$9.1 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 March 31, 2014.

*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 March 31, 2014 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;

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;

the competitive nature of our business;

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

legal challenges to our network marketing program;

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

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

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

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uncertainties relating to the interpretation, enforcement or amendment of legislation in India governing direct selling;

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

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

our dependence on increased penetration of existing markets;

contractual limitations on our ability to expand our business;

our reliance on our information technology infrastructure and outside manufacturers;

the sufficiency of trademarks and other intellectual property rights;

product concentration;

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

taxation relating to our Members;

product liability claims;

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 Item 1 of Part I of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

From time to time, the Company is subject to inquiries from and investigations by various governmental and other regulatory authorities with respect to the legality of the Company's network marketing program. Given the nature of recent allegations made by certain short sellers and related market events, the Company has received and believes it may receive additional state and federal governmental and similar inquiries (such as the previously disclosed inquiries from the FTC and SEC). To the extent any of these inquiries are or become material they will be disclosed individually. Consistent with its policies, the Company is and will fully cooperate with any inquiries and looks forward to resolving them in a timely manner.

#### ***Bostick v. Herbalife International of America, Inc., et al.***

On April 8, 2013, Herbalife Ltd. and certain of its subsidiaries were named as defendants in a suit filed in the U.S. District Court for the Central District of California, challenging Herbalife's marketing practices and business structure under California laws prohibiting endless chain schemes, unfair and deceptive business practices, and false advertising, as well as federal RICO statutes. The plaintiff seeks damages in an unspecified amount. The federal RICO claim was dismissed. The remaining claims are proceeding, and no trial date has been set. The Company believes that it has numerous defenses to the suit.

#### ***Awad v. Herbalife Ltd., et al.***

On April 14, 2014, Herbalife Ltd. and certain of its officers were named as defendants in a purported stockholder class action, filed in the U.S. District Court for the Central District of California and asserting claims under the Securities Exchange Act of 1934. The complaint alleges that the Company and certain officers made material misstatements concerning the Company's finances and business practices, and contends that the Company is operating a pyramid scheme. The plaintiff seeks damages in an unspecified amount and asks to represent a class of investors in Herbalife between May 4, 2010 and April 11, 2014. The Company intends to vigorously defend the class action suit.

### **Item 1A. RISK FACTORS**

#### **Risks Related to Us and Our Business**

***Our failure to establish and maintain Member 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 approximately 3.9 million independent Members, including 0.2 million in China, and we depend upon them directly for substantially all of our sales. To increase our revenue, we must increase the number of, or the productivity of, our 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. In light of this fact, we have our sales leaders re-qualify annually in order to maintain a more accurate count of their numbers. For the latest twelve month re-qualification period ending January 2014, approximately 51.8% of our sales leaders, excluding China and

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temporarily Venezuela, re-qualified. Members who purchase our product for personal consumption or for short-term income goals may stay with us for several months to one year. Sales leaders who have committed time and effort to build a sales organization will generally stay for longer periods. Members have highly variable levels of training, skills and capabilities. The turnover rate of our Members, and our operating results, can be adversely impacted if we, and our senior Member leadership, do not provide the necessary mentoring, training and business support tools for new Members to become successful sales people.

We estimate that, of our approximately 3.9 million independent Members, we had approximately 507,000 sales leaders as of March 31, 2014. These sales leaders, together with their downline sales organizations, account for substantially all of our revenues. Our Members, including our sales leaders, may voluntarily terminate their Member agreements with us at any time. The loss of a group of leading sales leaders, together with their downline sales organizations, or the loss of a significant number of Members for any reason, could negatively impact sales of our products, impair our ability to attract new Members and harm our financial condition and operating results.

***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. For example, in May 2008 public allegations were made that certain of our products contain excessive amounts of lead thereby triggering disclosure and labeling requirements under California Proposition 65. Following an investigation, these allegations were publicly withdrawn by the allegations initiator. While we have confidence in our products because they fall within FDA suggested guidelines as well as applicable state regulations for the amount of lead that consumers can safely ingest and do not believe they trigger disclosure or labeling requirements under California Proposition 65, negative publicity such as this can disrupt our business. Adverse publicity, whether or not accurate or resulting from consumers' use or misuse of our

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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-1980 s, our products and marketing program became the subject of regulatory scrutiny in the United States, resulting in large part from claims and representations made about our products by our 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

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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 and (4) we do not prohibit a new Member from working with another company. 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 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 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 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. 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 FDA rules 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 it self-manufactures 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.

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From time to time, the Company is subject to inquiries from and investigations by various governmental and other regulatory authorities with respect to the legality of the Company's network marketing program. To the extent any of these inquiries are or become material they will be disclosed as required by applicable securities laws. The Company believes it could receive additional inquiries. Consistent with its policies, the Company has cooperated and will fully cooperate with any such inquiries.

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

Our network marketing program is subject to a number of federal and state regulations administered by the 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 not to be in compliance with applicable law or regulations. Regulations applicable to network marketing organizations generally are directed at preventing fraudulent or deceptive schemes, often referred to as pyramid or chain sales schemes, by ensuring that product sales ultimately are made to consumers and that advancement within an organization is based on sales of the organization's products rather than investments in the organization or other non-retail sales-related criteria. The regulatory requirements concerning network marketing programs do not include bright line rules and are inherently fact-based and, thus, we are subject to the risk that these laws or regulations or the enforcement or interpretation of these laws and regulations by governmental agencies or courts can change. The ambiguity surrounding these laws can also affect the public perception of our 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 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. Some multi-level marketing programs of other companies have been successfully challenged in the past, while other challenges to multi-level marketing programs of other companies have been defeated. Adverse judicial determinations with respect to our network marketing program, or in proceedings not involving us directly but which challenge the legality of multi-level marketing systems, in any other market in which we operate, could negatively impact our business. Additionally, Herbalife has been named as a defendant in a purported class action lawsuit filed April 8, 2013 in the U.S. District Court for the Central District of California (*Bostick v. Herbalife International of America, Inc., et al*) challenging the legality of our network marketing program under various state and federal laws. On May 30, 2013, we filed a motion to dismiss the lawsuit on a variety of grounds. On October 11, 2013, after plaintiff indicated his intention to dismiss certain claims brought under federal law, the Court denied our motion to dismiss the remaining state claims. We believe the suit is without merit and plan to defend the suit vigorously.

***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 82% of our net sales for the year ended December 31, 2013, 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. 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.

Currency restrictions enacted by the Venezuelan government have become more restrictive and have impacted the ability of our subsidiary in Venezuela, or Herbalife Venezuela, to obtain U.S. dollars in exchange for Venezuelan Bolivars, or Bolivars, at the official foreign exchange rate from the Venezuelan government and its foreign exchange commission, CADIVI. The application and approval processes have been intermittently delayed and the timing and ability to obtain U.S. dollars at the official exchange rates remains uncertain. In certain instances, we have made appropriate applications through CADIVI for approval to obtain U.S. dollars so that Herbalife Venezuela can pay for imported products and an annual dividend, at the official exchange rate. In recent instances we

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have been unsuccessful in obtaining U.S. dollars at the official rate and it remains uncertain whether our current pending applications and future anticipated applications will be approved. As an alternative exchange mechanism, in prior years, we have also participated in certain bond offerings from the Venezuelan government and from Petróleos de Venezuela, S.A. or PDVSA, a Venezuelan state-owned petroleum company, where we effectively purchased bonds with our Bolívares and then sold the bonds for U.S. dollars. In other instances, we have also used other alternative legal exchange mechanisms for currency exchanges, such as the legal parallel market mechanism which was discontinued in May 2010.

In June 2010, the Venezuelan government introduced additional regulations under a newly regulated system, SITME, which was controlled by the Central Bank of Venezuela. SITME provided a mechanism to exchange Bolívares into U.S. dollars through the purchase and sale of U.S. dollar denominated bonds issued in Venezuela. However, SITME was only available in certain limited circumstances. Specifically, SITME could only be used for product purchases and it was not available for other matters such as the payment of dividends. Also, SITME could only be used for amounts of up to \$50,000 per day and \$350,000 per month and was generally only available to the extent that the applicant had not exchanged and received U.S. dollars via the CADIVI process within the previous 90 days. While we currently plan to continue to import products into Venezuela and exchange Bolívares for U.S. dollars based on the exchange mechanisms prescribed by the Venezuelan government, if the current currency restrictions are not lifted or eased, our product supplies in the Venezuelan market may be limited and we may make changes to Herbalife Venezuela's operations each of which could negatively impact our business.

In February 2013, the Venezuela government announced it devalued its Bolívar currency and will eliminate the SITME regulated system. The SITME 5.3 Bolívares per U.S. dollar rate was eliminated and the CADIVI rate has been devalued from 4.3 Bolívares to 6.3 Bolívares per U.S. dollar. This new CADIVI rate is approximately 16% less favorable than the previously published 5.3 SITME rate. We recognized approximately \$15.1 million of net foreign exchange losses within our consolidated statements of income during the first quarter of 2013, as a result of remeasuring our Bolívar denominated monetary assets and liabilities at the CADIVI rate of 6.3 Bolívares per U.S. dollar. At March 31, 2014, the Company remeasured its Bolívar denominated assets and liabilities at the less favorable SICAD I rate of 10.7 Bolívares per U.S. dollar as opposed to the CADIVI rate, and recognized a \$86.1 million foreign exchange loss during the first quarter of 2014 as described further in Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, within this quarterly report on Form 10Q.

If the foreign currency restrictions in Venezuela intensify or do not improve, we may be required to deconsolidate Herbalife Venezuela for U.S. GAAP purposes and would be subject to the risk of impairment. In addition, if foreign currency restrictions do not improve, we may have to use alternative legal exchange mechanisms or less favorable official exchange mechanisms, such as SICAD II, which are significantly less favorable than the official SICAD I rate which could cause the Company to incur significant foreign exchange losses. Due to the current political and economic environment in Venezuela, there is also a risk that there could be additional foreign currency devaluations. If any of these events were to occur, it could result in a significant negative impact to our consolidated earnings, cash and cash equivalents and present and future cash flows.

***Our expansion 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 different business model from that which we use elsewhere in the world.***

Our expansion of operations into China is subject to risks and uncertainties related to general economic, political and legal developments in China, among other things. The Chinese government exercises significant control over the Chinese economy, including but not limited to controlling capital investments, allocating resources, setting monetary policy, controlling foreign exchange and monitoring foreign exchange rates, implementing and overseeing tax

regulations, providing preferential treatment to certain industry segments or companies and issuing necessary licenses to conduct business. 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.

In 2005, China published regulations governing direct selling and prohibiting pyramid promotional schemes, and a number of administrative methods and proclamations were issued in 2005 and in 2006. These regulations require us to use a business model different from that which we offer in other markets. To allow us to operate under these regulations, we have created and introduced a model specifically for China. In China, we have Company-operated retail stores that can directly serve customers and preferred customers. We also 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, Hebi, Shaanxi, Tianjin, Heilongjiang, Hunan, Guangxi, Hainan, Anhui and Yunnan.

We have also engaged independent service providers that 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 and support services to Herbalife customers. These features 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

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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 exercise broad discretion in deciding how to interpret and apply 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.

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 enacted a labor contract law which took effect January 1, 2008 and on September 18, 2008 an implementing regulation took effect. On October 28, 2010 China enacted a social insurance law that came into effect on July 1, 2011. 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 into 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.

If our operations in China are successful, we may experience rapid growth in China, and there can be no assurances that we will be able to successfully manage rapid expansion of manufacturing operations and a rapidly growing and dynamic sales force. If we are unable to effectively manage such growth and expansion of our retail stores and manufacturing operations, our government relations may be compromised and our operations in China may be

harmed.

***If we fail to further penetrate existing markets and expand our business into new 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 and to a much less extent enter into new markets. Our ability to further penetrate existing markets or to expand our business into additional countries in Eastern Europe, Southeast Asia, South America, Africa or elsewhere, to the extent we believe that we have identified attractive geographic expansion opportunities in the future, is subject to numerous factors, many of which are out of our control.

In addition, government regulations in both our domestic and international markets can delay or prevent the introduction, or require the reformulation or withdrawal, of some of our products, which could negatively impact our business, financial condition and results of operations. Also, our ability to increase market penetration in certain countries may be limited by the finite number of persons in a given country inclined to pursue a direct selling business opportunity 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 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 continue to expand into new markets or further penetrate existing markets, our operating results could suffer.

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***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 that we will not sell Herbalife products 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 change certain aspects of our marketing plan without the consent of a specified percentage of our Members. 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, including roll-ups, 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, 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. 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 that 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.

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***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.***

The majority of our products are manufactured at third party contract manufacturers, with the exception of our products sold in China, which are manufactured in our Suzhou China facility, and certain of our top selling products which are produced in our manufacturing facility located in Lake Forest, California. It is the Company's intention to expand the capacity of its existing manufacturing facilities, and add additional facilities, to produce additional products for our North America and international markets. In December of 2012 we purchased a facility in Winston-Salem, North Carolina and are in the process of refurbishing this facility to become our largest finished goods manufacturing facility. We expect this facility to become operational in June 2014. 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 and while efforts are being made to ensure a smooth transition we cannot assure you that the transition from our third party contract manufacturers to this new Herbalife facility will not result in possible inventory shortages. 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 as a result of the current global financial crisis.

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, a significant delay in completion of the Winston-Salem Facility, while unlikely, could hamper our ability to support the continued growth in net sales.

Our 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 approximately 50 suppliers of our products. For our major products, we typically have both primary and secondary suppliers. Our major suppliers include Fine Foods (Italy) for meal replacements, protein powders and nutritional supplements, Valentine Enterprises (U.S.) for meal replacements and protein powders, Nature's Bounty (U.S.) for meal replacements and nutritional supplements, and PharmaChem Labs (U.S.) for teas and Niteworks®. Additionally we use contract manufacturers in India, Brazil, Korea, Japan, Taiwan and Germany 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. Also, as we experience ingredient and product price pressure in the areas of soy, fructose, dairy products, gums, plastics, and transportation reflecting global economic trends, we believe that we have the ability to mitigate some of these cost increases through improved optimization of our supply chain coupled with select increases in the retail prices of our products.

***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 this to occur it is possible that this could diminish the value of these marks or otherwise impair our further use of these marks.

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

Our Formula 1 meal replacement product constitutes a significant portion of our sales, accounting for approximately 28%, 29%, and 29% of net sales for the fiscal years ended December 31, 2013, 2012, and 2011, respectively. If consumer demand for this product decreases significantly or we cease offering this product without a suitable

replacement, then our financial condition and operating results would be harmed.

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

We depend on the continued services of our Chairman and Chief Executive Officer, Michael O. Johnson, and our current senior management team as they work closely with the senior Member leadership to create an environment of inspiration, motivation and entrepreneurial business success. 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.

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***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;

create liens on our and our subsidiaries' assets;

engage in transactions with affiliates; and

merge, consolidate or sell all or substantially all of our assets and the assets of our subsidiaries.

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 dividends to our shareholders.***

In February 2014, we issued convertible notes due 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.

Holders 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, which we refer to as 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 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 stockholders 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.

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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, 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 therefore a potential negative impact on our business. 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 and our revenue and earnings could be adversely affected.

On May 13, 2011, the Mexican Tax Administration Service issued a resolution nullifying a prior assessment in an amount equivalent to approximately \$88 million, translated at the period ended spot rate, for various items, the majority of which was VAT allegedly owed on certain of our products imported into Mexico during years 2005 and 2006. Since, the Mexican Tax Administration Service can re-issue some or all of the original assessment, we commenced litigation in the Tax Court of Mexico in August 2011 to dispute the assertions made by the Mexican Tax Administration Service in the case. The Mexican Tax Administration Service filed a response which was received by us in April 2012. The response challenged the assertions that we made in our August 2011 filing. Litigation in this case is currently ongoing.

The Mexican Tax Administration Service commenced audits of our Mexican subsidiaries for the period from January to September 2007 and on May 10, 2013, we received an assessment of approximately \$22 million, translated at the period ended spot rate, related to that period. On July 11, 2013 the Company filed an administrative appeal disputing the assessment. In addition, the Mexican Tax Administration Service has requested additional information in response to Company filings for VAT refunds.

The Mexican Tax Administration Service audited our Mexican subsidiaries for the 2011 year. The audit focused on importation and VAT issues. On June 25, 2013, the Mexican Tax Administration Service closed the audit of the 2011

year without any assessment.

The Mexican Tax Administration Service has requested information related to the Company's 2010 year. This information has been provided. We expect that the Mexican Tax Administration Service will request additional information as this process continues.

We have not recognized a loss with respect to any of these Mexican matters as we, based on our analysis and guidance from our advisors, do not believe a loss is probable. Further, we are currently unable to reasonably estimate a possible loss or range of loss that could result from an unfavorable outcome if the assessment was re-issued or any additional assessments were to be issued for these or other periods. We believe that we have meritorious defenses if the assessment is re-issued or would have meritorious defenses if any additional assessment is issued. Any adverse outcomes in these matters could have a material impact on our financial condition and operating results.

The Korea Customs Service is currently auditing the importation activities of Herbalife Korea for the 2009 - 2013 period. If an assessment is issued, we would be required to pay the amount requested in order to appeal the assessment. Based on our analysis and guidance from our advisors, we do not believe a loss is probable. Further, we are currently unable to reasonably estimate a possible loss or range of loss.

***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

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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 due August 15, 2019. 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. 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. For example, in Brazil and Italy the Company received tax assessments from the authorities for withholding taxes, social contributions, and related items in connection with payments made to Members in those countries in prior periods. The Company has appealed the assessments. In the case of Italy the assessment is anticipated to be withdrawn. The Company believes it has meritorious defenses in other instances. 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.

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

Our ingestible products consist of 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 \$10 million, in certain cases we may be subject to the full amount of liability associated with any injuries, which could be substantial.

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

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***We are subject to, among other things, requirements regarding the effectiveness of internal controls over financial reporting. In connection with these requirements, we conduct regular audits of our business and operations. Our failure to identify or correct deficiencies and areas of weakness in the course of these audits could adversely affect our financial condition and operating results.***

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

On a regular and on-going basis, we conduct audits through our internal audit department of various aspects of our business and operations. These internal audits are conducted to insure compliance with our policies and to strengthen our operations and related internal controls. The Audit Committee of our Board of Directors regularly reviews the results of these internal audits and, when appropriate, suggests remedial measures and actions to correct noted deficiencies or strengthen areas of weakness. There can be no assurance that these internal audits will uncover all material deficiencies or areas of weakness in our operations or internal controls. If left undetected and uncorrected, such deficiencies and weaknesses could have a material adverse effect on our financial condition and results of operations.

From time to time, the results of these internal audits may necessitate that we conduct further investigations into aspects of our business or operations. In addition, our business practices and operations may periodically be investigated by one or more of the many governmental authorities with jurisdiction over our worldwide operations. In the event that these investigations produce unfavorable results, we may be subjected to fines, penalties or loss of licenses or permits needed to operate in certain jurisdictions, any one of which could have a material adverse effect on our financial condition or operating results.

***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, 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. Where an action is brought to redress any loss or damage suffered by us, we would be the proper plaintiff, and a shareholder could not ordinarily maintain an action on our behalf, except where it was permitted by the courts of the Cayman Islands to proceed with a derivative action. Our Cayman Islands counsel, Maples and Calder, is not aware of any reported decisions in relation to a derivative action brought in a Cayman Islands court. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, a shareholder may be permitted to bring a claim derivatively on the 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 .

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***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 a classified board, the inability of shareholders to act by written consent, a limitation on the ability of shareholders to call special meetings of shareholders and advance notice provisions. As a result, our shareholders may have less input into the management of our Company than they might otherwise have if these provisions were not included in our articles of association.

The Cayman Islands have provisions under the Companies Law (2013 Revision) (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.

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***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 be 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. The courts will 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.

***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 July 30, 2012, we announced that our board of directors authorized a new \$1 billion share repurchase program that will expire on June 30, 2017. On February 3, 2014, we announced that our board of directors authorized an increase in the existing share repurchase authorization to an available balance of \$1.5 billion. This share repurchase program allows us 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 the consolidated leverage ratio specified in the Credit Facility is not exceeded.

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 Forward Counterparties, pursuant to which we purchased approximately 9.9 million common shares 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 our Forward Transaction early. The Forward Transactions are 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. As a result of this transaction, our total shareholders' equity within our 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) retained earnings and additional paid-in-capital, respectively, within total shareholders' equity.

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The following is a summary of our repurchases of common shares during the three months ended March 31, 2014:

| Period     |             | Total<br>Number<br>of Shares<br>Purchased | Average<br>Price<br>Paid per<br>Share | Total<br>Number<br>of Shares<br>Purchased<br>as<br>Part of Publicly<br>Announced<br>Plans or<br>Programs | Approximate<br>Dollar<br>Value of Shares<br>that May Yet Be<br>Purchased Under<br>the Plans or<br>Programs |
|------------|-------------|---|---------------------------------------|--|--|
| January 1  | January 31  |   | \$                                    |  | \$ 652,614,745   |
| February 1 | February 28 | 9,935,600(1)                              | \$ 69.02                              | 9,935,600(1)   | \$ 814,244,888   |
| March 1    | March 31    |   |                                       |  | \$ 814,244,888   |
|            |             | 9,935,600                                 | \$ 69.02                              | 9,935,600  | \$ 814,244,888   |

- (1) Although the 9.9 million common shares repurchased through the Forward Transaction are not legally retired and remain outstanding as of March 31, 2014, these common shares are reflected in the above table as they are considered retired for basic and diluted EPS purposes and the available capacity under our share repurchase authorization has been reduced by the aggregate amount of the Forward Transactions.

**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**

| <b>Number</b> | <b>Description</b>  | <b>Reference</b> |
|---------------|---|------------------|
| 3.1           | Form of Amended and Restated Memorandum and Articles of Association of Herbalife Ltd.   | (s)              |
| 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.                           | (u)              |
| 4.3           | Form of Global Note for 2.00% Convertible Senior Note due 2019 (included as Exhibit A to exhibit 4.2 hereto)  | (u)              |
| 10.1          | Form of Indemnity Agreement between Herbalife International Inc. and certain officers and directors of Herbalife International, Inc.  | (a)              |
| 10.2#         | Herbalife International of America, Inc. s Senior Executive Deferred Compensation Plan, effective January 1, 1996, as amended   | (a)              |
| 10.3#         | Herbalife International of America, Inc. s Management Deferred Compensation Plan, effective January 1, 1996, as amended   | (a)              |
| 10.4#         | Master Trust Agreement between Herbalife International of America, Inc. and Imperial Trust Company, Inc., effective January 1, 1996   | (a)              |
| 10.5#         | Herbalife International Inc. 401K Profit Sharing Plan and Trust, as amended   | (a)              |
| 10.6          | Notice to Distributors regarding Amendment to Agreements of Distributorship, dated as of July 18, 2002 between Herbalife International, Inc. and each Herbalife Distributor | (a)              |

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| <b>Number</b> | <b>Description</b>   | <b>Reference</b> |
|---------------|--|------------------|
| 10.7#         | WH Holdings (Cayman Islands) Ltd. Stock Incentive Plan, as restated, dated as of November 5, 2003  | (a)              |
| 10.8#         | Non-Statutory Stock Option Agreement, dated as of April 3, 2003 between WH Holdings (Cayman Islands) Ltd. and Michael O. Johnson                       | (a)              |
| 10.9#         | 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)              |
| 10.10#        | Form of Non-Statutory Stock Option Agreement (Non-Executive Agreement)   | (a)              |
| 10.11#        | Form of Non-Statutory Stock Option Agreement (Executive Agreement)   | (a)              |
| 10.12         | Indemnity Agreement, dated as of February 9, 2004, among WH Capital Corporation and Brett R. Chapman   | (a)              |
| 10.13#        | First Amendment to Amended and Restated WH Holdings (Cayman Islands) Ltd. Stock Incentive Plan, dated November 5, 2003                                 | (a)              |
| 10.14         | Form of Indemnification Agreement between Herbalife Ltd. and the directors and certain officers of Herbalife Ltd.                                      | (b)              |
| 10.15#        | Herbalife Ltd. 2004 Stock Incentive Plan, effective December 1, 2004   | (b)              |
| 10.16#        | Amendment No. 1 to Herbalife Ltd. 2004 Stock Incentive Plan  | (d)              |
| 10.17#        | Form of 2004 Herbalife Ltd. 2004 Stock Incentive Plan Stock Option Agreement   | (i)              |
| 10.18#        | Form of 2004 Herbalife Ltd. 2004 Stock Incentive Plan Non-Employee Director Stock Option Agreement   | (i)              |
| 10.19#        | Amended and Restated Herbalife Ltd. 2005 Stock Incentive Plan  | (e)              |
| 10.20#        | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement  | (m)              |
| 10.21#        | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement  | (m)              |
| 10.22#        | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Michael O. Johnson   | (m)              |
| 10.23#        | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Michael O. Johnson                             | (m)              |
| 10.24#        | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Messrs. Richard P. Goudis and Brett R. Chapman               | (m)              |
| 10.25#        | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Messrs. Richard P. Goudis and Brett R. Chapman | (m)              |
| 10.26#        | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Mr. Michael O. Johnson                                       | (p)              |
| 10.27#        | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Mr. Michael O. Johnson                         | (p)              |

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| 10.28# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Messrs. Brett R. Chapman and Richard Goudis  | (p) |
| 10.29# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Messrs. Brett R. Chapman and Richard Goudis                            | (p) |
| 10.30# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement  | (p) |
| 10.31# | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement  | (p) |
| 10.32# | Herbalife Ltd. Employee Stock Purchase Plan  | (r) |
| 10.33# | Employment Agreement dated as of March 27, 2008 between Michael O. Johnson and Herbalife International of America, Inc.  | (r) |
| 10.34# | Stock Unit Award Agreement by and between Herbalife Ltd. and Michael O. Johnson, dated March 27, 2008.   | (r) |
| 10.35# | Stock Appreciation Right Award Agreement by and between Herbalife Ltd. and Michael O. Johnson, dated March 27, 2008.   | (r) |
| 10.36# | Stock Appreciation Right Award Agreement by and between Herbalife Ltd. and Michael O. Johnson, dated March 27, 2008.   | (r) |
| 10.37# | Amendment to Herbalife International Inc. 401K Profit Sharing Plan and Trust   | (f) |
| 10.38# | Form of Independent Directors Stock Appreciation Right Award Agreement   | (g) |
| 10.39# | Herbalife Ltd. Amended and Restated Independent Directors Deferred Compensation and Stock Unit Plan  | (g) |
| 10.40# | Amended and Restated Employment Agreement by and between Richard P. Goudis and Herbalife International of America, Inc., dated as of January 1, 2010.                          | (h) |
| 10.41# | 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. | (k) |

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| <b>Number</b> | <b>Description</b>  | <b>Reference</b> |
|---------------|---|------------------|
| 10.42#        | Amended and Restated Employment Agreement by and between Brett Chapman and Herbalife International of America, Inc., dated as of June 1, 2010.  | (j)              |
| 10.43#        | First Amendment to the Amended and Restated Employment Agreement by and between Brett R. Chapman and Herbalife International of America, Inc., dated as of December 26, 2010.   | (k)              |
| 10.44#        | Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement   | (i)              |
| 10.45#        | Amended and Restated Non-Management Directors Compensation Plan(i)  |                  |
| 10.46#        | Form of Herbalife Ltd. 2005 Stock Incentive Plan Non-Employee Directors Stock Appreciation Right Award Agreement  | (i)              |
| 10.47#        | Severance Agreement by and between John DeSimone and Herbalife International of America, Inc., dated as of February 23, 2011.   | (l)              |
| 10.48#        | Amended and Restated Severance Agreement, dated as of February 23, 2011, by Desmond Walsh and Herbalife International of America, Inc.  | (l)              |
| 10.49         | Credit Agreement, dated as of March 9, 2011, by and among Herbalife International, Inc. ( HII ), 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.   | (m)              |
| 10.50         | First Amendment, dated July 26, 2012, to Credit Agreement, dated as of March 9, 2011, by and among Herbalife International, Inc. ( HII ), 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.  | (p)              |
| 10.51#        | Amendment to Amended and Restated Herbalife Ltd. 2005 Stock Incentive Plan  | (n)              |
| 10.52#        | Stock Appreciation Right Award Agreement, dated August 4, 2011, by and between Herbalife Ltd. and Michael O. Johnson  | (o)              |
| 10.53         | Support Agreement, dated February 28, 2013, by and between Carl C. Icahn, Herbalife Ltd., Icahn Partners Master Fund LP, Icahn Partners Master Fund II LP, Icahn Partners Master Fund III 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 L.P., and Icahn Enterprises G.P. Inc. | (q)              |
| 10.54         | Second Amendment, dated February 3, 2014, to Credit Agreement, dated as of March 9, 2011, by and among Herbalife International, Inc. ( HII ), 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.  | (t)              |
| 10.55         | Form of Forward Share Repurchase Confirmation.  | (u)              |
| 10.56         | Form of Base Capped Call Confirmation.  | (u)              |

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| 10.57   | Form of Additional Capped Call Confirmation.   | (u) |
| 10.58#  | Form of Herbalife Ltd. 2005 Stock Incentive Plan Performance Condition Stock Appreciation Right Award Agreement.   | (u) |
| 10.59   | Amended and Restated Support Agreement, dated March 23, 2014, 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. | (v) |
| 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.

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- (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 February 17, 2005 as an Exhibit to the Company's registration statement on Form S-8 (File No. 333-122871) and is incorporated herein by reference.
- (e) Previously filed on April 30, 2010 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (f) Previously filed on May 4, 2009 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 and is incorporated by reference.
- (g) Previously filed on May 3, 2010 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 and is incorporated by reference.
- (h) Previously filed on June 17, 2010 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (i) Previously filed on August 2, 2010 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 and is incorporated by reference.
- (j) Previously filed on August 3, 2010 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (k) Previously filed on December 29, 2010 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (l) Previously filed on March 1, 2011 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (m) Previously filed on May 2, 2011 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 and is incorporated by reference.
- (n) Previously filed on April 29, 2011 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (o) Previously filed on August 10, 2011 as an Exhibit to the Company's Current Report on Form 8-K, and is incorporated herein by reference.
- (p) Previously filed on July 30, 2012 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 and is incorporated herein by reference.
- (q) Previously filed on March 1, 2013 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (r) 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.
- (s) Previously filed on October 28, 2013 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 and is incorporated herein by reference.
- (t) 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.
- (u) 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.
- (v) Previously filed on March 24, 2014 as an Exhibit to the Company's Current Report on Form 8-K, and is incorporated herein by reference.

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**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: April 28, 2014