

HERBALIFE LTD.  
Form 10-Q  
May 05, 2016

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, 2016

OR

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

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

Commission file number: 1-32381

HERBALIFE LTD.

(Exact name of registrant as specified in its charter)

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

incorporation or organization) Identification No.)

P.O. Box 309GT

Ugland House, South Church Street

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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 28, 2016 was 92,800,128.

HERBALIFE LTD.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## HERBALIFE LTD. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31,  2016	December 31,  2015
	(In millions, except share and  par value amounts)	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$774.2	\$ 889.8
Receivables, net of allowance for doubtful accounts	89.9	69.9
Inventories	336.5	332.0
Prepaid expenses and other current assets	157.8	161.1
Deferred income tax assets	115.7	113.5
Total current assets	1,474.1	1,566.3
Property, at cost, net of accumulated depreciation and amortization	338.6	339.2
Deferred compensation plan assets	29.3	29.3
Other assets	140.2	141.1
Marketing related intangibles and other intangible assets, net	310.1	310.2
Goodwill	94.0	91.8
Total assets	\$2,386.3	\$ 2,477.9
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$72.3	\$ 71.1
Royalty overrides	242.1	249.9
Accrued compensation	98.9	128.8
Accrued expenses	237.6	228.7
Current portion of long-term debt	410.0	229.5
Advance sales deposits	88.7	63.8
Income taxes payable	58.3	52.6
Total current liabilities	1,207.9	1,024.4
<b>NON-CURRENT LIABILITIES:</b>		
Long-term debt, net of current portion	992.8	1,392.5
Deferred compensation plan liability	46.2	43.6
Deferred income tax liabilities	0.4	0.4
Other non-current liabilities	74.1	70.5

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Total liabilities	2,321.4	2,531.4
CONTINGENCIES		
SHAREHOLDERS' EQUITY (DEFICIT):		
Common shares, \$0.001 par value; 1.0 billion shares authorized; 92.8 million (2016)		
and 92.7 million (2015) shares outstanding	0.1	0.1
Paid-in capital in excess of par value	446.5	438.2
Accumulated other comprehensive loss	(151.2 )	(165.5 )
Accumulated deficit	(230.5 )	(326.3 )
Total shareholders' equity (deficit)	64.9	(53.5 )
Total liabilities and shareholders' equity (deficit)	\$2,386.3	\$2,477.9

See the accompanying notes to unaudited condensed consolidated financial statements.

## HERBALIFE LTD. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended	
	March 31,	March 31,
	2016	2015
	(In millions, except per share amounts)	
Product sales	\$1,052.0	\$1,028.3
Shipping & handling revenues	67.6	77.1
Net sales	1,119.6	1,105.4
Cost of sales	213.1	215.4
Gross profit	906.5	890.0
Royalty overrides	311.9	323.0
Selling, general & administrative expenses	426.3	431.4
Operating income	168.3	135.6
Interest expense, net	24.9	21.5
Other expense, net	—	2.3
Income before income taxes	143.4	111.8
Income taxes	47.6	33.6
NET INCOME	\$95.8	\$78.2
Earnings per share:		
Basic	\$1.16	\$0.95
Diluted	\$1.12	\$0.92
Weighted average shares outstanding:		
Basic	82.8	82.3
Diluted	85.6	84.6

See the accompanying notes to unaudited condensed consolidated financial statements.

## HERBALIFE LTD. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended	
	March 31,	March 31,
	2016	2015
	(In millions)	
Net income	\$95.8	\$78.2
Other comprehensive income (loss):		
Foreign currency translation adjustment, net of income taxes of \$(0.8) and \$(1.9) for the three months ended March 31, 2016 and 2015, respectively	20.0	(54.9)
Unrealized (loss) gain on derivatives, net of income taxes of \$(0.2) and \$0.6 for the three months ended March 31, 2016 and 2015, respectively	(5.6 )	5.2
Unrealized loss on available-for-sale investments, net of income taxes of \$0.1 and \$(0.2) for the three months ended March 31, 2016 and 2015, respectively	(0.1 )	(0.3 )
Total other comprehensive income (loss)	14.3	(50.0)
Total comprehensive income	\$110.1	\$28.2

See the accompanying notes to unaudited condensed consolidated financial statements.



## HERBALIFE LTD. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended	
	March 31,	March 31,
	2016	2015
	(In millions)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$95.8	\$78.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23.9	22.9
Excess tax benefits from share-based payment arrangements	(0.2 )	(2.5 )
Share-based compensation expenses	9.8	11.1
Non-cash interest expense	15.6	12.2
Deferred income taxes	(3.2 )	1.3
Inventory write-downs	7.3	4.9
Foreign exchange transaction gain	(0.7 )	(18.3 )
Foreign exchange loss and other charges relating to Venezuela	1.9	36.3
Other	(0.8 )	4.6
Changes in operating assets and liabilities:		
Receivables	(17.3 )	(14.4 )
Inventories	(2.6 )	15.0
Prepaid expenses and other current assets	9.3	10.8
Other assets	(2.1 )	(6.2 )
Accounts payable	2.8	(1.1 )
Royalty overrides	(10.4 )	(23.0 )
Accrued expenses and accrued compensation	(20.4 )	22.5
Advance sales deposits	23.6	16.3
Income taxes	6.5	(10.6 )
Deferred compensation plan liability	2.3	1.1
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>141.1</b>	<b>161.1</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(29.7 )	(22.8 )
Other	4.1	6.1
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(25.6 )</b>	<b>(16.7 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on senior secured credit facility and other debt	(229.7)	(25.0)
Share repurchases	(2.3 )	(9.0 )
Excess tax benefits from share-based payment arrangements	0.2	2.5
Other	(1.9 )	0.4
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(233.7)</b>	<b>(31.1)</b>

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EFFECT OF EXCHANGE RATE CHANGES ON CASH	2.6	(43.2)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(115.6)	70.1
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	889.8	645.4
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$774.2	\$715.5

See the accompanying notes to unaudited condensed consolidated financial statements.

HERBALIFE LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization

Herbalife Ltd., a Cayman Islands exempt limited liability company, 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, targeted nutrition, energy, sports & fitness, and outer nutrition products. As of March 31, 2016, the Company sold its products to and through a network of 4.0 million independent members, or Members, which included 0.3 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 consolidated interim financial information of the Company has been prepared in accordance with Article 10 of the Securities and Exchange Commission’s, or the SEC, Regulation S-X. Accordingly, as permitted by Article 10 of the SEC’s Regulation S-X, it does not include all of the information required by generally accepted accounting principles in the U.S., or U.S. GAAP, for complete financial statements. The condensed consolidated balance sheet at December 31, 2015 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, 2016, and for the three months ended March 31, 2016 and 2015, 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, 2016, and for the three months ended March 31, 2016 and 2015. 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, 2015, or the 2015 10-K. Operating results for the three months ended March 31, 2016, are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2014-09, Revenue from Contracts with Customers (Topic 606). The new revenue recognition standard provides a five-step analysis of contracts to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015,

the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which deferred the effective date of ASU No. 2014-09 for all entities by one year to annual reporting periods beginning after December 15, 2017. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue versus Net), which clarifies the implementation guidance on principal versus agent considerations in the new revenue recognition standard. ASU 2016-08 clarifies how an entity should identify the unit of accounting (i.e. the specified good or service) for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing, which clarifies the implementation guidance on how an entity should identify performance obligations in contracts with customers, and how it should account for licensing arrangements with customers. The amendments shall be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Early adoption is permitted as of the original effective date of December 15, 2016. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements — Going Concern (Subtopic 205-40). The purpose of this ASU is to incorporate into U.S. GAAP management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable), and to provide related footnote disclosures. This update is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The adoption of this guidance will not have a material impact on the Company's consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This ASU does not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. This ASU eliminates from U.S. GAAP the requirement to measure inventory at the lower of cost or market. Market under the previous requirement could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. Entities within scope of this update will now be required to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory using LIFO or the retail inventory method. The amendments in this update are effective for fiscal years beginning after December 15, 2016, with early adoption permitted, and should be applied prospectively. The Company early adopted ASU 2015-11 as of January 1, 2016. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. This ASU simplifies the presentation of deferred taxes by requiring that deferred tax assets and liabilities be presented as noncurrent on the balance sheet. ASU 2015-17 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016, with early adoption permitted. The amendments may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

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

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

In March, 2016, the FASB issued ASU No. 2016-04, Liabilities — Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products. This ASU requires entities that sell prepaid stored-value products redeemable for goods, services or cash at third-party merchants to recognize breakage (i.e. the value that is ultimately not redeemed by the consumer) in a way that is consistent with how it will be recognized under the new revenue recognition standard. Under current U.S. GAAP, there is diversity in practice in how entities account for breakage that results when a consumer does not redeem the entire product balance. This ASU clarifies that an entity's liability for prepaid stored-value products within its scope meets the definition of a financial liability. The amendments in this update are effective for reporting periods beginning after December 15, 2017, with early adoption permitted. The amendment may be applied using either a modified retrospective approach or a full retrospective approach. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In March, 2016, the FASB issued ASU No. 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. This ASU provides guidance clarifying that the novation of a derivative contract (i.e. a change in counterparty) in a hedge accounting relationship does not, in and of itself, require dedesignation of that hedge accounting relationship. If all of the other hedge accounting criteria are met, including the expectation that the hedge will be highly effective when the creditworthiness of the new counterpart to the derivative contract is considered, the hedging relationship will continue uninterrupted. The amendments in this update are effective for reporting periods beginning after December 15, 2016, with early adoption permitted. Entities may adopt the guidance prospectively or use a modified retrospective approach. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In March, 2016, the FASB issued ASU No. 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments. This ASU clarifies the requirements for assessing whether contingent put or call options that can accelerate the payment of principal on debt instruments are clearly and closely related (i.e. an entity is required to assess whether the economic characteristics and risks of embedded put or call options are clearly and closely related to those of their debt hosts only in accordance with the four-step decision sequence of FASB Accounting Standards Codification, or ASC 815, Derivatives and Hedging). An entity should no longer assess whether the event that triggers the ability to exercise a put or call option is related to interest rates or credit risk of the entity. The amendments in this update are effective for reporting periods beginning after December 15, 2016, with early adoption permitted. Entities are required to apply the guidance to existing debt instruments using a modified retrospective transition method as of the period of adoption. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In March, 2016, the FASB issued ASU No. 2016-09, Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This ASU is intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements, including the income tax effects of share-based payments and accounting for forfeitures. The amendments in this update are effective for reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

#### Venezuela

The adverse operating environment in Venezuela continues to be challenging for the Company's Venezuela business, with high inflation, pricing limitations, importation restrictions, and foreign exchange restrictions. Foreign exchange controls in Venezuela continue to limit Herbalife Venezuela's ability to repatriate earnings and settle its intercompany shipment obligations at any official rate. As a result, this has continued to significantly limit Herbalife Venezuela's ability to acquire its U.S. dollar denominated raw materials and finished good inventory.

During the three months ended March 31, 2016 and 2015, the Company recognized foreign exchange losses and other related charges of \$4.7 million and \$36.3 million, respectively, within its condensed consolidated statement of income related to its Venezuelan operations. During the three months ended March 31, 2016 and 2015, Herbalife Venezuela's net sales represented less than 1% and approximately 1%, respectively, of the Company's consolidated net sales. As of March 31, 2016, Herbalife Venezuela's assets primarily consisted of Bolivar-denominated cash of approximately \$5.1 million. See the Company's consolidated financial statements and related notes in the 2015 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 currently stated at lower of cost (primarily on the first-in, first-out basis) and net realizable value.

The following are the major classes of inventory:

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	March 31,	December 31,
	2016	2015
	(In millions)	
Raw materials	\$42.9	\$ 41.5
Work in process	5.3	3.8
Finished goods	288.3	286.7
Total	\$336.5	\$ 332.0



## 4. Long-Term Debt

Long-term debt consists of the following:

	March 31,  2016	December 31,  2015
	(In millions)	
Senior secured credit facility, carrying value	\$410.0	\$ 639.5
Convertible senior notes, carrying value of liability component	992.8	982.5
<b>Total</b>	<b>1,402.8</b>	<b>1,622.0</b>
Less: current portion	410.0	229.5
<b>Long-term portion</b>	<b>\$992.8</b>	<b>\$ 1,392.5</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.

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 on the Company's condensed 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 was a part of the Credit Facility and was in addition to the Company's current 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. These debt issuance costs were recorded on the Company's condensed consolidated balance sheet and amortized over the life of the Term Loan. The Term Loan matured on March 9, 2016 and was repaid in full.

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 senior notes described below and the capped call and prepaid forward share repurchase transactions described in greater detail in Note 10, Shareholders' Equity (Deficit). 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 on the Company's condensed consolidated balance sheet and are being amortized over the life of the Credit Facility.

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

The base rate under the Credit Facility represents the highest of the Federal Funds Rate plus 0.50%, the 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 0.40% 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. All obligations under the Credit Facility are unconditionally guaranteed by certain of the Company's subsidiaries and are secured by substantially all of the assets of the U.S. subsidiaries of the parent company, Herbalife Ltd. and by certain assets of certain foreign subsidiaries of Herbalife Ltd.

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. The Credit Facility restricts the Company's ability to pay dividends or repurchase its common shares to a maximum of \$233.0 million until maturity and for every one dollar of share repurchase or dividend paid, the revolving credit facility's borrowing capacity is permanently decreased by two dollars. The Credit Facility also provides for the grant of security interest on certain additional assets of the Company and its subsidiaries. The Company is also required to maintain a minimum balance of \$200.0 million of consolidated cash and cash equivalents. As of March 31, 2016 and December 31, 2015, the Company was compliant with its debt covenants under the Credit Facility.

On March 31, 2016 and December 31, 2015, the weighted average interest rate for borrowings under the Credit Facility, including borrowings under the Term Loan as of December 31, 2015, was 3.32% and 2.78%, respectively.

During the three months ended March 31, 2016, the Company repaid a total amount of \$229.7 million to repay in full the Company's Term Loan. During the three months ended March 31, 2015, the Company repaid a total amount of \$25.0 million under the Credit Facility. As of March 31, 2016, the U.S. dollar amount outstanding under the revolving credit facility was \$410.0 million. As of December 31, 2015, the U.S. dollar amount outstanding under the Credit Facility was \$639.7 million, which consisted of \$229.7 million outstanding on the Term Loan and \$410.0 million outstanding on the revolving credit facility. There were no outstanding foreign currency borrowings as of March 31, 2016 and December 31, 2015 under the Credit Facility.

The fair value of the outstanding borrowings on the Company's revolving credit facility approximated its carrying value as of March 31, 2016 due to its variable interest rate which reprices frequently and which represents floating market rates. The fair value of the outstanding borrowings on the Company's revolving credit facility is determined by utilizing Level 2 inputs as defined in Note 12, Fair Value Measurements, such as observable market interest rates and yield curves.

#### Convertible Senior Notes

During February 2014, the Company initially issued \$1 billion aggregate principal amount of convertible senior notes, or Convertible Notes, in a private offering to qualified institutional buyers, pursuant to Rule 144A under the Securities Act of 1933, as amended. The Company granted an option to the initial purchasers to purchase up to an additional \$150 million aggregate principal amount of Convertible Notes which was subsequently exercised in full during February 2014, resulting in a total issuance of \$1.15 billion aggregate principal amount of Convertible Notes. The Convertible Notes are senior unsecured obligations which rank effectively subordinate to any of the Company's existing and future secured indebtedness, including amounts outstanding under the Credit Facility, to the extent of the value of the assets securing such indebtedness. The Convertible Notes pay interest at a rate of 2.00% per annum payable semiannually in arrears on February 15 and August 15 of each year, beginning on August 15, 2014. The Convertible Notes mature on August 15, 2019, unless earlier repurchased or converted. The Company may not redeem the Convertible Notes prior to their stated maturity date. Holders of the Convertible Notes may convert their notes at

their option under the following circumstances: (i) during any calendar quarter commencing after the calendar quarter ending March 31, 2014, if the last reported sale price of the Company's common shares for at least 20 trading days (whether or not consecutive) in a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter exceeds 130% of the conversion price for the Convertible Notes on each applicable trading day; (ii) during the five business-day period immediately after any five consecutive trading day period, or the measurement period, in which the trading price per \$1,000 principal amount of Convertible Notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of the Company's common shares and the conversion rate for the Convertible Notes for each such day; or (iii) upon the occurrence of specified corporate events. On and after May 15, 2019, holders may convert their Convertible Notes at any time, regardless of the foregoing circumstances. Upon conversion, the Convertible Notes will be settled in cash and, if applicable, the Company's common shares, based on the applicable conversion rate at such time. The Convertible Notes had an initial conversion rate of 11.5908 common shares per \$1,000 principal amount of the Convertible Notes (which is equal to an initial conversion price of approximately \$86.28 per common share).

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

During February 2014, the \$1.15 billion proceeds received from the issuance of the Convertible Notes were initially allocated between long-term debt, or liability component, and additional paid-in-capital, or equity component, within the Company's condensed consolidated balance sheet at \$930.9 million and \$219.1 million, respectively. The liability component was measured using the nonconvertible debt interest rate. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the face value of the Convertible Notes as a whole. Since the Company must still settle these Convertible Notes at face value at or prior to maturity, this liability component will be accreted up to its face value resulting in additional non-cash interest expense being recognized within the Company's condensed consolidated statements of income 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, 2016, the outstanding principal on the Convertible Notes was \$1.15 billion, the unamortized debt discount and debt issuance cost was \$157.2 million, and the carrying amount of the liability component was \$992.8 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, 2016, the fair value of the liability component relating to the Convertible Notes was approximately \$851.0 million. As of December 31, 2015, the outstanding principal on the Convertible Notes was \$1.15 billion, the unamortized debt discount and debt issuance costs was \$167.6 million, and the carrying amount of the liability component was \$982.5 million, which was recorded to long-term debt within the Company's consolidated balance sheet as reflected in the table above within this Note. As of December 31, 2015, the fair value of the liability component relating to the Convertible Notes was approximately \$795.9 million. At March 31, 2016 and December 31, 2015, the Company determined the fair value of the liability component of the Convertible Notes using two valuation methods. The Company reviewed market data that was available for publicly traded, senior, unsecured nonconvertible corporate bonds issued by companies with similar credit ratings. Assumptions used in the estimate represent what market participants would use in pricing the liability component, including market yields and credit standing to develop the straight debt yield estimate. The Company also used a lattice model, which included inputs such as stock price, the Convertible Note trading price, volatility and dividend yield to estimate the straight debt yield. The Company combined the results of the two valuation methods to determine the fair value of the liability component of the Convertible Notes. Most of these inputs are primarily considered Level 2 and Level 3 inputs. This valuation approach was similar to the approach the Company used to determine the initial fair value of the liability component of the Convertible Notes on the February 7, 2014 issuance date.

In conjunction with the issuance of the Convertible Notes, during February 2014, the Company paid approximately \$685.8 million to enter into prepaid forward share repurchase transactions, or the Forward Transactions, with certain financial institutions, and paid approximately \$123.8 million to enter into capped call transactions with respect to its common shares, or the Capped Call Transactions, with certain financial institutions. See Note 10, Shareholders' Equity (Deficit), 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, 2016, the Company recognized \$16.1 million of interest expense relating to the Convertible Notes, which included \$9.4 million relating to non-cash interest expense relating to the debt discount

and \$0.9 million relating to amortization of debt issuance costs. During the three months ended March 31, 2015, the Company recognized \$15.2 million of interest expense relating to the Convertible Notes, which included \$8.8 million relating to non-cash interest expense relating to the debt discount and \$0.9 million relating to amortization of debt issuance costs. The Company's total interest expense, including the Credit Facility, was \$26.0 million and \$23.4 million for the three months ended March 31, 2016 and 2015, respectively, which was recognized within its condensed consolidated statement of income.

As of March 31, 2016, the aggregate annual maturity of the Credit Facility was expected to be \$410.0 million for 2017. The \$1.15 billion Convertible Notes are due in 2019.

Certain vendors and government agencies may require letters of credit or similar guaranteeing arrangements to be issued or executed. As of March 31, 2016, the Company had \$40.4 million of issued but undrawn letters of credit or similar arrangements, which included the Mexico Value Added Tax, or VAT, related surety bonds described in Note 5, Contingencies.

## 5. Contingencies

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

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 \$15 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 significant 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 \$67 million, translated at the March 31, 2016 spot rate, for various items, the majority of which was VAT allegedly owed on certain of the Company's products imported into Mexico during the years 2005 and 2006. This assessment is subject to interest and inflationary adjustments. On July 8, 2010, the Company initiated a formal administrative appeal process. On May 13, 2011, the Mexican Tax Administration Service issued a resolution on the Company's administrative appeal. The resolution nullified the assessment. Since the Mexican Tax Administration Service can further review the tax audit findings and re-issue some or all of the original assessment, the Company commenced litigation in the Tax Court of Mexico in August 2011 to dispute the assertions made by the Mexican Tax Administration Service in the case. The Company received notification on February 6, 2015 that the Tax Court of Mexico nullified substantially all of the assessment. On March 18, 2015, the Mexican Tax Administration Service filed an appeal against the verdict with the Circuit Court. On August 27, 2015, the Circuit Court remanded the case back to the Tax Court of Mexico to reconsider a portion of the procedural decision that was adverse to the Mexican Tax Administration. The Company received notification on March 18, 2016 that the Tax Court of Mexico nullified a portion of the assessment and upheld a portion of the original assessment. The Company is preparing an appeal of this decision to the Circuit Court. The Company believes that it has meritorious defenses if the assessment is reissued. The Company has not recognized a loss as the Company does not believe a loss is probable.

The Mexican Tax Administration Service commenced audits of the Company's Mexican subsidiaries for the period from January to September 2007 and on May 10, 2013, the Company received an assessment of approximately \$17.0 million, translated at the March 31, 2016 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. On September 22, 2014, the Mexican Tax Administration Service denied the Company's administrative appeal. The Company commenced litigation in the Tax Court of Mexico in November 2014 to dispute the assertions made by the Mexican Tax Administration Service in the case. The Company issued a surety bond in the amount of \$18.5 million, translated at the March 31, 2016 spot rate, through an insurance company to guarantee payment of the tax assessment as required while the Company pursues an appeal of the assessment. Litigation in this case is currently ongoing. The Company has not recognized a loss as the Company does not believe a loss is probable.

The Mexican Tax Administration Service 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 Mexican Customs Service has challenged the customs classification codes used by the Company for certain importations. A change in the customs classification codes would require the payment of additional VAT and other taxes for those importations. The Company believes that the customs classification codes used for the importation of these products were correct. The Company has received draft assessments of approximately \$12 million, translated at the March 31, 2016 spot rate, and is discussing the draft assessments with the Mexican Tax Administration Service. The Company expects to challenge assessments as they are received. Most of the products that were the subject of the dispute have since been reformulated to avoid potential additional assessments related to future importations of product. The Company has not recognized a loss as the Company does not believe a loss is probable.

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The Mexican Tax Administration Service has delayed processing VAT refunds for companies operating in Mexico and the Company believes that the process for its Mexico subsidiary to receive VAT refunds may be delayed. In March 2015, the Company commenced litigation in the Tax Court of Mexico to reclaim the VAT refund pertaining specifically to the July 2013 period. As of March 31, 2016, the Company had \$56.2 million of Mexico VAT related assets, of which \$49.4 million was within non-current other assets and \$6.8 million was within prepaid expenses and other current assets on its consolidated balance sheet. This amount relates to VAT payments made over various periods and the Company believes these amounts are recoverable by refund or they may be applied against certain future tax liabilities. The Company has not recognized any losses related to these VAT related assets as the Company does not believe a loss is probable.

On March 26, 2015, the Office of the President of Mexico issued a decree relating to the application of VAT to Nutritional Supplements. The Company continues to believe its application of the VAT law in Mexico is correct. At March 31, 2016, the Company has not recognized any losses as the Company, based on its current analysis and guidance from its advisors, does not believe a loss is probable. The Company continues to evaluate and monitor its situation as it develops, including whether it will make any changes to its operations in Mexico.

The Company has not recognized a loss with respect to any of these Mexican matters as the Company, based on its analysis and guidance from its advisors, does not believe a loss is probable. Further, the Company is currently unable to reasonably estimate a possible loss or range of loss that could result from an unfavorable outcome if an assessment was re-issued or any additional assessments were to be issued for these or other periods. The Company believes that it has meritorious defenses if 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. In addition, the Mexican Tax Administration Service requested information related to the Company's 2012 year. This information has been provided. The Mexican Tax Administration Service may request additional information or audit additional periods.

The Company received a tax assessment in September 2009 from the Federal Revenue Office of Brazil in an amount equivalent to approximately \$2.2 million, translated at the March 31, 2016 spot rate, related to withholding/contributions based on payments to the Company's Members during 2004. On December 28, 2010, the Company appealed this tax assessment to the Administrative Council of Tax Appeals (2nd level administrative appeal). The Company believes it has meritorious defenses and it has not recognized a loss as the Company does not believe a loss is probable. On March 6, 2014, the Company was notified of a similar audit of the 2011 year. In January 2016, the Company received a tax assessment for an amount equivalent to approximately \$4.9 million, translated at the March 31, 2016 spot rate, related to contributions based on payments to the Company's Members during 2011. The Company has not accrued a loss for the majority of the assessment because the Company does not believe a loss is probable. The Company filed a first level administrative appeal against most of the assessment on February 23, 2016. The Company is currently unable to reasonably estimate the amount of the loss that may result from an unfavorable outcome if additional assessments for other periods were to be issued.

The Company's Brazilian subsidiary pays ICMS-ST taxes on its product purchases, similar to VAT. The Company believes it will be able to utilize or recover these ICMS-ST credits in the future. The Company had \$16.9 million, translated at the March 31, 2016 spot rate, of Brazil ICMS-ST related assets within other assets on its consolidated balance sheet. At March 31, 2016, the Company has not recognized any losses related to these ICMS-ST related assets as the Company does not believe a loss is probable.

The Company is under examination in several Brazilian states related to ICMS and ICMS-ST taxation, including an audit in the State of Sao Paulo related to the 2013 and 2014 tax years. Some of these examinations have resulted in

assessments for underpaid tax that the Company has appealed. During the fourth quarter of 2015, the Company filed appeals with state judicial courts against three of the assessments. The Company has issued surety bonds in the aggregate amount of \$9.7 million, translated at the March 31, 2016 spot rate, through an insurance company to guarantee payment of the tax assessments as required while the Company pursues the appeals. In addition, the Company has received several ICMS tax assessments in the aggregate amount of \$7.8 million, translated at the March 31, 2016 spot rate, from several Brazilian states where surety bonds have not been issued. Litigation in all these cases is currently ongoing. The Company has not recognized a loss as the Company does not believe a loss is probable.

The Company has received various tax assessments in multiple states in India for multiple years from the Indian VAT authorities in an amount equivalent to approximately \$3.5 million, translated at the March 31, 2016 spot rate. These assessments are for underpaid VAT. The Company is litigating these cases at the tax administrative level and the tax tribunal levels as it believes it has meritorious defenses. The Company has not recognized a loss as it does not believe a loss is probable.

The Korea Customs Service is currently auditing the importation activities of Herbalife Korea for the period January 2011 through May 2013. On January 12, 2016, the Company received a tax assessment of \$3.6 million, translated at the March 31, 2016 spot rate, covering the period January 12, 2011 through April 11, 2011. The Company paid the assessment on January 26, 2016. On April 7, 2016, the Company received a second tax assessment of \$2.6 million, translated at the March 31, 2016 spot rate, covering the period April 12, 2011 through July 11, 2011. The Company paid the second assessment on April 20, 2016. The Company disagrees with the assertions made in the assessments, as well as the calculation methodology used in the assessments, and plans to file appeals against the assessments themselves as well as appeals against the calculation methodology used. The Korea Customs Service could issue an assessment or additional quarterly assessments for the remainder of the audit period on a similar basis as the assessments received to date, or use an alternative basis (after considering the appeals that the Company intends to file). The Company has not recognized a loss as the Company does not believe a loss is probable and is unable to reasonably estimate an amount of loss that could result from an unfavorable outcome.

U.S. Federal Trade Commission Civil Investigative Demand. As previously disclosed, the Company received from the U.S. Federal Trade Commission, or the FTC, a Civil Investigative Demand, or a CID, relating to the FTC's confidential investigation of whether the Company has complied with federal law in the advertising, marketing, or sale of business opportunities. Pursuant to the CID, as supplemented, the FTC has requested from the Company documents and other information for the time period commencing January 1, 2009 to the present. The Company is currently in discussions with the FTC regarding a potential resolution of these matters. The possible range of outcomes include the filing by the FTC of a contested civil complaint and further discussions leading to a settlement which would likely include a monetary payment and injunctive and other relief. The Company is cooperating with the investigation and at this time it is difficult to predict the timing, and the likely outcome, of these matters. The discussions with the FTC are in the advanced stages, but there are still a number of material open issues that could preclude reaching final agreement. If discussions with the FTC do not continue to progress, it is likely that litigation would ensue. Although we are confident in our legal position, litigation outcomes by their very nature are difficult to predict and there can be no assurance of a particular outcome.

The outcome of these matters with the FTC, whether by mutual resolution or through litigation, could have a material adverse impact on the Company's business operations, its results of operations or its financial condition. The Company believes it is reasonably possible that it may have incurred a loss. At the present time, the Company's best estimate of the payment amount that would be made by the Company under a mutual resolution with the FTC is \$200 million. The Company has not accrued any amounts with respect to any potential monetary payments relating to this matter. If a resolution is not attained and litigation ensues, the Company is unable to estimate a range of potential loss, if any, relating to these matters.

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

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

## 6. Segment Information

The Company is a nutrition company that sells a wide range of weight management, targeted nutrition, energy, sports & fitness, and outer nutrition products. The Company's products are manufactured by third party providers and by the Company in its Changsha, Hunan, China extraction facility, Suzhou, China facility, Lake Forest, California facility, and in its Winston-Salem, North Carolina 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, 2016, the Company sold products in 94 countries throughout the world and was organized and managed by six geographic regions: North America, Mexico, South & Central America, EMEA (Europe, Middle East, and Africa), Asia Pacific and China. The Company defines its operating segments as those geographical operations. The Company aggregates its operating segments, excluding China, into a reporting segment, or the Primary Reporting Segment, as management believes that the Company's operating segments have similar operating characteristics and similar long term operating performance. In making this determination, management believes that the operating segments are similar in the nature of the products sold, the product acquisition process, the types of customers to whom products are sold, the methods used to distribute the products, the nature of the regulatory environment, and their economic characteristics. China has been identified as a separate reporting segment as it does not meet the criteria for aggregation. The Company reviews its net sales and contribution margin by operating segment, and reviews its assets on a consolidated basis and not by operating segment. Therefore, net sales and contribution margin are presented by reportable segment and assets by segment are not presented. The operating information for the two reportable segments are as follows:

	Three Months Ended	
	March 31,	March 31,
	2016	2015
	(In millions)	
<b>Net Sales:</b>		
Primary Reporting Segment	\$902.2	\$941.2
China	217.4	164.2
Total Net Sales	\$1,119.6	\$1,105.4

<b>Contribution Margin(1):</b>		
Primary Reporting Segment	\$397.0	\$419.0
China(2)	197.6	148.0
Total Contribution Margin	\$594.6	\$567.0
Selling, general and administrative expenses(2)	426.3	431.4
Interest expense, net	24.9	21.5
Other expense, net	—	2.3
Income before income taxes	143.4	111.8
Income taxes	47.6	33.6
Net Income	\$95.8	\$78.2

(1)Contribution margin consists of net sales less cost of sales and Royalty overrides. For the China segment, contribution margin does not include service fees to China independent service providers.

(2)Service fees to China independent service providers totaling \$102.5 million and \$78.7 million for the three months ended March 31, 2016 and 2015, respectively, are included in selling, general and administrative expenses.

The following table sets forth net sales by geographic area:

	Three Months Ended	
	March 31,	March 31,
	2016	2015
	(In millions)	
Net Sales:		
United States	\$240.9	\$221.9
Mexico	109.7	123.6
China	217.4	164.2
Others	551.6	595.7
Total Net Sales	\$1,119.6	\$1,105.4

## 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 2015 10-K. During the three months ended March 31, 2016, the Company granted stock awards subject to service conditions and service and performance conditions, consisting of stock appreciation rights, or SARs.

For the three months ended March 31, 2016 and 2015, share-based compensation expense amounted to \$9.8 million and \$11.1 million, respectively. As of March 31, 2016, the total unrecognized compensation cost related to all non-vested stock awards was \$41.3 million and the related weighted-average period over which it is expected to be recognized is approximately 1.4 years.

The following tables summarize the activity under all share-based compensation plans for the three months ended March 31, 2016:

Stock Options & SARs	Awards (In thousands)	Price	Weighted		
			Average	Remaining	
		Exercise	Contractual	Intrinsic	Aggregate
			Term	Value(1)	
				(In millions)	
Outstanding at December 31, 2015(2)(3)	12,076	\$ 38.70	6.6 years	\$ 216.4	
Granted	51	\$ 54.75			
Exercised	(200 )	\$ 27.83			
Forfeited	(87 )	\$ 47.14			
Outstanding at March 31, 2016(2) (3)	11,840	\$ 38.89	6.4 years	\$ 286.9	
Exercisable at March 31, 2016(4)	7,210	\$ 34.60	4.9 years	\$ 202.5	

(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 2.4 million and 2.5 million performance condition SARs as of March 31, 2016 and December 31, 2015, respectively.

(3) Includes 0.1 million market condition SARs.

(4) Includes 0.5 million performance condition SARs.

The weighted-average grant date fair value of SARs granted during the three months ended March 31, 2016 and 2015 was \$21.69 and \$12.18, respectively. The total intrinsic value of stock options and SARs exercised during the three months ended March 31, 2016 and 2015 was \$5.9 million and \$17.6 million, respectively.

Incentive Plan and Independent Directors Stock Units	Shares	Weighted
		Average
		Grant
		Date

	(In thousands)	Fair Value
Outstanding and nonvested December 31, 2015	34	\$ 51.08
Granted	—	
Vested	(1	) \$ 59.98
Forfeited	—	
Outstanding and nonvested March 31, 2016	33	\$ 50.94

The total vesting date fair value of stock units which vested during the three months ended March 31, 2016 and 2015 was less than \$0.1 million for both periods.

The Company recognizes excess tax benefits associated with share-based compensation to shareholders' equity (deficit) 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 both March 31, 2016 and December 31, 2015, the Company had \$25.4 million of unrealized excess tax benefits.

## 8. Income Taxes

Income taxes were \$47.6 million for the three months ended March 31, 2016 as compared to \$33.6 million for the same period in 2015. The effective income tax rate was 33.2% for the three months ended March 31, 2016 as compared to 30.1% for the same period in 2015. The increase in the effective tax rate for the three months ended March 31, 2016 as compared to the same period in 2015 was primarily due to the impact of changes in the geographic mix of the Company's income.



As of March 31, 2016, the total amount of unrecognized tax benefits, including related interest and penalties was \$60.9 million. If the total amount of unrecognized tax benefits was recognized, \$46.0 million of unrecognized tax benefits, \$7.7 million of interest and \$1.6 million of penalties would impact the effective tax rate.

The Company believes that it is reasonably possible that the amount of unrecognized tax benefits could decrease by up to approximately \$11.2 million within the next twelve months. Of this possible decrease, \$5.3 million would be due to the settlement of audits or resolution of administrative or judicial proceedings. The remaining possible decrease of \$5.9 million would be due to the expiration of statute of limitations in various jurisdictions.

## 9. Derivative Instruments and Hedging Activities

### Foreign Currency Instruments

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

The Company designates as cash-flow hedges those foreign currency forward contracts it enters into to hedge forecasted inventory purchases and intercompany management fees that are subject to foreign currency exposures. Forward contracts are used to hedge forecasted inventory purchases over specific months. Changes in the fair value of these forward contracts, excluding forward points, designated as cash-flow hedges are recorded as a component of accumulated other comprehensive income (loss) within shareholders' equity (deficit), 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 (deficit), 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, 2016 and December 31, 2015, the aggregate notional amounts of all foreign currency contracts outstanding designated as cash flow hedges were approximately \$85.4 million and \$112.8 million, respectively. At March 31, 2016, 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, 2016, the Company recorded assets at fair value of \$2.2 million and liabilities at fair value of \$1.8 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. As of December 31, 2015, the Company recorded assets at fair value of \$4.2 million and liabilities at fair value of \$0.5 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, 2016 and 2015, the ineffective portion relating to these hedges was immaterial and the hedges remained effective as of March 31, 2016 and December 31, 2015.

As of March 31, 2016 and December 31, 2015, 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 one and two months as of March 31, 2016 and December 31, 2015, respectively. As of March 31, 2016, the Company had aggregate notional amounts of approximately \$438.1 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, 2016 and 2015:

	Amount of Gain (Loss) Recognized  in Other Comprehensive Loss For the Three Months Ended March 31, 2016	March 31, 2015  (In millions)
<b>Derivatives designated as hedging instruments:</b>		
Foreign exchange currency contracts relating to inventory		
and intercompany management fee hedges	\$ (0.9 )	\$ 7.2

The following table summarizes gains (losses) relating to derivative instruments recorded to income during the three months ended March 31, 2016 and 2015:

	Location of Gain (Loss)	Amount of Gain (Loss)  Recognized in Income For the Three Months Ended March 31, 2016	March 31, 2015  (In millions)
<b>Derivatives designated as hedging instruments:</b>			
Foreign exchange currency contracts relating to	Selling, general and	\$(0.4)	\$(0.1 )
inventory hedges and intercompany	administrative		

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management fee hedges(1)	expenses		
Derivatives not designated as hedging instruments:			
Foreign exchange currency contracts	Selling, general and administrative expenses		\$(2.3) \$(6.0 )

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

The following table summarizes gains (losses) relating to derivative instruments reclassified from accumulated other comprehensive loss into income during the three months ended March 31, 2016 and 2015:

	Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income For the Three Months Ended March 31, 2016	March 31, 2015 (In millions)
Derivatives designated as hedging instruments:			
Foreign exchange currency contracts relating to			
inventory hedges	Cost of sales	\$ 5.0	\$ 1.4
Foreign exchange currency contracts relating to	Selling, general and administrative expenses		
intercompany management fee hedges		\$ (0.1 )	\$ —

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, 2016 and December 31, 2015.



## 10. Shareholders' Equity (Deficit)

### Dividends

The declaration of future dividends is subject to the discretion of the Company's board of directors and will depend upon various factors, including its earnings, financial condition, Herbalife Ltd.'s available distributable reserves under Cayman Islands law, restrictions imposed by the Credit Facility and the terms of any other indebtedness that may be outstanding, cash requirements, future prospects and other factors deemed relevant by its board of directors. The Credit Facility permits payments of dividends up to a specified cap as long as no default or event of default exists and the consolidated leverage ratio specified in the Credit Facility is not exceeded. See Note 4, Long-Term Debt, for further information on restrictions concerning the Company's ability to declare dividends.

### 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 up to a specified cap as long as no default or event of default exists and the consolidated leverage ratio specified in the Credit Facility is not exceeded. See Note 4, Long-Term Debt, for further information on restrictions concerning the Company's ability to repurchase its common shares.

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

As a result of the Forward Transactions, the Company's total shareholders' equity (deficit) within its condensed consolidated balance sheet was reduced by approximately \$685.8 million during the first quarter of 2014, with amounts of \$653.9 million and \$31.9 million being allocated between accumulated deficit and additional paid-in-capital, respectively, within total shareholders' equity (deficit). Also, upon executing the Forward Transactions, the Company recorded, at fair value, \$35.8 million in non-cash issuance costs to other assets and a corresponding amount to additional paid-in-capital within its condensed consolidated balance sheet. These non-cash issuance costs will be amortized to interest expense over the contractual term of the Forward Transactions. For both the three months ended March 31, 2016 and 2015, the Company recognized \$1.6 million of non-cash interest expense within its condensed consolidated statement of income relating to amortization of these non-cash issuance costs.

During the three months ended March 31, 2016 and 2015, the Company did not repurchase any of its common shares through open market purchases. As of March 31, 2016, the remaining authorized capacity under the Company's \$1.5 billion share repurchase program was \$232.9 million inclusive of reductions for the Forward Transactions.

The Company reflects the aggregate purchase price of its common shares repurchased as a reduction to shareholders' equity (deficit). The Company allocates the purchase price of the repurchased shares to accumulated deficit, 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 condensed 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.

## Capped Call Transactions

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

## Accumulated Other Comprehensive Income (Loss)

The following table summarizes changes in accumulated other comprehensive income (loss) during the three months ended March 31, 2016 and 2015:

	Changes in Accumulated Other Comprehensive Income (Loss) by Component Three Months Ended March 31,							
	2016				2015			
	Unrealized Gain				Unrealized Gain			
	Foreign	Unrealized (Loss) on			Foreign	Unrealized (Loss) on		
	Currency	Gain (Loss) Available-For-			Currency	Gain (Loss) Available-For-		
	Translation	Sale			Translation	Sale		
	Adjustment	Derivatives	Investments	Total	Adjustment	Derivatives	Investments	Total
	(In millions)							
Beginning Balance	\$(183.0)	\$ 17.4	\$ 0.1	\$(165.5)	\$(96.4 )	\$ 18.0	\$ 0.2	\$(78.2 )
Other comprehensive income (loss)								
before reclassifications, net of tax	20.0	(0.7 )	—	19.3	(54.9 )	6.5	(1.8 )	(50.2 )
Amounts reclassified from	—	(4.9 )	(0.1 )	(5.0 )	—	(1.3 )	1.5	0.2
accumulated other comprehensive  income (loss) to income, net of								



tax(1)									
Total other comprehensive income									
(loss), net of reclassifications	20.0	(5.6 )	(0.1 )	14.3	(54.9 )	5.2	(0.3 )	(50.0 )	
Ending balance	\$(163.0)	\$ 11.8	\$ —	\$(151.2)	\$(151.3)	\$ 23.2	\$ (0.1 )	\$(128.2)	

(1) See 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, 2016 and 2015.

Other comprehensive income (loss) before reclassifications was net of tax benefits of \$0.8 million and \$0.2 million for foreign currency translation adjustment and unrealized gain (loss) on derivatives, respectively, for the three months ended March 31, 2016. Amounts reclassified from other comprehensive income (loss) to income were net of tax expense of \$0.1 million for unrealized gain (loss) on available-for-sale investments for the three months ended March 31, 2016.

Other comprehensive income (loss) before reclassifications was net of tax benefits of \$1.9 million, tax expense of \$0.7 million, and tax benefits of \$1.0 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, 2015. Amounts reclassified from accumulated other comprehensive income (loss) to income were net of tax benefits of \$0.1 million and tax expense of \$0.8 million for unrealized gain (loss) on derivatives and unrealized gain (loss) on available-for-sale investments, respectively, for the three months ended March 31, 2015.

## 11. Earnings Per Share

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

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

	For the Three Months Ended March 31, 2016 2015 (in millions)	
Weighted average shares used in basic computations	82.8	82.3
Dilutive effect of exercise of equity grants outstanding	2.8	2.3
Weighted average shares used in diluted computations	85.6	84.6

There were an aggregate of 4.7 million and 8.7 million of equity grants, consisting of stock options, SARs, and stock units that were outstanding during the three months ended March 31, 2016 and 2015, respectively, but were not included in the computation of diluted earnings per share because their effect would be anti-dilutive or the performance condition for the award had not been satisfied.

Since the Company will settle the principal amount of its Convertible Notes in cash and settle the conversion feature for the amount above the conversion price in common shares, or the conversion spread, the Company uses the treasury stock method for calculating any potential dilutive effect of the conversion spread on diluted earnings per share, if applicable. The conversion spread will have a dilutive impact on diluted earnings per share when the average market price of the Company's common shares for a given period exceeds the initial conversion price of \$86.28 per share. For the three months ended March 31, 2016 and 2015, the Convertible Notes have been excluded from the computation of diluted earnings per share as the effect would be anti-dilutive since the conversion price of the Convertible Notes exceeded the average market price of the Company's common shares for the three months ended March 31, 2016 and 2015. The initial conversion rate and conversion price is described further in Note 4, Long-Term Debt.

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

## 12. Fair Value Measurements

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

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

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

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

The Company measures certain assets and liabilities at fair value as discussed throughout the notes to its condensed consolidated financial statements. Foreign exchange currency contracts are valued using standard calculations and models primarily based on inputs such as observable forward rates, spot rates and foreign currency exchange rates at the reporting period ended date. The Company's derivative assets and liabilities are measured at fair value and consisted of Level 2 inputs and their amounts are shown below at their gross values at March 31, 2016 and December 31, 2015:

Fair Value Measurements at Reporting Date

	Derivative Balance Sheet Location	Fair Value at	
		March 31, 2016	December 31, 2015
<b>ASSETS:</b>			
Derivatives designated as hedging instruments:			
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	Prepaid expenses and other current assets	\$ 2.2	\$ 4.2
Derivatives not designated as hedging instruments:			
Foreign exchange currency contracts	Prepaid expenses and other current assets	\$ 1.6	\$ 2.6
		\$ 3.8	\$ 6.8
<b>LIABILITIES:</b>			
Derivatives designated as hedging			

instruments:			
Foreign exchange currency contracts relating to			
inventory and intercompany management fee			
hedges	Accrued expenses	\$ 1.8	\$ 0.5
Derivatives not designated as hedging			

instruments:			
Foreign exchange currency contracts	Accrued expenses	\$ 5.6	\$ 6.2
		\$ 7.4	\$ 6.7

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 2015 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, 2016 and December 31, 2015:

	Offsetting of Derivative Assets		
	Gross Amounts of	Net Amounts of	
	Gross Amounts of	Net Amounts of	
	Recognized Balance	Presented in the Balance Sheet	
	Assets	Sheet	Sheet
	(In millions)		
March 31, 2016			
Foreign exchange currency contracts	\$ 3.8	\$ (3.3 )	\$ 0.5
Total	\$ 3.8	\$ (3.3 )	\$ 0.5
December 31, 2015			
Foreign exchange currency contracts	\$ 6.8	\$ (4.5 )	\$ 2.3
Total	\$ 6.8	\$ (4.5 )	\$ 2.3

	Offsetting of Derivative Liabilities		
			Net Amounts
	Gross		of
	Amounts		Liabilities
	of	Offset in	Presented
	the	the	in
	Recognized	Balance	the
	Balance		Balance
	Liabilities	Asset	Sheet
	(In millions)		
<b>March 31, 2016</b>			
Foreign exchange currency contracts	\$7.4	\$ (3.3 )	\$ 4.1
<b>Total</b>	<b>\$7.4</b>	<b>\$ (3.3 )</b>	<b>\$ 4.1</b>
<b>December 31, 2015</b>			
Foreign exchange currency contracts	\$6.7	\$ (4.5 )	\$ 2.2
<b>Total</b>	<b>\$6.7</b>	<b>\$ (4.5 )</b>	<b>\$ 2.2</b>

The Company offsets all of its derivative assets and derivative liabilities in its condensed consolidated balance sheet to the extent it maintains master netting arrangements with related financial institutions. As of March 31, 2016, and December 31, 2015, all of the Company's derivatives were subject to master netting arrangements and no collateralization was required for the Company's derivative assets and derivative liabilities.

### 13. 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 recent events. For the three months ended March 31, 2016 and 2015, the Company recorded approximately \$2.9 million and \$4.3 million, respectively, of professional fees and other expenses related to this matter.

14. Subsequent Events

On April 21, 2016, the Company purchased one of its office buildings in Torrance, California, which it had previously leased, for approximately \$30 million.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes included in Part I, Item 1 – Financial Information, of this Quarterly Report on Form 10-Q and our consolidated financial statements appearing in our Annual Report on Form 10-K for the year ended December 31, 2015, or the 2015 10-K. Unless the context otherwise requires, all references herein to the “Company,” “we,” “us” or “our,” or similar terms, refer to Herbalife Ltd., a Cayman Islands exempt limited liability company, and its consolidated subsidiaries.

### Overview

We are a global nutrition company that sells weight management, targeted nutrition, energy, sports & fitness, and outer nutrition products. As of March 31, 2016, we sold our products in 94 countries to and through a network of 4.0 million independent members, or Members, which included approximately 0.3 million in China. In China, we sell our products through retail stores, sales representatives, sales officers, and independent service providers. We refer to Members that distribute our products and achieve certain qualification requirements as “sales leaders.”

We pursue our mission of “changing people’s lives” by providing high quality, science-based products to Members and their customers who seek a healthy lifestyle and we also offer a business opportunity to those Members who seek additional income. We believe the global obesity epidemic has made our quality products more relevant and the effectiveness of our distribution network, coupled with geographic expansion, have been the primary reasons for our success throughout our 36-year operating history.

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

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

While we continue to monitor the current global financial environment, we remain focused on the opportunities and challenges in retailing of our products, recruiting and retaining Members, improving Member productivity, further penetrating existing markets, opening new markets, globalizing successful Distributor Methods of Operation, or DMOs, such as Nutrition Clubs and Weight Loss Challenges, introducing new products and globalizing existing products, developing niche market segments and further investing in our infrastructure. 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, excluding the impact of price changes, an increase in Volume Points in a particular geographic region or country indicates an increase in our local currency net sales while a decrease in Volume Points in a particular geographic region or country indicates a decrease in our local currency net sales.

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

	Three Months Ended March 31,			
	2016	2015	%	
	(Volume Points in millions)			
North America	319.5	297.8	7.3	%
Mexico	215.9	203.4	6.1	%
South & Central America	177.8	210.5	(15.5)	%
EMEA	260.7	228.4	14.1	%
Asia Pacific (excluding China)	249.5	265.9	(6.2)	%
China	155.2	113.7	36.5	%
Worldwide	1,378.6	1,319.7	4.5	%

We believe the increase in worldwide Volume Points for the three months ended March 31, 2016 of 4.5%, after a decline for the prior year period, and a general trend of decreasing rates of increase in the preceding year periods, is attributable to our facilitation of sales leader success and customer satisfaction by providing quality products; improved DMOs, including daily consumption approaches such as Nutrition Clubs; easier access to product; systemized training for Members on our products and methods; and continued promotion and branding of Herbalife products. The increases for North America and Mexico after decreases in the prior year period, primarily reflects our Members transitioning through a period of adjustment to certain revisions to our operations and Marketing Plan designed to improve the training and retention of sales leaders. Certain of the revisions and their impact on our results are discussed further below in the applicable sections of Sales by Geographic Region. We believe the changes to our Marketing Plan, as well as our competitive strengths and business strategies discussed in greater detail in Item 1 — Business of the 2015 10-K, will contribute to achieving our long-term objective of sustainable sales growth through retailing, recruiting and retention.

#### 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, who are integral to our success, and therefore as an indication of the success of our strategies and execution. Changes in the Average Active Sales Leader metric may be indicative of potential for changes in annual retention levels and

future sales growth.

	Three Months Ended March			% Change
	2016	2015		
North America	74,631	77,480	(3.7	%)
Mexico	63,492	65,340	(2.8	%)
South & Central America	56,851	62,971	(9.7	%)
EMEA	77,380	69,256	11.7	%)
Asia Pacific (excluding China)	71,301	74,767	(4.6	%)
China	28,291	20,277	39.5	%)
Worldwide(1)	358,742	357,465	0.4	%)

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

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We believe the decrease for the North America, Mexico, South & Central America and Asia Pacific (excluding China) regions as compared to increases for the comparable quarter in recent years primarily reflects our Members adjusting to certain revisions to our operations and Marketing Plan designed to improve the training and retention of sales leaders. Given the long term and qualitative nature of our strategies, the magnitude of the impact of each such strategy on sales leaders' engagement cannot be quantified and may vary over time and by market.

#### 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 2016, approximately 54.2% of our sales leaders, excluding China, Venezuela, and Argentina, re-qualified. For the twelve month re-qualification period ended January 2015, approximately 54.2% of our sales leaders, excluding China, Venezuela and Argentina, re-qualified. During the twelve-month period ended January 2014 and 2016, Venezuelan sales leaders, and during the twelve-month period ended January 2015, Argentinian sales leaders, were not required to re-qualify temporarily due to product supply limitations resulting from currency restrictions and other economic conditions. The impacted sales leaders were excluded from the retention rate calculations for the affected years to avoid an overstated positive impact on the rate of essentially having all those sales leaders re-qualified. Venezuelan and Argentinian sales leaders were also excluded from the January 2015 and January 2016 retention rate calculations, respectively, even though they were required to re-qualify in those years, to similarly avoid an overstated negative impact of including some sales leaders in the calculation that would have been demoted in the respective preceding years if required to re-qualify. If Venezuela and Argentina were included on a normalized basis, the 2016 and 2015 retention rates would have been 53.7% and 53.4%, respectively.

Sales Leaders Statistics (Excluding China)	2016	2015
	(In thousands)	
January 1 total sales leaders	603.3	650.1
January & February new sales leaders	27.7	31.6
Demoted sales leaders (did not re-qualify)(1)	(207.6)	(205.2)
Other sales leaders (resigned, etc.)	(3.9 )	(6.8 )
End of February total sales leaders	419.5	469.7

The statistics below further highlight the calculation for retention.

Sales Leaders Retention (Excluding China)	2016	2015
	(In thousands)	
Sales leaders needed to re-qualify	450.2	426.5
Demoted sales leaders (did not re-qualify)(1)	(206.4)	(195.2)
Total re-qualified	243.8	231.3
Retention rate	54.2 %	54.2 %

(1) Although sales leaders in Argentina and Venezuela were required to re-qualify for the periods ended January 2016 and 2015, respectively, as described above, Argentina and Venezuela sales leaders are excluded from the Sales Leader Retention table calculations for those re-qualification periods for comparative purposes. Argentina and Venezuela sales leaders figures are included in the Sales Leaders Statistics table for 2016 and 2015, respectively.

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

	Number of Sales Leaders		Sales Leaders Retention Rate	
	2016	2015	2016	2015
	North America	79,305	88,866	58.3%
Mexico	67,294	83,137	57.1%	56.7%
South & Central America	77,523	88,392	53.0%	52.0%
EMEA	87,500	82,025	63.6%	68.4%
Asia Pacific (excluding China)	107,871	127,252	43.8%	43.9%
Total Sales Leaders	419,493	469,672	54.2%	54.2%
China	41,890	32,222		
Worldwide Total Sales Leaders	461,383	501,894		

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

Retention Rate for the requalification period ended January 2016 remained consistent versus the prior year at a historically high level for us, despite there being a significant number of sales leaders having to re-qualify for the first time, due to the revision to our qualification requirements made in November 2014. We believe the performance for the period ended January 2016 is the result of efforts we have made to improve the sustainability of sales leaders' businesses.

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

Total distributor allowances for the three months ended March 31, 2016 and 2015 were 40.1% and 41.1% of retail sales, respectively. Distributor allowances and Marketing Plan payouts generally utilize 90% to 95% of suggested retail price, depending on the product and market, to which we apply discounts of up to 50% for distributor allowances and payout rates of up to 15% for royalty overrides, up to 7% for production bonuses, and approximately 1% for the Mark Hughes bonus. Distributor allowances as a percentage of retail 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.

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, retail sales is a component of the financial reports we use to analyze our financial results. 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 local currencies of our foreign subsidiaries, by translating the current period net sales into U.S. dollars using the same foreign currency exchange rates that were used to translate the net sales for the previous comparable period. We believe presenting net sales in local currency is useful to investors because it allows a meaningful comparison of net sales of our foreign operations from period to period. However, net sales in local currency measures should not be considered in isolation or as an alternative to net sales in U.S. dollar measures that reflect current period exchange rates, or to other financial measures calculated and presented in accordance with U.S. GAAP.

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

While 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, 2016 and 2015, total Royalty overrides were 27.9% and 29.2% 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 us 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, service fees to China service providers, sales events, professional fees, travel and entertainment, Member promotions, occupancy costs, communication costs, bank fees, depreciation and amortization, foreign exchange gains and losses and other miscellaneous operating expenses.

Our “other expense, net” consists of non-operating expenses such as impairments of available-for-sale investments.



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 gains or losses on intercompany transactions. Foreign currency exchange rates can fluctuate significantly. From time to time, we enter into foreign currency derivatives to partially mitigate our foreign currency exchange risk as discussed in further detail in Part I, Item 3 — Quantitative and Qualitative Disclosures about Market Risk.

## Summary Financial Results

Net sales for the three months ended March 31, 2016 were \$1,119.6 million. Net sales increased \$14.2 million, or 1.3%, for the three months ended March 31, 2016, as compared to the same period in 2015. In local currency, net sales increased 10.9% for the three months ended March 31, 2016, as compared to the same period in 2015. The increase in net sales of 1.3% for the three months ended March 31, 2016 was driven by an increase in sales volume, as measured by an increase in Volume Points, the impact of price increases, and a favorable change in country sales mix resulting from a greater percentage of our sales volume coming from markets with higher prices, which increased net sales by approximately 4.5%, 3.7%, and 1.8%, respectively. These increases were partially offset by the effect of a strong U.S. dollar and the resulting fluctuation in foreign currency rates, which reduced net sales by approximately 9.6%.

Net income for the three months ended March 31, 2016 was \$95.8 million, or \$1.12 per diluted share. Net income increased \$17.6 million, or 22.5%, for the three months ended March 31, 2016, as compared to the same period in 2015. The increase for the three months ended March 31, 2016 was primarily due to higher contribution margin driven by sales growth as discussed above, and lower royalty overrides; lower foreign exchange losses related to the remeasurement of our Venezuela Bolivar-denominated assets and liabilities described below; partially offset by higher service fees to China service providers due to sales growth in China, and higher income taxes.

Net income for the three months ended March 31, 2016 included a \$12.2 million unfavorable impact of non-cash interest expense related to the Convertible Notes and the Forward Transactions (See Note 4, Long-Term Debt, to the Condensed Consolidated Financial Statements); a \$7.6 million pre-tax unfavorable impact (\$4.8 million post-tax) from expenses related to regulatory inquiries; a \$2.9 million pre-tax unfavorable impact (\$2.3 million post-tax) related to legal, advisory services and other expenses for our response to allegations and other negative information put forward in the marketplace by a hedge fund manager which started in late 2012 (See Selling, General and Administrative Expenses below for further discussion); and a \$1.4 million pre-tax unfavorable impact (\$0.9 million post-tax) related to expenses incurred for the recovery of costs associated with the re-audit of our 2010 to 2012 financial statements after the resignation of KPMG as our independent registered public accounting firm.

The income tax impact of the expenses discussed above is based on forecasted items affecting our 2016 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, 2015 included a \$36.3 million pre-tax unfavorable impact (\$25.2 million post-tax), comprised of a \$32.6 million foreign exchange loss related to the remeasurement of Venezuela Bolivar-denominated assets and liabilities, \$1.4 million of inventory write downs, and a \$2.3 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); \$12.8 million foreign exchange gain (\$10.1 million post-tax) resulting from Euro/U.S. dollar exposure primarily related to intercompany balances; a \$4.3 million pre-tax unfavorable impact (\$2.9 million post-tax) related to legal, advisory services and other expenses for our response to allegations and other negative information put forward in the marketplace by a hedge fund manager which started in late 2012 (See Selling, General and Administrative Expenses below for further discussion); a \$3.4 million pre-tax unfavorable impact (\$2.1 million post-tax) from expenses related to regulatory inquiries; a \$10.5 million unfavorable impact of non-cash interest expense related to the Convertible Notes and the Forward Transactions (See Note 4, Long-Term Debt, to the Condensed Consolidated Financial Statements), and a \$0.1 million pre-tax unfavorable impact (\$0.1 million post-tax) related to expenses incurred for the recovery of costs associated with the re-audit of our 2010 to 2012 financial statements after the resignation of KPMG as our independent registered public accounting firm.

Results of Operations

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

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

	Three Months Ended	
	March 31,	March 31,
	2016	2015
<b>Operations:</b>		
Net sales	100.0%	100.0%
Cost of sales	19.0	19.5
Gross profit	81.0	80.5
Royalty overrides(1)	27.9	29.2
Selling, general and administrative expenses(1)	38.1	39.0
Operating income	15.0	12.3
Interest expense, net	2.2	2.0
Other expense, net	—	0.2
Income before income taxes	12.8	10.1
Income taxes	4.2	3.0
Net income	8.6 %	7.1 %

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

#### Reporting Segment Results

We aggregate our operating segments, excluding China, into a reporting segment, or the Primary Reporting Segment. The Primary Reporting Segment includes the North America, Mexico, South & Central America, EMEA, and Asia Pacific regions. China has been identified as a separate reporting segment primarily due to the regulatory environment in China. See Note 6, Segment Information, to the Condensed Consolidated Financial Statements for further discussion of our reporting segments. See below for discussions of net sales and contribution margin by our reporting segments.

#### Net Sales by Reporting Segment

The Primary Reporting Segment reported net sales of \$902.2 million for the three months ended March 31, 2016, representing a decrease of \$39.0 million, or 4.1%, for the three months ended March 31, 2016, as compared to the same period in 2015. In local currency, net sales increased 6.0% for the three months ended March 31, 2016, as compared to the same period in 2015 for the Primary Reporting Segment. The 4.1% decrease in net sales for the three months ended March 31, 2016 was primarily due to the effect of the strong U.S. dollar and the resulting impact of fluctuations in foreign currency rates which reduced net sales by approximately 10.2%, partially offset by price increases and an increase in sales volume, as measured by an increase in Volume Points, which increased net sales by approximately 4.4% and 1.4%, respectively.

China reported net sales of \$217.4 million for the three months ended March 31, 2016, representing an increase of \$53.2 million, or 32.4%, for the three months ended March 31, 2016, as compared to the same period in 2015. In local

currency, net sales increased 38.8% for the three months ended March 31, 2016, as compared to the same period in 2015 for China. The 32.4% increase in China net sales for the three months ended March 31, 2016 was primarily due to an increase in sales volume, as measured by an increase in Volume Points, which increased net sales by approximately 36.5%, partially offset by the impact of foreign currency fluctuation, which reduced net sales by approximately 6.4%.

#### Contribution Margin by Reporting Segment

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

The Primary Reporting Segment reported contribution margin of \$397.0 million, or 44.0% of net sales, representing a decrease of \$22.0 million, or 5.3%, for the three months ended March 31, 2016, as compared to the same period in 2015. The 5.3% decrease for the three months ended March 31, 2016 was primarily the result of fluctuations in the foreign currency rates which reduced contribution margin by approximately 15.0%, partially offset by the favorable impact of price increases and volume increase, as measured by an increase in Volume Points, which increased contribution margin by approximately 6.7% and 1.4%, respectively.

China reported contribution margin of \$197.6 million for the three months ended March 31, 2016, representing an increase of \$49.6 million, or 33.5%, for the three months ended March 31, 2016, as compared to the same period in 2015. The increase for the three months ended March 31, 2016 was primarily the result of a volume increase, as measured by an increase in Volume Points, which increased contribution margin by approximately 36.1%, partially offset by the impact of fluctuations in foreign currency rates which reduced contribution margin by approximately 6.4%.

Sales by Geographic Region

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

	Three Months Ended March 31, 2016					2015					Change in Net Sales
	Retail Sales(1)	Distributor Allowances	Product Sales	Shipping & Handling Revenue	Net Sales	Retail Sales(1)	Distributor Allowances	Product Sales	Shipping & Handling Revenue	Net Sales	
North America	\$405.8	\$(182.9)	\$222.9	\$23.1	\$246.0	\$372.4	\$(167.1)	\$205.3	\$21.4	\$226.7	8.5 %
Mexico	187.9	(84.8 )	103.1	6.6	109.7	212.1	(96.0 )	116.1	7.5	123.6	(11.2%)
South & Central America	217.0	(99.0 )	118.0	9.0	127.0	266.2	(123.6)	142.6	19.1	161.7	(21.5%)
EMEA	340.3	(154.2)	186.1	12.3	198.4	320.2	(145.2)	175.0	11.4	186.4	6.4 %
Asia Pacific	359.1	(153.4)	205.7	15.4	221.1	390.6	(164.7)	225.9	16.9	242.8	(8.9 %)
China	246.6	(30.4 )	216.2	1.2	217.4	183.8	(20.4 )	163.4	0.8	164.2	32.4 %
Worldwide	\$1,756.7	\$(704.7)	\$1,052.0	\$67.6	\$1,119.6	\$1,745.3	\$(717.0)	\$1,028.3	\$77.1	\$1,105.4	1.3 %

(1) Retail sales is a Non-GAAP measure which may not be comparable to similarly-titled measures used by other companies.

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

Management's role, both in-country and at the regional 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 Plan coupled with educational and motivational tools and promotions to encourage Members to increase retailing, retention, and recruiting, which in turn affect net sales. Such tools include 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 retailing, retention, and recruiting techniques from our

leading Members and become more familiar with how to market and sell our products and business opportunities. Accordingly, management believes that these development and motivation programs increase the engagement of the sales leader network. The expenses for such programs are included in selling, general and administrative expenses. We also use event and non-event product promotions to motivate Members to increase retailing, retention, and recruiting activities. These promotions have prizes ranging from qualifying for events to product prizes and vacations. The costs of these promotions are included in selling, general and administrative expenses.

DMOs are being generated in many of our markets and are globalized where applicable through the combined efforts of Members and country, regional and corporate management. While we support a number of different DMOs, one of the most popular DMOs is daily consumption. 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, 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.

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 details some of the specific drivers of our business and causes of sales fluctuations during the three months ended March 31, 2016 as compared to the same period in 2015, as well as the unique growth or contraction factors specific to certain geographic regions or significant countries within a region during these periods. Net sales fluctuations, both Company-wide and within a particular geographic region or country, are primarily the result of changes in volume, changes in prices, and/or changes in foreign currency translation rates. The discussion of changes in net sales quantifies the impact of those drivers that are quantifiable such as changes in foreign currency translation rates, and cites the estimated impact of any significant price changes. The remaining drivers, which management believes are the primary drivers of changes in volume, are typically qualitative factors whose impact cannot be quantified.

We believe Volume Point increases for the three months ended March 31, 2016 reflect, among other qualitative factors, certain markets beginning to come through a transition period as Members adjust to certain revisions to our Marketing Plan designed to improve the training and retention of sales leaders. The Marketing Plan is the rules for our global network marketing organization that specify the qualification requirements and general compensation structure for Members.

While most Members are not sales leaders, those wishing to become sales leaders have three qualification methods to do so. Prior to global rollout in 2009, there was only the one-month sales leader qualification method or the two-month sales leader qualification method. However, in 2009 we revised our Marketing Plan to enable Members to also qualify for sales leader status over a 12-month period. Since implementation in 2009, sales leaders who utilized the 12-month qualification method have typically performed better in terms of activity and retention rates. To further promote the 12-month sales leader qualification method, during 2014 we announced the implementation, effective globally in February 2015, of a first-order limit for new Members and in November 2014 we reduced the number of Volume Points required to be accumulated over the 12-month period from 5,000 to 4,000. See Item 1 — Business in the 2015 10-K for additional information.

We believe that the changes, while good for our business in the long-term, take time to incorporate into Members' individual business practices, and in the near term have created distractions which can impact, and in certain markets has slowed, our sales. We believe these Marketing Plan changes can negatively impact sales in the short term for several reasons. Sponsoring sales leaders must take the time to guide downline Members through the adjustment and acclimation process, diverting them from other sales efforts. Additionally, the changes can lead to a temporary slowdown in sales because some sales that previously would have taken place over a shorter 1-2 month period are deferred over longer periods as a Member works towards possible sales leader qualification. Members within different regions and countries are adopting these changes to varying degrees and on varying timelines with such variances leading to differences in how the Marketing Plan changes impact our business in different regions or countries. To the extent we discuss a region or country is still adapting to the changes below, we believe net sales within that region or country are being negatively impacted by the factors described above. Additionally, each region and many countries are also impacted by individual internal and external factors beyond the Marketing Plan changes that impact net sales trends, such as the economic and regulatory environment, changes in product offering, strength and engagement of Member leadership, and level of brand awareness.

#### North America

The North America region reported net sales of \$246.0 million for the three months ended March 31, 2016. Net sales increased \$19.3 million, or 8.5%, for the three months ended March 31, 2016, as compared to the same period in 2015. In local currency, net sales increased 8.7% for the three months ended March 31, 2016, as compared to the same period in 2015. The increase in net sales in the region for the three months ended March 31, 2016, as compared to the same period in 2015, was a result of net sales increase in the U.S. of \$19.0 million, or 8.6%. The 8.5% increase in net



sales for the North America region for the three months ended March 31, 2016 was primarily the result of an increase in sales volume, as measured by an increase in Volume Points, which increased net sales by approximately 7.3%, as well as price increases which contributed approximately 2.4% to net sales.

Sales volume increased for the quarter, after a decline in the prior year period. Members and Member leadership in North America have embraced the strategy of encouraging Members to gain experience in the Herbalife business prior to attempting to qualify for sales leader. During the first quarter of 2016 compared to the prior year period, we believe Members progressed in adjusting their operations to accommodate the Marketing Plan changes described above. As a result of increased adoption of the longer-term sales leader qualification method, during the first quarter of 2016 as compared to the prior year quarter, the sales leaders for the region are, we believe, demonstrating enthusiasm through strong event attendance, increased recruiting, and more purchasing activity. We are also seeing a positive impact from a program which encourages the establishment of a solid customer base and consistent orders with low volume per order for new Members.

## Mexico

The Mexico region reported net sales of \$109.7 million for the three months ended March 31, 2016. Net sales decreased \$13.9 million, or 11.2%, for the three months ended March 31, 2016, as compared to the same period in 2015. In local currency, net sales increased 6.9% for the three months ended March 31, 2016, as compared to the same period in 2015. The 11.2% decrease in net sales for the three months ended March 31, 2016 was primarily the result of the strong U.S. dollar and the resulting impact of fluctuations in foreign currency rates which reduced net sales by approximately 18.1%. This reduction to net sales was partially offset by an increase in sales volume, as measured by an increase in Volume Points and price increases which contributed approximately 6.1% and 1.7 %, respectively, to net sales.

We believe Mexico's Volume Point increase for the quarter reflects the positive results of Members having adjusted to the revisions in our Marketing Plan described above, which include rules that require Members attempting to qualify for sales leader status to purchase directly from Herbalife rather than from their sponsor Member (these transactions with the sponsor Member are known as "field sales"). Also significantly, Mexico has instituted a program which encourages immediate focus on customers and consistent orders with lower volume per order for new Members. The Mexico market has also expanded the number of locations at which Members can pay for orders.

The Government of Mexico issued a decree on March 26, 2015 that confirmed the imposition of value added tax (VAT) on the sale of nutritional supplements. Thereafter, certain Herbalife products were restricted from importation under their current customs classification code which did not subject them to VAT at the border. Since it is important that we have an ample supply of these products available for sale in Mexico, we have reformulated most of these products to fit into a different customs code that has subjected them to VAT and thereby facilitate their importation into Mexico. We believe our net sales for the first quarter of 2016 were negatively impacted due to the imposition of VAT on these products commencing during the third quarter of 2015.

## South and Central America

The South and Central America region reported net sales of \$127.0 million for the three months ended March 31, 2016. Net sales decreased \$34.7 million, or 21.5%, for the three months ended March 31, 2016, as compared to the same period in 2015. In local currency, net sales increased 2.2% for the three months ended March 31, 2016, as compared to the same period in 2015. The 21.5% decrease in net sales for the three months ended March 31, 2016 was primarily the result of fluctuations in foreign currency rates, and a decline in sales volume, as measured by a decrease in Volume Points, which reduced net sales by approximately 23.7% and 15.5%, respectively. These reductions to net sales were partially offset by price increases which contributed approximately 13.2% to net sales.

The South and Central America region has continued to see the adoption and expansion of daily consumption DMOs, as well as Members adjusting to the revisions to our Marketing Plan described above, although to varying levels of progress within the region. We believe the decline in Volume Points for the region for the quarter, continuing a trend of declines in prior comparable periods, was a result of certain country-specific challenges in the markets making up the region discussed below, and more generally distractions to Member operations as they adjust to the revisions to our Marketing Plan.

In Brazil, the region's largest market, net sales decreased \$29.4 million, or 36.9%, for the three months ended March 31, 2016, as compared to the same period in 2015. In local currency, net sales decreased 14.2% for the three months ended March 31, 2016, as compared to the same period in 2015. The fluctuation of foreign currency rates had an unfavorable impact of \$18.1 million on net sales for the three months ended March 31, 2016. Brazil's net sales decrease for the three months ended March 31, 2016 was attributable to difficult economic conditions in the market, including the foreign currency erosion impact of those conditions, uncertainty resulting from the ongoing political

situation, and sales leaders adjusting their methods of operation to the Marketing Plan changes described above. With regards to the second quarter and the rest of 2016, we are analyzing changes in ICMS tax legislation effective for 2016 that may potentially have an adverse impact on our sales.

Net sales in Peru decreased \$0.4 million, or 2.3%, for the three months ended March 31, 2016, as compared to the same period in 2015. In local currency, net sales increased 10.3% for the three months ended March 31, 2016, as compared to the same period in 2015. The fluctuation of foreign currency rates had an unfavorable impact of \$2.1 million on net sales for the three months ended March 31, 2016. Member leadership in the market has successfully incorporated the Marketing Plan changes described above, and adopted other strategies that have shown to be effective across different regions such as Nutrition Clubs, a program which encourages consistent orders with low volume per order for new Members, and a regional marketing approach.

Net sales in Venezuela decreased \$0.9 million, or 13.1%, for the three months ended March 31, 2016, as compared to the same period in 2015. Both significant Bolivar-to-dollar exchange rate deterioration and sales volume declines were partially offset by the impact of significant price increases in the market due to an inflationary environment. Venezuela sales now represent less than one percent of our sales.

## EMEA

The EMEA region reported net sales of \$198.4 million for the three months ended March 31, 2016. Net sales increased \$12.0 million, or 6.4%, for the three months ended March 31, 2016, as compared to the same period in 2015. In local currency, net sales increased 16.7% for the three months ended March 31, 2016, as compared to the same period in 2015. The 6.4% increase in net sales for the three months ended March 31, 2016 was primarily the result of an increase in sales volume, as measured by an increase in Volume Points, and price increases which contributed approximately 14.1% and 2.8%, respectively, to net sales. This increase in net sales was partially offset by the effect of the strong U.S. dollar and the resulting impact of fluctuations in foreign currency rates, which reduced net sales by approximately 10.3%. The increase in net sales for the three months ended March 31, 2016 was greatest in Spain and Italy.

The EMEA region has had several years of strong growth in sales volume. Though the region is made up of a large number of markets with different characteristics and levels of success, generally the renewal of volume growth for the region is correlated with a transition in its largest markets to a customer focus and a focus on enhancing the quality of sales leaders through a longer-term sales leader qualification approach, as piloted for us by Russia in 2008. The revisions to our Marketing Plan described above are being successfully implemented in those large markets and many others of the region.

Net sales in Italy increased \$2.1 million, or 6.7% for the three months ended March 31, 2016, as compared to the same period in 2015. In local currency, net sales increased 9.0% for the three months ended March 31, 2016, as compared to the same period in 2015. The fluctuation of foreign currency rates had an unfavorable impact of \$0.7 million on net sales for the three months ended March 31, 2016. We believe Italy's local currency net sales growth reflects the effectiveness of longer-term sales leader qualification methods described above augmented with the use of a regular organized training approach and events such as city-by-city tours.

Net sales in Russia decreased \$1.7 million, or 6.7%, for the three months ended March 31, 2016, as compared to the same period in 2015. In local currency, net sales increased 10.6% for the three months ended March 31, 2016, as compared to the same period in 2015. The fluctuation of foreign currency rates had an unfavorable impact of \$4.5 million on net sales for the three months ended March 31, 2016. Product prices in Russia were increased 5% in March 2016 and 14% in March 2015; these increases were the primary driver of the local currency net sales increases between periods.

Net sales in Spain increased \$3.5 million, or 17.8% for the three months ended March 31, 2016, as compared to the same period in 2015. In local currency, net sales increased 20.3% for the three months ended March 31, 2016, as compared to the same period in 2015. The fluctuation of foreign currency rates had an unfavorable impact of \$0.5 million on net sales for the three months ended March 31, 2016. Spain has continued to increase the number of Member access points as well as focus on strategies including the daily consumption DMO and regionalized marketing efforts.

Net sales in the United Kingdom decreased \$0.9 million, or 6.8%, for the three months ended March 31, 2016, as compared to the same period in 2015. In local currency, net sales decreased 1.4% for the three months ended March 31, 2016, as compared to the same period in 2015. The fluctuation of foreign currency rates had an unfavorable impact of \$0.7 million on net sales for the three months ended March 31, 2016.

## Asia Pacific

The Asia Pacific region, which excludes China, reported net sales of \$221.1 million for the three months ended March 31, 2016. Net sales decreased \$21.7 million, or 8.9%, for the three months ended March 31, 2016, as compared to the

same period in 2015. In local currency, net sales decreased 2.5% for the three months ended March 31, 2016, as compared to the same period in 2015. The 8.9% decrease in net sales for the three months ended March 31, 2016 was primarily the result of a decline in sales volume, as measured by a decrease in Volume Points, and the impact of fluctuations in foreign currency rates, which reduced net sales by approximately 6.2% and 6.4%, respectively. These reductions to net sales were partially offset by price increases which contributed approximately 2.8% to net sales.

The decrease in net sales for the quarter, continuing a trend in comparable quarters of recent years, was primarily driven by a decline in South Korea. Though the Asia Pacific region is made up of diverse markets, Members in the region are generally still making changes in their business practices to incorporate the revisions to our Marketing Plan described above and incurring the associated distractions which can slow sales. We believe sales declines in South Korea and certain other markets were the result of these distractions. The decrease in net sales for the quarter also reflects the adverse impact on India sales volume of prior year price increases.

Net sales in South Korea decreased \$24.5 million, or 34.2%, for the three months ended March 31, 2016, as compared to the same period in 2015. In local currency, net sales decreased 28.2% for the three months ended March 31, 2016, as compared to the same period in 2015. The fluctuation of foreign currency rates had an unfavorable impact of \$4.3 million on net sales for the three months ended March 31, 2016. As noted, South Korea has been negatively impacted by a shift in emphasis toward the longer-term sales leader qualification method described above, as well as other South Korea-specific Marketing Plan enhancements, while the market adjusts to these changes. That adjustment for the South Korea market has trailed that of other large markets due in part to challenges associated with product cost increases to Members in South Korea.

Net sales in India decreased \$4.0 million, or 9.5%, for the three months ended March 31, 2016, as compared to the same period in 2015. In local currency, net sales decreased 1.9% for the three months ended March 31, 2016, as compared to the same period in 2015. The fluctuation of foreign currency rates had an unfavorable impact of \$3.2 million on net sales for the three months ended March 31, 2016. India had a price increase of 12% in October 2015 that negatively impacted sales volume for the first quarter of 2016.

Net sales in Taiwan decreased \$1.2 million, or 3.9%, for the three months ended March 31, 2016, as compared to the same period in 2015. In local currency, net sales increased 0.9% for the three months ended March 31, 2016, as compared to the same period in 2015. The fluctuation of foreign currency rates had an unfavorable impact of \$1.5 million on net sales for the three months ended March 31, 2016.

Net sales in Indonesia increased \$3.8 million, or 16.4%, for the three months ended March 31, 2016, as compared to the same period in 2015. In local currency, net sales increased 23.0% for the three months ended March 31, 2016, as compared to the same period in 2015. The fluctuation of foreign currency rates had an unfavorable impact of \$1.5 million on net sales for the three months ended March 31, 2016. Indonesia had a price increase of 6% in October 2015. The Indonesia market has made progress in adjusting to the revisions to our Marketing Plan described above and has seen higher levels of sales leader activity. We have expanded our product line in the market as well.

#### China

Net sales in China were \$217.4 million for the three months ended March 31, 2016. Net sales increased \$53.2 million, or 32.4%, for the three months ended March 31, 2016, as compared to the same period in 2015. In local currency, net sales increased 38.8% for the three months ended March 31, 2016, as compared to the same period in 2015. The net sales increases for the three months ended March 31, 2016 were primarily the result of increases in sales volume, as measured by an increase in Volume Points, which increased net sales by approximately 36.5%.

We have seen continued adoption and acculturation of daily consumption DMOs in the China market, including Nutrition Clubs, aided by a Customer Loyalty program, a Healthy Active Lifestyle program and supported by ongoing investments in advertising, corporate social responsibility and brand awareness. We continue to enhance product access in China through online and mobile platforms, supported by an expanding product access and distribution network.

#### Sales by Product Category

Three Months Ended March 31, 2016				2015				% Change in
Retail	Distributo	Product	Shipping	Retail	Distributo	Product	Shipping	

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	Sales(2)	Allowance	Sales	Handling	Sales	Sales(2)	Allowance	Sales	Handling	Sales	Net Sales
				Revenues					Revenues		
	(In millions)										
Weight Management	\$1,140.1	\$(471.0)	\$669.1	\$43.9	\$713.0	\$1,134.7	\$(481.0)	\$653.7	\$50.2	\$703.9	1.3 %
Targeted Nutrition	419.0	(173.1)	245.9	16.1	262.0	406.1	(172.1)	234.0	17.9	251.9	4.0 %
Energy, Sports and Fitness	101.7	(42.0 )	59.7	3.9	63.6	96.8	(41.0 )	55.8	4.3	60.1	5.8 %
Outer Nutrition	47.0	(19.4 )	27.6	1.8	29.4	57.1	(24.2 )	32.9	2.5	35.4	(16.9%)
Literature, Promotional and Other(1)	48.9	0.8	49.7	1.9	51.6	50.6	1.3	51.9	2.2	54.1	(4.6 %)
Total	\$1,756.7	\$(704.7)	\$1,052.0	\$67.6	\$1,119.6	\$1,745.3	\$(717.0)	\$1,028.3	\$77.1	\$1,105.4	1.3 %

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

(2) Retail sales is a Non-GAAP measure which may not be comparable to similarly-titled measures used by other companies.

Net sales for the Weight Management, Targeted Nutrition, and Energy, Sports and Fitness product categories increased for the three months ended March 31, 2016 as compared to the same period in 2015. Net sales for the Outer Nutrition and Literature, Promotional, and Other product categories decreased for the three months ended March 31, 2016 as compared to the same period in 2015. The trend and business factors described in the above discussions of the individual geographic regions apply generally to all product categories.

#### Gross Profit

Gross profit was \$906.5 million for the three months ended March 31, 2016, as compared to \$890.0 million for the same period in 2015. As a percentage of net sales, gross profit for the three months ended March 31, 2016 was 81.0% as compared to 80.5% for the same period in 2015, or a favorable net increase of 50 basis points. The 50 basis point net increase for the three months ended March 31, 2016 included the favorable impact of country mix of 81 basis points, retail price increases of 66 basis points, cost savings through strategic sourcing and self-manufacturing of 40 basis points, and other cost changes of 37 basis points, partially offset by the unfavorable impact of foreign currency fluctuations of 170 basis points and higher inventory write-downs of 4 basis points. Generally, the gross profit as percentage of net sales may vary from period to period due to the impact from foreign currency fluctuations, changes in country mix as volume changes among countries with varying margins, retail price increases, cost savings through strategic sourcing and self-manufacturing, and inventory write-downs.

#### Royalty Overrides

Royalty overrides were \$311.9 million for the three months ended March 31, 2016, as compared to \$323.0 million for the same period in 2015. Royalty overrides as a percentage of net sales was 27.9% for the three months ended March 31, 2016, as compared to 29.2% for the same period in 2015. The decrease of royalty overrides as a percentage of net sales was primarily due to the higher growth of our China business relative to that of our worldwide business. Compensation to our independent service providers in China is included in selling, general and administrative expenses as opposed to royalty overrides where it is included for all other Members. Generally, royalty overrides as a percentage of net sales may vary from period to period due to changes in the mix of products and countries because full royalty overrides are not paid on certain products and in certain countries.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$426.3 million for the three months ended March 31, 2016, as compared to \$431.4 million for the same period in 2015. Selling, general and administrative expenses as a percentage of net sales were 38.1% for the three months ended March 31, 2016, as compared to 39.0% for the same period in 2015.

The decrease in selling, general and administrative expenses for the three months ended March 31, 2016 was driven by \$17.3 million in lower net foreign exchange losses, which included \$30.7 million in lower net foreign exchange losses from the remeasurement of our Bolivar-denominated monetary assets and liabilities (See Liquidity and Capital Resources — Venezuela, for further discussion of currency exchange rate issues in Venezuela), and \$0.1 million in foreign exchange loss resulting from Euro/U.S. dollar exposure primarily related to intercompany balances for the three months ended March 31, 2016, as compared to \$12.8 million in foreign exchange gain resulting from Euro/U.S. dollar exposure for the same period in 2015; \$4.3 million in lower Member promotion and event costs; \$2.8 million in lower advertising and sponsorships; \$3.2 million in lower non-income tax expenses; \$3.8 million in lower insurance



costs; partially offset by \$23.8 million in higher service fees to China independent service providers related to sales growth in China and \$4.0 million in higher professional fees primarily from expenses related to regulatory inquiries.

In late 2012, a hedge fund manager publicly raised allegations regarding the legality of our network marketing program and announced that the hedge fund manager had taken a significant short position regarding our common shares, leading to intense public scrutiny and significant stock price volatility. We have engaged legal and advisory services firms to assist with responding to the allegations and to perform other related services in connection to these events. For the three months ended March 31, 2016 and 2015, we recorded approximately \$2.9 million and \$4.3 million, respectively, of expenses related to this matter, which includes approximately \$2.2 million and \$3.9 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:

	Three Months Ended	
	March 31,	March 31,
	2016	2015
	(Dollars in millions)	
Interest expense	\$26.0	\$23.4
Interest income	(1.1)	(1.9)
Net interest expense	\$24.9	\$21.5

The increase in net interest expense for the three months ended March 31, 2016, as compared to the same period in 2015, was primarily due to transactions to convert our Bolivars to U.S. dollars for 2016 that were financing in nature.

## Other expense, net

There was no other expense, net for the three months ended March 31, 2016 as compared to \$2.3 million for the same period in 2015. Other expense, net as a percentage of net sales was 0.2% for the three months ended March 31, 2015. The decrease in other expense, net, for the three months ended March 31, 2016, as compared to the same period in 2015, was due to no other-than-temporary impairment losses recognized during the three months ended March 31, 2016 as compared to the same period in 2015 in which losses were incurred in connection with our investments in Bolivar-denominated bonds.

## Income Taxes

Income taxes were \$47.6 million for the three months ended March 31, 2016, as compared to \$33.6 million for the same period in 2015. The effective income tax rate was 33.2% for the three months ended March 31, 2016, as compared to 30.1% for the same period in 2015. The increase in the effective tax rate for the three months ended March 31, 2016 as compared to the same period in 2015 was primarily due to the impact of changes in the geographic mix of our income.

## 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 and access to capital markets, 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 share repurchase program. Since inception in 2007, total share repurchases amounted to approximately \$3.1 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 \$774.2 million cash and cash equivalents and our senior secured credit facility in addition to cash flow from operations, can be used to support general corporate purposes, including, capital expenditures, share repurchases, and strategic investment opportunities.

We have a cash pooling arrangement with a financial institution for cash management purposes. This cash pooling arrangement allows certain of our participating subsidiaries to withdraw cash from this financial institution based upon our aggregate cash deposits held by subsidiaries who participate in the cash pooling arrangement. We did not owe any amounts to this financial institution under the pooling arrangement as of March 31, 2016 and December 31, 2015.

For the three months ended March 31, 2016, we generated \$141.1 million of operating cash flow, as compared to \$161.1 million for the same period in 2015. The decrease in our operating cash flow was the result of net unfavorable changes in operating assets and liabilities and lower non-cash items, partially offset by higher net income. The change in operating assets and liabilities was primarily the result of changes in inventories; changes in accrued expenses and accrued compensation primarily related to higher employee bonus payments; changes in royalty overrides primarily related to lower Mark Hughes bonus payments; and changes in income taxes. The lower non-cash items were primarily due to the net decrease in foreign exchange losses, primarily related to Venezuela.

Capital expenditures, including accrued capital expenditures, for the three months ended March 31, 2016 and 2015 were \$22.5 million and \$15.4 million, respectively. The majority of these expenditures represented investments in manufacturing facilities domestically and internationally, specifically the build-out of our Nanjing manufacturing facility expected to commence operations in the summer of 2016, management information systems including the upgrade of our Oracle enterprise wide systems, initiatives to develop web-based Member tools, and the expansion of our warehouse and sales centers. We expect to incur total capital expenditures of approximately \$145 million to \$175 million for the full year of 2016.

In March 2016, Herbalife hosted its annual global Herbalife Summit event in Cancun, Mexico, where President Team members from around the world met and shared best practices, conducted leadership training and Herbalife management awarded Members \$64.3 million of Mark Hughes bonus payments related to their 2015 performance. In March 2015, Herbalife management awarded Members \$72.4 million of Mark Hughes bonus payments related to their 2014 performance.

#### Senior Secured Credit Facility

We currently have a senior secured credit facility, or the Credit Facility, with a syndicate of financial institutions as lenders which consists of a revolving credit facility. The Credit Facility previously included a term loan, or the Term Loan, which matured and was repaid in full in March 2016. In May 2015, we amended our Credit Facility and our \$700 million borrowing capacity on our revolving credit facility was reduced by approximately \$235.9 million, and was further reduced by approximately \$39.1 million on September 30, 2015, bringing the total available borrowing capacity on our revolving credit facility to \$425.0 million as of March 31, 2016. Our revolving credit facility matures on March 9, 2017. During May 2015, pursuant to the amendment and upon execution, we made prepayments of approximately \$20.3 million and \$50.9 million on the Term Loan and revolving credit facility, 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. The Credit Facility, as amended, also restricts our ability to pay dividends or repurchase our common shares to a maximum of \$233.0 million until maturity and for every one dollar of share repurchase or dividend paid, the revolving credit facility's borrowing capacity is permanently decreased by two dollars. The Credit Facility also provides for the grant of security interest on certain additional assets of the Company and its subsidiaries. We are also required to maintain a minimum balance of \$200.0 million of consolidated cash and cash equivalents. As of March 31, 2016 and December 31, 2015, we were compliant with our debt covenants under the Credit Facility.

During the three months ended March 31, 2016, we repaid a total amount of \$229.7 million to repay in full our Term Loan. During the three months ended March 31, 2015, we repaid a total amount of \$25.0 million under the Credit Facility. As of March 31, 2016 and December 31, 2015, the U.S. dollar amount outstanding under the Credit Facility was \$410.0 million and \$639.7 million, respectively. As of March 31, 2016, the U.S. dollar amount outstanding under the revolving credit facility was \$410.0 million. Of the \$639.7 million U.S. dollar amount outstanding under the Credit Facility as of December 31, 2015, \$229.7 million was outstanding on the Term Loan and \$410.0 million was outstanding on the revolving credit facility. There were no outstanding foreign currency borrowings as of March 31, 2016 and December 31, 2015 under the Credit Facility. On March 31, 2016 and December 31, 2015, the weighted average interest rate for borrowings under the Credit Facility, including borrowings under the Term Loan as of December 31, 2015, was 3.32% and 2.78%, respectively.

See Note 4, Long-Term Debt, to the Condensed Consolidated Financial Statements for a further discussion on our Credit Facility.

### Convertible Senior Notes

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

### Off-Balance Sheet Arrangements

At March 31, 2016 and December 31, 2015, we had no material off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

## Dividends

The declaration of future dividends is subject to the discretion of our board of directors and will depend upon various factors, including our earnings, financial condition, Herbalife Ltd.'s available distributable reserves under Cayman Islands law, restrictions imposed by the Credit Facility and the terms of any other indebtedness that may be outstanding, cash requirements, future prospects and other factors deemed relevant by our board of directors. The Credit Facility permits payments of dividends up to a specified cap as long as no default or event of default exists and the consolidated leverage ratio specified in the Credit Facility is not exceeded. See Note 4, Long-Term Debt, to the Condensed Consolidated Financial Statements for a further discussion on dividend restrictions.

## Share Repurchases

Our board of directors has authorized a \$1.5 billion share repurchase program that will expire on June 30, 2017. This share repurchase program allows us to repurchase our common shares, at such times and prices as determined by us 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 up to a specified cap as long as no default or event of default exists and the consolidated leverage ratio specified in the Credit Facility is not exceeded. See Note 4, Long-Term Debt, to the Condensed Consolidated Financial Statements for a further discussion on share repurchase restrictions.

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

During the three months ended March 31, 2016 and 2015, we did not repurchase any of our common shares through open market purchases. As of March 31, 2016, the remaining authorized capacity under our \$1.5 billion share repurchase program was \$232.9 million inclusive of reductions for the Forward Transactions.

## Capped Call Transactions

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

## Working Capital and Operating Activities

As of March 31, 2016 and December 31, 2015, we had positive working capital of \$266.2 million and \$541.9 million, respectively, or a decrease of \$275.7 million. This decrease was primarily due to the increase in the current portion of long-term debt as \$410.0 million of the Credit Facility relating to the revolving credit facility will be paid by March 9,

2017, and a decrease in cash and cash equivalents; partially offset by a decrease in accrued compensation, and the \$229.7 million payment of the Credit Facility relating to the Term Loan.

We expect that cash and funds provided from operations, available borrowings under the Credit Facility, and access to capital markets will provide sufficient working capital to operate our business, to make expected capital expenditures and to meet foreseeable liquidity requirements, including payment of amounts outstanding under the Credit Facility, for the next twelve months and thereafter. In May 2015, we amended the Credit Facility as described further in Note 4, Long-Term Debt.

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

## Venezuela

The adverse operating environment in Venezuela continues to be challenging for our Venezuela business, with high inflation, pricing limitations, importation restrictions, and foreign exchange restrictions. Foreign exchange controls in Venezuela continue to limit Herbalife Venezuela's ability to repatriate earnings and settle its intercompany shipment obligations at any official rate. As a result, this has continued to significantly limit Herbalife Venezuela's ability to acquire its U.S. dollar denominated raw materials and finished good inventory.

During the three months ended March 31, 2016 and 2015, we recognized foreign exchange losses and other related charges of \$4.7 million and \$36.3 million, respectively, within our condensed consolidated statement of income related to our Venezuelan operations. During the three months ended March 31, 2016 and 2015, Herbalife Venezuela's net sales represented less than 1% and approximately 1%, respectively, of our consolidated net sales. As of March 31, 2016, Herbalife Venezuela's assets primarily consisted of Bolivar-denominated cash of approximately \$5.1 million. See our consolidated financial statements and related notes in the 2015 10-K for further information on Herbalife Venezuela and Venezuela's highly inflationary economy.

## Contingencies

As disclosed in Note 5, Contingencies, to the Condensed Consolidated Financial Statements, we are currently in advanced discussions with the FTC regarding a potential resolution of the matters described therein. If discussions with the FTC do not continue to progress, it is likely that litigation would ensue. Although we are confident in our legal position, litigation outcomes by their very nature are difficult to predict and there can be no assurance of a particular outcome. The outcome of these matters with the FTC, whether by mutual resolution or through litigation, could have a material adverse impact on our business operations, our results of operations or our financial condition.

See Note 5, Contingencies, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, for a further discussion of our contingencies as of March 31, 2016.

## Subsequent Events

See Note 14, Subsequent Events, to the Condensed Consolidated Financial Statements for information regarding subsequent events.

## Critical Accounting Policies

U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. We regularly evaluate our estimates and assumptions related to revenue recognition, allowance for product returns, inventory, goodwill and purchased intangible asset valuations, deferred income tax asset valuation allowances, uncertain tax positions, tax contingencies, and other loss contingencies. We base our estimates and assumptions on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of revenue, costs and expenses. Actual results could differ from those estimates. We consider the following policies to be most critical in understanding the judgments that are involved in preparing the financial statements and the uncertainties that could impact our operating results, financial condition and cash flows.

We are a nutrition company that sells a wide range of weight management, targeted nutrition, energy, sports & fitness, and outer nutrition products. Our products are manufactured by third party providers and by us in our Changsha,



Hunan, China extraction facility, Suzhou, China facility, Lake Forest, California facility, and in our Winston-Salem, North Carolina facility, and then are sold to Members who consume and sell Herbalife products to retail consumers or other Members. As of March 31, 2016, we sold products in 94 countries throughout the world and we are organized and managed by geographic region. We aggregate our operating segments into one reporting segment, except China, as management believes that our operating segments have similar operating characteristics and similar long term operating performance. In making this determination, management believes that the operating segments are similar in the nature of the products sold, the product acquisition process, the types of customers to whom products are sold, the methods used to distribute the products, the nature of the regulatory environment, and their economic characteristics.

We generally recognize revenue upon delivery and when both the title and risk and rewards pass to the Member or importer, or as products are sold in 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% of product sales for both the three months ended March 31, 2016 and 2015.

We adjust our inventories to lower of cost and net realizable value. Additionally we adjust the carrying value of our inventory based on assumptions regarding future demand for our products and market conditions. If future demand and market conditions are less favorable than management's assumptions, additional inventory write-downs could be required. Likewise, favorable future demand and market conditions could positively impact future operating results if previously written down inventories are sold. We have obsolete and slow moving inventories which have been adjusted downward \$37.9 million and \$39.4 million to present them at their lower of cost and net realizable value, and lower of cost or market, in our condensed consolidated balance sheets as of March 31, 2016 and December 31, 2015, respectively.

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

In order to estimate the fair value of goodwill, we also primarily use an income approach. The determination of impairment is made at the reporting unit level and consists of two steps. First, we determine the fair value of a reporting unit and compare it to its carrying amount. The determination of the fair value of the reporting units requires us to make significant estimates and assumptions. These estimates and assumptions include estimates of future revenues and expense growth rates, capital expenditures and the depreciation and amortization related to these capital expenditures, discount rates, and other inputs. Due to the inherent uncertainty involved in making these estimates, actual future results could differ. Changes in assumptions regarding future results or other underlying assumptions could have a significant impact on the fair value of the reporting unit. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill and other intangibles over the implied fair value as determined in Step 2 of the goodwill impairment test. Also, if during Step 1 of a goodwill impairment test we determine we have reporting units with zero or negative carrying amounts, then we perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. During Step 2 of a goodwill impairment test, the implied fair value of goodwill is determined in a similar manner as how the amount of goodwill recognized in a business combination is determined, in accordance with the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 805, Business Combinations. We would assign the fair value of a reporting unit to all of the assets and liabilities of that reporting unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. As of March 31, 2016 and December 31, 2015, we had goodwill of approximately \$94.0 million and \$91.8 million, respectively. As of both March 31, 2016 and December 31, 2015, we had marketing related intangible assets of approximately \$310.0 million. The increase in

goodwill during the three months ended March 31, 2016 was due to cumulative translation adjustments. No marketing related intangibles or goodwill impairment was recorded during the three months ended March 31, 2016 and 2015.

Contingencies are accounted for in accordance with FASB ASC Topic 450, Contingencies, or ASC 450. ASC 450 requires that we record an estimated loss from a loss contingency when information available prior to issuance of our financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. We also disclose material contingencies when we believe a loss is not probable but reasonably possible as required by ASC 450. Accounting for contingencies such as legal and non-income tax matters requires us to use judgment related to both the likelihood of a loss and the estimate of the amount or range of loss. Many of these legal and tax contingencies can take years to be resolved. Generally, as the time period increases over which the uncertainties are resolved, the likelihood of changes to the estimate of the ultimate outcome increases.

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

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

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

#### New Accounting Pronouncements

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

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

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

We apply FASB ASC Topic 815, Derivatives and Hedging, or ASC 815, which established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair-value hedge, the changes in the fair value of the derivative and the underlying hedged item are recognized concurrently in earnings. If the derivative is designated as a cash-flow hedge, changes in the fair value of the derivative are recorded in other comprehensive income (loss) and are recognized in the condensed consolidated statements of income when the hedged item affects earnings. ASC 815 defines the requirements for designation and documentation of hedging relationships as well as ongoing effectiveness assessments in order to use hedge accounting. For a derivative that does not qualify as a hedge, changes in fair value are recognized concurrently in earnings.

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

## Foreign Exchange Risk

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

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

We also purchase foreign currency forward contracts in order to hedge forecasted inventory transactions and intercompany management fees that are designated as cash-flow hedges and are subject to foreign currency exposures. We applied the hedge accounting rules as required by ASC 815 for these hedges. These contracts allow us to buy and sell certain currencies at specified contract rates. As of March 31, 2016 and December 31, 2015, the aggregate notional amounts of these contracts outstanding were approximately \$85.4 million and \$112.8 million, respectively. At March 31, 2016, the outstanding contracts were expected to mature over the next twelve months. Our derivative financial instruments are recorded on the condensed consolidated balance sheet at fair value based on quoted market rates. For the forecasted inventory transactions, the forward contracts are used to hedge forecasted inventory transactions over specific months. Changes in the fair value of these forward contracts, excluding forward points, designated as cash-flow hedges are recorded as a component of accumulated other comprehensive income (loss) within shareholders' equity (deficit), 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. 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 (deficit), and are recognized in selling, general and administrative expenses in the condensed consolidated statement of income in the period when the hedged item and underlying transaction affects earnings. As of March 31, 2016, we recorded assets at fair value of \$2.2 million and liabilities at fair value of \$1.8 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. As of December 31, 2015, we recorded assets at fair value of \$4.2 million and liabilities at fair value of \$0.5 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. During the three months ended March 31, 2016 and 2015, the ineffective portion relating to these hedges was immaterial and the hedges remained effective as of March 31, 2016 and December 31, 2015.

As of March 31, 2016 and December 31, 2015, 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 one and two months as of March 31, 2016 and December 31, 2015, respectively.

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

Foreign Currency	Average	Fair	
	Contract	Notional	Value
	Rate	Amount	Gain
		(In	(Loss)
		millions)	(In
			millions)
At March 31, 2016			
Buy Chinese yuan sell Euro	6.98	\$ 8.0	\$ (0.4 )
Buy Chinese yuan sell U.S. dollar	6.48	114.1	0.3
Buy Euro sell Chinese yuan	7.35	3.9	—
Buy Euro sell Indonesian rupiah	15,080.92	8.0	(0.1 )
Buy Euro sell Japanese yen	123.46	1.7	0.1
Buy Euro sell Mexican peso	19.05	51.4	2.1
Buy Euro sell Peruvian nuevo sol	3.85	2.4	—
Buy Euro sell Russian ruble	93.15	0.5	(0.1 )
Buy Euro sell U.S. dollar	1.12	15.2	0.3
Buy Euro sell South African rand	17.88	1.1	(0.1 )
Buy British pound sell Euro	0.74	3.8	(0.3 )
Buy Indonesian rupiah sell Euro	15,000.00	2.0	—
Buy Kazakhstani tenge sell U.S. dollar	372.79	1.5	—
Buy Mexican peso sell Euro	19.63	4.4	—
Buy Norwegian krone sell U.S. dollar	8.23	1.2	—
Buy Swedish krona sell U.S. dollar	8.21	2.0	—
Buy Taiwan dollar sell U.S. dollar	33.34	13.5	0.5
Buy U.S. dollar sell Brazilian real	3.41	1.8	0.1
Buy U.S. dollar sell Chinese yuan	6.69	83.2	(2.9 )
Buy U.S. dollar sell Colombian peso	3,256.32	1.6	(0.1 )
Buy U.S. dollar sell Euro	1.11	114.5	(3.0 )
Buy U.S. dollar sell Korean won	1,155.47	1.2	—
Buy U.S. dollar sell Swedish krona	8.38	0.5	—
Buy U.S. dollar sell South African rand	15.54	0.6	—
Total forward contracts		\$ 438.1	\$ (3.6 )

The majority of our foreign subsidiaries designate their local currencies as their functional currencies. At March 31, 2016 and December 31, 2015, the total amount of our foreign subsidiary cash was \$389.8 million and \$310.5 million, respectively, of which \$12.2 million and \$19.1 million, respectively, was invested in U.S. dollars. At March 31, 2016 and December 31, 2015, the total amount of cash and cash equivalents held by our parent and its U.S. entities, inclusive of U.S. territories, was \$384.4 million and \$579.3 million, respectively.

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

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## Interest Rate Risk

As of March 31, 2016, the aggregate annual maturity of the Credit Facility was expected to be \$410.0 million for 2017. The fair value of the Credit Facility approximated its carrying value of \$410.0 million as of March 31, 2016. The fair value of the Credit Facility approximated its carrying value of \$639.5 million as of December 31, 2015. The Credit Facility bears a variable interest rate, and on March 31, 2016 and December 31, 2015, the weighted average interest rate of the Credit Facility, including borrowings under the Term Loan, was 3.32% and 2.78%, respectively. As of March 31, 2016, the fair value of the liability component of our \$1.15 billion Convertible Notes was approximately \$851.0 million and the carrying value was \$992.8 million. As of December 31, 2015, the fair value of the liability component of our \$1.15 billion Convertible Notes was approximately \$795.9 million and the carrying value was \$982.5 million. The Convertible Notes pay interest at a fixed rate of 2.00% per annum payable semiannually in arrears on February 15 and August 15 of each year, beginning on August 15, 2014. The Convertible Notes mature on August 15, 2019, unless earlier repurchased or converted. We may not redeem the Convertible Notes prior to their stated maturity date. Since our Credit Facility is based on variable interest rates, and as we have not entered into any new interest swap arrangements since the expiration of our previous interest rate swaps in July 2013, 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 \$4.1 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, 2016.

**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, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## FORWARD-LOOKING STATEMENTS

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

“continue,” “believe,” “expect” or “anticipate” and any other similar words.

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

- our relationship with, and our ability to influence the actions of, our Members;
- improper action by our employees or Members in violation of applicable law;
- adverse publicity associated with our products or network marketing organization, including our ability to comfort the marketplace and regulators regarding our compliance with applicable laws;
- changing consumer preferences and demands;
- the competitive nature of our business;
- regulatory matters governing our products, including potential governmental or regulatory actions concerning the safety or efficacy of our products and network marketing program, including the direct selling market in which we operate;
- legal challenges to our network marketing program;

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- risks associated with operating internationally and the effect of economic factors, including foreign exchange, inflation, disruptions or conflicts with our third party importers, pricing and currency devaluation risks, especially in countries such as Venezuela;
- uncertainties relating to interpretation and enforcement of legislation in China governing direct selling;
- our inability to obtain the necessary licenses to expand our direct selling business in China;
- adverse changes in the Chinese economy;
- our dependence on increased penetration of existing markets;
- contractual limitations on our ability to expand our business;
- our reliance on our information technology infrastructure and outside manufacturers;
- the sufficiency of trademarks and other intellectual property rights;
- product concentration;
- our reliance upon, or the loss or departure of any member of, our senior management team which could negatively impact our Member relations and operating results;
- U.S. and foreign laws and regulations applicable to our international operations;
- restrictions imposed by covenants in our credit facility;
- uncertainties relating to the application of transfer pricing, duties, value added taxes, and other tax regulations, and changes thereto;
- changes in tax laws, treaties or regulations, or their interpretation;
- taxation relating to our Members;
- product liability claims;
- our incorporation under the laws of the Cayman Islands;
- whether we will purchase any of our shares in the open markets or otherwise; and
- share price volatility related to, among other things, speculative trading and certain traders shorting our common shares.

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

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

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

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



## Item 1A. RISK FACTORS

### Risks Related to Us and Our Business

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

We distribute our products exclusively to and through approximately 4.0 million independent Members, and we depend upon them directly for substantially all of our sales. Our Members, including our sales leaders, may voluntarily terminate their Member agreements with us at any time. To increase our revenue, we must increase the number of, or the productivity of, our Members. Accordingly, our success depends in significant part upon our ability to recruit, retain and motivate a large base of Members. The loss of a significant number of Members for any reason could negatively impact sales of our products and could impair our ability to attract new Members. In our efforts to attract and retain Members, we compete with other network marketing organizations, including those in the weight management, dietary and nutritional supplement and personal care and cosmetic product industries. Our operating results could be harmed if our existing and new business opportunities and products do not generate sufficient interest to retain existing Members and attract new Members.

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

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

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

Extensive federal, state and local laws regulate our business, products and network marketing program. Because we have expanded into foreign countries, our policies and procedures for our independent Members differ due to the different legal requirements of each country in which we do business. While we have implemented Member policies and procedures designed to govern Member conduct and to protect the goodwill associated with Herbalife trademarks and tradenames, it can be difficult to enforce these policies and procedures because of the large number of Members and their independent status. Violations by our independent Members of applicable law or of our policies and procedures in dealing with customers could reflect negatively on our products and operations and harm our business reputation. In addition, it is possible that a court could hold us civilly or criminally accountable based on vicarious liability because of the actions of our independent Members.

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

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

- the safety and quality of our products and ingredients;
- the safety and quality of similar products and ingredients distributed by other companies;

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

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

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

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

Adverse publicity relating to us, our products or our operations, including our network marketing program or the attractiveness or viability of the financial opportunities provided thereby, has had, and could again have, a negative effect on our ability to attract, motivate and retain Members, and it could also affect our share price. In the mid-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.

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

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

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

We are also subject to significant competition for the recruitment of Members from other network marketing organizations, including those that market weight management products, dietary and nutritional supplements and personal care products as well as other types of products. We compete for global customers and Members with regard to weight management, nutritional supplement and personal care products. Our competitors include both direct selling companies such as NuSkin Enterprises, Nature's Sunshine, Alticor/Amway, Melaleuca, Avon Products, Oriflame, Omnilife, Tupperware and Mary Kay, as well as retail establishments such as Weight Watchers, Jenny Craig, General Nutrition Centers, Wal-Mart and retail pharmacies.

In addition, because the industry in which we operate is not particularly capital intensive or otherwise subject to high barriers to entry, it is relatively easy for new competitors to emerge who will compete with us for our Members and customers. In addition, the fact that our Members may easily enter and exit our network marketing program contributes to the level of competition that we face. For example, a Member can enter or exit our network marketing system with relative ease at any time without facing a significant investment or loss of capital because (1) we have a low upfront financial cost to become a Herbalife Member, (2) we do not require any specific amount of time to work as a Member, (3) we do not charge Members for any training that we might require 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 other similar constraints. Such laws, regulations and

other constraints may exist at the federal, state or local levels in the United States and at all levels of government in foreign jurisdictions. There can be no assurance that we or our Members are in compliance with all of these regulations. Our failure or our Members' failure to comply with these regulations or new regulations could disrupt our Members' sale of our products, or lead to the imposition of significant penalties or claims and could negatively impact our business. In addition, the adoption of new regulations or changes in the interpretations of existing regulations, such as those relating to genetically modified foods, may result in significant compliance costs or discontinuation of product sales and may negatively impact the marketing of our products, resulting in significant loss of sales revenues.

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

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

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

Our network marketing program is subject to a number of federal and state regulations administered by the FTC and various federal and state agencies in the United States as well as regulations on direct selling in foreign markets administered by foreign agencies. We are subject to the risk that, in one or more markets, our network marketing program could be found by federal, state or foreign regulators not to be in compliance with applicable law or regulations. As previously disclosed, the FTC is investigating the Company's network marketing program for compliance with these regulations. Another example is the 1986 permanent injunction entered in California in proceedings initiated by the California Attorney General. There can be no assurances other federal, state attorneys general or foreign regulators will not take similar action.

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

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

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

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 81% of our net sales for the year ended December 31, 2015 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 continue to be restrictive and have impacted the ability of our subsidiary in Venezuela, or Herbalife Venezuela, to obtain U.S. dollars in exchange for Venezuelan Bolivars at the official foreign exchange rate. These currency restrictions and current pricing restrictions continue to limit Herbalife Venezuela’s ability to import U.S. dollar denominated raw materials and finished goods which in addition to the Venezuelan Bolivar devaluations has significantly negatively impacted our Venezuelan operations. If we are unsuccessful in implementing any financially and economically viable strategies, including local manufacturing, we may be required to fundamentally change our business model or suspend or cease operations in Venezuela. Also, if

the foreign currency and pricing or other restrictions in Venezuela intensify or do not improve and impact our ability to control our Venezuelan operations, we may be required to deconsolidate Herbalife Venezuela for U.S. GAAP purposes and would be subject to the risk of further impairments.

Our 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.

China has published regulations governing direct selling and prohibiting pyramid promotional schemes, and a number of administrative methods and proclamations have been issued. These regulations require us to use a 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, Hebei, Shaanxi, Tianjin, Heilongjiang, Hunan, Guangxi, Hainan, Anhui and Yunnan.

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

We may continue to experience rapid growth in China, and there can be no assurances that we will be able to successfully manage 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, then the growth in sales of our products, along with our operating results, could be negatively impacted.

The success of our business is to a large extent contingent on our ability to further penetrate existing markets which is subject to numerous factors, many of which are out of our control. Government regulations in both our domestic and international markets can delay or prevent the introduction, or require the reformulation or withdrawal, of some of our products, which could negatively impact our business, financial condition and results of operations. Also, our ability to increase market penetration in certain countries may be limited by the finite number of persons in a given country inclined to pursue a direct selling business opportunity or consumers willing to purchase Herbalife products. Moreover, our growth will depend upon improved training and other activities that enhance Member retention in our markets. While we have recently experienced significant growth in certain of our markets, we cannot assure you that such growth levels will continue in the immediate or long term future. Furthermore, our efforts to support growth in such international markets could be hampered to the extent that our infrastructure in such markets is deficient when compared to our infrastructure in our more developed markets, such as the U.S. Therefore, we cannot assure you that our general efforts to increase our market penetration and Member retention in existing markets will be successful. If we are unable to further penetrate existing markets, our operating results could suffer.

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

We are a party to an agreement with our Members that provides assurances, to the extent legally permitted, we will not sell Herbalife products worldwide through any distribution channel other than our network of independent Herbalife Members. Thus, we are contractually prohibited from expanding our business by selling Herbalife products through other distribution channels that may be available to our competitors, such as over the Internet, through wholesale sales, by establishing retail stores or through mail order systems. Since this is an open-ended commitment, there can be no assurance that we will be able to take advantage of innovative new distribution channels that are developed in the future.

In addition, this agreement with our Members provides that we will not make any material changes adverse to our Members to certain aspects of our Marketing Plan without the approval described below. For example, our agreement with our Members provides that we may increase, but not decrease, the discount percentages available to our Members for the purchase of products or the applicable royalty override percentages, and production and other bonus percentages available to our Members at various qualification levels within our Member hierarchy. We may not modify the eligibility or qualification criteria for these discounts, royalty overrides and production and other bonuses unless we do so in a manner to make eligibility and/or qualification easier than under the applicable criteria in effect

as of the date of the agreement. Our agreement with our Members further provides that we may not vary the criteria for qualification for each Member tier within our Member hierarchy, unless we do so in such a way so as to make qualification easier.

Although we reserved the right to make these changes to our Marketing Plan without the consent of our Members in the event that changes are required by applicable law or are necessary in our reasonable business judgment to account for specific local market or currency conditions to achieve a reasonable profit on operations, we may initiate other changes that are adverse to our Members based on an assessment of what will be best for the Company and its Members. Under the agreement with our Members, these other adverse changes would then be submitted to our Member leadership for a vote. The vote would require the approval of at least 51% of our Members then at the level of President's Team earning at the production bonus level of 6% who vote, provided that at least 50% of those Members entitled to vote do in fact vote. Therefore, while we believe that this agreement has strengthened our relationship with our existing Members, improved our ability to recruit new Members and generally increased the long-term stability of our business, there can be no assurance that our agreement with our Members will not restrict our ability to adapt our Marketing Plan to the evolving requirements of the markets in which we operate. As a result, our growth may be limited.

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

Our ability to provide products and services to our Members depends on the performance and availability of our core transactional systems. We upgraded our back office systems globally to the Oracle Enterprise Suite which is supported by a robust hardware and network infrastructure. The Oracle Enterprise Suite is a scalable and stable solution that provides a solid foundation upon which we are building our next generation Member facing Internet toolset. While we continue to invest in our information technology infrastructure, there can be no assurance that there will not be any significant interruptions to such systems or that the systems will be adequate to meet all of our future business needs.

The most important aspect of our information technology infrastructure is the system through which we record and track Member sales, Volume Points, royalty overrides, bonuses and other incentives. We have encountered, and may encounter in the future, errors in our software or our enterprise network, or inadequacies in the software and services supplied by our vendors, although to date none of these errors or inadequacies has had a meaningful adverse impact on our business. Any such errors or inadequacies that we may encounter in the future may result in substantial interruptions to our services and may damage our relationships with, or cause us to lose, our Members if the errors or inadequacies impair our ability to track sales and pay royalty overrides, bonuses and other incentives, which would harm our financial condition and operating results. Such errors may be expensive or difficult to correct in a timely manner, and we may have little or no control over whether any inadequacies in software or services supplied to us by third parties are corrected, if at all.

Our ability to effectively manage our network of Members, and to ship products, and track royalty and bonus payments on a timely basis, depends significantly on our information systems. The failure of our information systems to operate effectively, or a breach in security of these systems, could adversely impact the promptness and accuracy of our product distribution and transaction processing. We could be required to make significant additional expenditures to remediate any such failure, problem or breach.

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

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

A substantial portion of our products are manufactured at third party contract manufacturers. We cannot assure you that our outside contract manufacturers will continue to reliably supply products to us at the levels of quality, or the quantities, we require, and in compliance with applicable laws, including under the FDA's cGMP regulations, 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 the full operationalization of the Winston-Salem Facility, while unlikely, could hamper our ability to support the continued growth in net sales.

Our product supply contracts generally have a three-year term. Except for force majeure events such as natural disasters and other acts of God, and non-performance by Herbalife, our manufacturers generally cannot unilaterally terminate these contracts. These contracts can generally be extended by us at the end of the relevant time period and we have exercised this right in the past. Globally, we have over 50 product suppliers, with Fine Foods (Italy) being a major supplier for meal replacements, protein powders and nutritional supplements. Additionally, we use contract manufacturers in India, Brazil, Korea, Japan, Taiwan, Germany and the Netherlands to support our global business. In the event any of our contract manufacturers were to become unable or unwilling to continue to provide us with products in required volumes and at suitable quality levels, we would be required to identify and obtain acceptable replacement manufacturing sources. There is no assurance that we would be able to obtain alternative manufacturing sources on a timely basis. An extended interruption in the supply of products would result in the loss of sales. In addition, any actual or perceived degradation of product quality as a result of reliance on contract manufacturers may have an adverse effect on sales or result in increased product returns and buybacks. Also, as we experience ingredient and product price pressure in the areas of fructose, 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 these to occur it is possible that this could diminish the value of these marks or otherwise impair our further use of these marks.

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

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

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

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

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

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

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

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

For 2015, 2014 and 2013, our Formula 1 Healthy Meal, our best-selling product line, approximated 30% of our net sales. If consumer demand for this product decreases significantly or we cease offering this product without a suitable replacement, then our financial condition and operating results would be harmed.

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

We 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.

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

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

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

Our credit facility contains financial and operating covenants that restrict our and our subsidiaries' ability to, among other things:

- pay dividends, redeem share capital or capital stock and make other restricted payments and investments;
- incur or guarantee additional debt;
- impose dividend or other distribution restrictions on our subsidiaries; and
- create liens on our and our subsidiaries' assets.

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

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

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





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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our Members are subject to taxation, and in some instances, legislation or governmental agencies impose an obligation on us to collect taxes, such as value added taxes and social contributions, and to maintain appropriate records. In addition, we are subject to the risk in some jurisdictions of being responsible for social security, withholding or other taxes with respect to payments to our Members. In addition, in the event that local laws and regulations or the interpretation of local laws and regulations change to require us to treat our Members as employees, or that our Members are deemed by local regulatory authorities in one or more of the jurisdictions in which we operate to be our employees rather than independent contractors under existing laws and interpretations, we may be held responsible for social contributions, withholding and related taxes in those jurisdictions, plus any related assessments and penalties, which could harm our financial condition and operating results. See Note 5, Contingencies, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a more specific discussion of contingencies related to the activities of our Members.

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

Our ingestible products include vitamins, minerals and botanicals and other ingredients and are classified as foods or dietary supplements and are not subject to pre-market regulatory approval in the United States. Our products could contain contaminated substances, and some of our products contain some ingredients that do not have long histories of human consumption. We rely upon published and unpublished safety information including clinical studies on ingredients used in our products and conduct limited clinical studies on some key products but not all products. Previously unknown adverse reactions resulting from human consumption of these ingredients could occur. As a marketer of dietary and nutritional supplements and other products that are ingested by consumers or applied to their bodies, we have been, and may again be, subjected to various product liability claims, including that the products contain contaminants, the products include inadequate instructions as to their uses, or the products include inadequate warnings concerning side effects and interactions with other substances. It is possible that widespread product liability claims could increase our costs, and adversely affect our revenues and operating income. Moreover, liability claims arising from a serious adverse event may increase our costs through higher insurance premiums and deductibles, and may make it more difficult to secure adequate insurance coverage in the future. In addition, our product liability insurance may fail to cover future product liability claims, thereby requiring us to pay substantial monetary damages and adversely affecting our business. Finally, given the higher level of self-insured retentions that we have accepted under our current product liability insurance policies, which are as high as approximately \$15 million, in certain cases we may be subject to the full amount of liability associated with any injuries, which could be substantial.

On February 6, 2004, the FDA banned the sale and use of dietary supplements containing botanical sources of ephedrine alkaloids. Until late 2002, we had sold Thermojetics® original green herbal tablets, Thermojetics® green herbal tablets and Thermojetics® gold herbal tablets, all of which contained ephedrine alkaloids. Accordingly, we run the risk of product liability claims related to the ingestion of ephedrine alkaloids contained in those products. We have been in the past, and may be in the future, named as a defendant in product liability lawsuits seeking to link the ingestion of certain of the aforementioned products to subsequent alleged medical problems suffered by plaintiffs. There can be no assurance that we will prevail if we are named as a defendant in the future to product liability lawsuits related to the ingestion of ephedrine alkaloids contained in those products.

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

Our corporate affairs are governed by our amended and restated memorandum and articles of association, by the Companies Law (2013 Revision), or the Companies Law, and the common law of the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as under statutes or judicial precedent in existence in jurisdictions in the United States. Therefore, shareholders may have more difficulty in protecting their interests in the face of actions by our management or board of directors than would shareholders of a corporation incorporated in a jurisdiction in the United States due to the comparatively less developed nature of Cayman Islands law in this area.

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

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

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

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

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

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

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

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

The Companies Law also contains separate statutory provisions that provide for the merger, reconstruction and amalgamation of companies. These are commonly referred to in the Cayman Islands as "schemes of arrangement."

The procedural and legal requirements necessary to consummate these transactions are more rigorous and take longer to complete than the procedures typically required to consummate a merger in the United States. Under Cayman Islands law and practice, a scheme of arrangement in relation to a solvent Cayman Islands company must be approved at a shareholders' meeting by a majority of each class of the company's shareholders who are present and voting (either in person or by proxy) at such meeting. The shares voted in favor of the scheme of arrangement must also represent at least 75% of the value of each relevant class of the company's shareholders present and voting at the meeting. The convening of these meetings and the terms of the amalgamation must also be sanctioned by the Grand Court of the Cayman Islands. Although there is no requirement to seek the consent of the creditors of the parties involved in the scheme of arrangement, the Grand Court typically seeks to ensure that the creditors have consented to the transfer of their liabilities to the surviving entity or that the scheme of arrangement does not otherwise materially adversely affect creditors' interests. Furthermore, the court will only approve a scheme of arrangement if it is satisfied that:

- the statutory provisions as to majority vote have been complied with;



- the shareholders who voted at the meeting in question fairly represent the relevant class of shareholders to which they belong;
- the scheme of arrangement is such as a businessman would reasonably approve; and
- the scheme of arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

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

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

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

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

We have been advised by our Cayman Islands counsel, Maples and Calder, that although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, the courts of the Cayman Islands will — based on the principle that a judgment by a competent foreign court imposes upon the judgment debtor an obligation to pay the sum for which judgment has been given — recognize and enforce a foreign judgment of a court of competent jurisdiction if such judgment is final, for a liquidated sum, not in respect of taxes or a fine or penalty, is not inconsistent with a Cayman Islands judgment in respect of the same matters, and was not obtained in a manner, and is not of a kind, the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands. There is doubt, however, as to whether the Grand Court of the Cayman Islands will (1) recognize or enforce judgments of U.S. courts predicated upon the civil liability provisions of the federal securities laws of the United States or any state of the United States, or (2) in original actions brought in the Cayman Islands, impose liabilities predicated upon the civil liability provisions of the federal securities laws of the United States or any state of the United States, on the grounds that such provisions are penal in nature.

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

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) None

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

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Item 5. Other Information

(a) None

(b) None.

Item 6. Exhibits

(a) Exhibit Index:

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## EXHIBIT INDEX

## Exhibit

Number	Description	Reference
3.1	Form of Amended and Restated Memorandum and Articles of Association of Herbalife Ltd.	(j)
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	(g)
4.3	Form of Global Note for 2.00% Convertible Senior Note due 2019 (included as Exhibit A to Exhibit 4.2 hereto)	(g)
10.1#	Herbalife International of America, Inc.'s Senior Executive Deferred Compensation Plan, effective January 1, 1996, as amended	(a)
10.2#	Herbalife International of America, Inc.'s Management Deferred Compensation Plan, effective January 1, 1996, as amended	(a)
10.3#	Herbalife International Inc. 401K Profit Sharing Plan and Trust, as amended	(a)
10.4	Notice to Distributors regarding Amendment to Agreements of Distributorship, dated as of July 18, 2002 between Herbalife International, Inc. and each Herbalife Distributor	(a)
10.5#	Side Letter Agreement dated as of April 3, 2003 by and among WH Holdings (Cayman Islands) Ltd., Michael O. Johnson and the Shareholders listed therein	(a)
10.6	Form of Indemnification Agreement between Herbalife Ltd. and the directors and certain officers of Herbalife Ltd.	(b)
10.7#	Amended and Restated Herbalife Ltd. 2005 Stock Incentive Plan	(j)
10.8#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement	*
10.9#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement	*
10.10#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Michael O. Johnson.	*
10.11#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Richard P. Goudis.	*
10.12#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Michael O. Johnson.	(d)

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

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Exhibit

Number	Description	Reference
10.22#	Herbalife Ltd. Amended and Restated Independent Directors Deferred Compensation and Stock Unit Plan	(j)
10.23#	Amended and Restated Employment Agreement by and between Richard P. Goudis and Herbalife International of America, Inc., dated as of January 1, 2010	(k)
10.24#	First Amendment to the Amended and Restated Employment Agreement by and between Richard P. Goudis and Herbalife International of America, Inc., dated as of December 28, 2010	(l)
10.25#	Amended and Restated Non-Management Directors Compensation Plan	(k)
10.26#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Non-Employee Directors Stock Appreciation Right Award Agreement	(k)
10.27#	Severance Agreement by and between John DeSimone and Herbalife International of America, Inc., dated as of February 23, 2011	*
10.28#	Amended and Restated Severance Agreement, dated as of February 23, 2011, by and between Desmond Walsh and Herbalife International of America, Inc.	*
10.29	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	*
10.30	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	(d)
10.31#	Amendment to Amended and Restated Herbalife Ltd. 2005 Stock Incentive Plan	*
10.32	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	(f)
10.33	Form of Forward Share Repurchase Confirmation	(g)
10.34	Form of Base Capped Call Confirmation	(g)
10.35	Form of Additional Capped Call Confirmation	(g)
10.36#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Performance Condition Stock Appreciation Right Award Agreement	(g)

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- 10.37 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. (h)
- 10.38# Amended and Restated Herbalife Ltd. 2014 Stock Incentive Plan. \*
- 10.39 Confirmation between Merrill Lynch International and Herbalife Ltd., dated May 6, 2014 (i)
- 10.40 Third Amendment to Credit Agreement dated as of May 4, 2015, among Herbalife Ltd., Herbalife International, Inc., Herbalife International Luxembourg S.a.R.L., the guarantors part thereto, the lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer. (j)
- 10.41# Herbalife Ltd. Executive Incentive Plan \*
- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer \*
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Exhibit

Number	Description	Reference
31.2	Rule 13a-14(a) Certification of Chief Financial Officer	*
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer	*
101.INS	XBRL Instance Document	*
101.SCH	XBRL Taxonomy Extension Schema Document	*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	*

\*Filed herewith.

#Management contract or compensatory plan or arrangement.

- (a) Previously filed on October 1, 2004 as an Exhibit to the Company's registration statement on Form S-1 (File No. 333-119485) and is incorporated herein by reference.
- (b) Previously filed on December 2, 2004 as an Exhibit to Amendment No. 4 to the Company's registration statement on Form S-1 (File No. 333-119485) and is incorporated herein by reference.
- (c) Previously filed on December 14, 2004 as an Exhibit to Amendment No. 5 to the Company's registration statement on Form S-1 (File No. 333-119485) and is incorporated herein by reference.
- (d) Previously filed on 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.
- (e) 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.
- (f) 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.
- (g) 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.
- (h) 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.
- (i) Previously filed on July 28, 2014 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 and is incorporated herein by reference.
- (j) Previously filed on May 5, 2015 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 and is incorporated herein by reference.
- (k) Previously filed on August 5, 2015 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 and is incorporated herein by reference.
- (l) Previously filed on February 25, 2016 as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and is incorporated herein by reference.



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: May 5, 2016