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

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**Form 10-Q**

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(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

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

Commission file number: 1-32381

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**HERBALIFE LTD.**

(Exact name of registrant as specified in its charter)

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

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

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

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

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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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

Number of shares of registrant's common shares outstanding as of July 23, 2014 was 91,782,311.

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**HERBALIFE LTD.**

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

**HERBALIFE LTD. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

	June 30, 2014	December 31, 2013
	(In thousands, except share and par value amounts)	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 773,517	\$ 972,974
Receivables, net of allowance for doubtful accounts of \$2,013 (2014) and \$2,211 (2013)	103,782	100,326
Inventories	343,447	351,201
Prepaid expenses and other current assets	206,654	148,774
Deferred income taxes	67,389	69,845
Total current assets	<u>1,494,789</u>	<u>1,643,120</u>
Property, at cost, net of accumulated depreciation and amortization of \$368,796 (2014) and \$327,864 (2013)	363,165	318,860
Deferred compensation plan assets	27,597	26,821
Deferred financing costs, net	25,677	4,896
Other assets	108,358	63,713
Marketing related intangibles and other intangible assets, net	310,608	310,801
Goodwill	105,490	105,490
Total assets	<u>\$ 2,435,684</u>	<u>\$ 2,473,701</u>
<b>LIABILITIES AND SHAREHOLDERS' (DEFICIT) EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 97,065	\$ 82,665
Royalty overrides	253,261	266,952
Accrued compensation	89,358	111,905
Accrued expenses	287,516	267,501
Current portion of long-term debt	93,751	81,250
Advance sales deposits	88,071	68,079
Income taxes payable	33,344	43,826
Total current liabilities	<u>942,366</u>	<u>922,178</u>
<b>NON-CURRENT LIABILITIES:</b>		
Long-term debt, net of current portion	1,744,236	850,019
Deferred compensation plan liability	41,795	37,226
Deferred income taxes	59,952	66,026
Other non-current liabilities	51,403	46,806
Total liabilities	<u>2,839,752</u>	<u>1,922,255</u>
<b>CONTINGENCIES</b>		
<b>SHAREHOLDERS' (DEFICIT) EQUITY:</b>		
Common shares, \$0.001 par value; 1.0 billion shares authorized; 91.8 million (2014) and 101.1 million (2013) shares outstanding	92	101
Paid-in-capital in excess of par value	398,436	323,860
Accumulated other comprehensive loss	(22,657)	(19,794)
(Accumulated deficit) retained earnings	(779,939)	247,279
Total shareholders' (deficit) equity	<u>(404,068)</u>	<u>551,446</u>
Total liabilities and shareholders' (deficit) equity	<u>\$ 2,435,684</u>	<u>\$ 2,473,701</u>

See the accompanying notes to unaudited condensed consolidated financial statements.

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u> <u>2014</u>	<u>June 30,</u> <u>2013</u>	<u>June 30,</u> <u>2014</u>	<u>June 30,</u> <u>2013</u>
	(In thousands, except per share amounts)			
Product sales	\$1,201,338	\$1,055,036	\$2,357,472	\$2,006,619
Shipping & handling revenues	104,862	164,203	211,377	336,267
Net sales	1,306,200	1,219,239	2,568,849	2,342,886
Cost of sales	257,221	247,224	508,386	473,201
Gross profit	1,048,979	972,015	2,060,463	1,869,685
Royalty overrides	390,774	379,551	772,593	743,580
Selling, general & administrative expenses	461,917	400,107	963,979	764,827
Operating income	196,288	192,357	323,891	361,278
Interest expense, net	21,406	5,559	36,367	10,932
Other expense, net	—	—	3,161	—
Income before income taxes	174,882	186,798	284,363	350,346
Income taxes	55,350	43,636	90,203	88,311
NET INCOME	<u>\$ 119,532</u>	<u>\$ 143,162</u>	<u>\$ 194,160</u>	<u>\$ 262,035</u>
Earnings per share:				
Basic	\$ 1.39	\$ 1.39	\$ 2.14	\$ 2.53
Diluted	\$ 1.31	\$ 1.34	\$ 2.02	\$ 2.44
Weighted average shares outstanding:				
Basic	86,113	102,993	90,732	103,551
Diluted	91,172	107,083	95,934	107,589
Dividends declared per share	—	\$ 0.30	\$ 0.30	\$ 0.60

See the accompanying notes to unaudited condensed consolidated financial statements.

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u> <u>2014</u>	<u>June 30,</u> <u>2013</u>	<u>June 30,</u> <u>2014</u>	<u>June 30,</u> <u>2013</u>
	(In thousands)			
Net income	\$119,532	\$143,162	\$194,160	\$262,035
Other comprehensive loss:				
Foreign currency translation adjustment, net of income taxes of \$1,615 and \$(1,506) for the three months ended June 30, 2014 and 2013, respectively, and \$1,542 and \$(1,811) for the six months ended June 30, 2014 and 2013, respectively	2,366	(9,247)	182	(17,931)
Unrealized (loss) gain on derivatives, net of income taxes of \$(210) and \$2,211 for the three months ended June 30, 2014 and 2013, respectively, and \$(314) and \$1,704 for the six months ended June 30, 2014 and 2013, respectively	(2,763)	6,675	(3,178)	5,343
Unrealized gain on available-for-sale investments, net of income taxes of \$121 and \$70 for the three and six months ended June 30, 2014, respectively	225	—	133	—
Total other comprehensive loss	(172)	(2,572)	(2,863)	(12,588)
Total comprehensive income	<u>\$119,360</u>	<u>\$140,590</u>	<u>\$191,297</u>	<u>\$249,447</u>

See the accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended	
	June 30, 2014	June 30, 2013
(In thousands)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 194,160	\$ 262,035
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	44,776	42,310
Excess tax benefits from share-based payment arrangements	(6,693)	(15)
Share-based compensation expenses	23,398	15,253
Non-cash interest expense	19,021	1,295
Deferred income taxes	(7,838)	(7,939)
Inventory write-downs	12,373	10,448
Unrealized foreign exchange transaction loss (gain)	2,532	(44)
Foreign exchange loss relating to Venezuela	86,108	15,116
Other	3,717	(674)
Changes in operating assets and liabilities:		
Receivables	(1,163)	(312)
Inventories	(2,409)	(14,094)
Prepaid expenses and other current assets	(50,669)	(13,150)
Other assets	(4,642)	(534)
Accounts payable	13,038	4,586
Royalty overrides	(12,113)	(2,051)
Accrued expenses and accrued compensation	16,661	43,761
Advance sales deposits	20,915	4,481
Income taxes	(8,158)	(12,546)
Deferred compensation plan liability	4,569	3,527
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>347,583</u>	<u>351,453</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(105,482)	(56,048)
Proceeds from sale of property, plant and equipment	11	33
Investments in Venezuelan bonds	(7,588)	—
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(113,059)</u>	<u>(56,015)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(30,400)	(61,823)
Dividends received	3,416	—
Payments for Capped Call Transactions	(123,825)	—
Borrowings from senior secured credit facility and other debt	—	513,227
Proceeds from senior convertible notes	1,150,000	—
Principal payments on senior secured credit facility and other debt	(37,500)	(38,250)
Issuance costs relating to long-term debt and senior convertible notes	(28,927)	—
Share repurchases	(1,277,929)	(165,726)
Excess tax benefits from share-based payment arrangements	6,693	15
Proceeds from exercise of stock options and sale of stock under employee stock purchase plan	2,039	971
<b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>	<u>(336,433)</u>	<u>248,414</u>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<u>(97,548)</u>	<u>(27,683)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(199,457)	516,169
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	972,974	333,534
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$ 773,517</u>	<u>\$ 849,703</u>
<b>CASH PAID DURING THE PERIOD</b>		
Interest paid	<u>\$ 14,417</u>	<u>\$ 12,004</u>
Income taxes paid	<u>\$ 109,337</u>	<u>\$ 117,120</u>
<b>NON CASH ACTIVITIES</b>		
Accrued capital expenditures	<u>\$ 13,090</u>	<u>\$ 8,040</u>

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 products, nutritional supplements, energy, sports & fitness products and personal care products. As of June 30, 2014, the Company sold its products to and through a network of 3.9 million independent members, or Members, which included 0.2 million in China. In China, the Company sells its products through retail stores, sales representatives, sales officers and independent service providers. The Company reports revenue in six geographic regions: North America; Mexico; South and Central America; EMEA, which consists of Europe, the Middle East and Africa; Asia Pacific (excluding China); and China.

**2. Significant Accounting Policies**

*Basis of Presentation*

The unaudited condensed interim financial information of the Company has been prepared in accordance with Article 10 of the Securities and Exchange Commission’s, or the SEC, Regulation S-X. Accordingly, as permitted by Article 10 of the SEC’s Regulation S-X, it does not include all of the information required by generally accepted accounting principles in the U.S., or U.S. GAAP, for complete financial statements. The condensed consolidated balance sheet at December 31, 2013 was derived from the audited financial statements at that date and does not include all the disclosures required by U.S. GAAP, as permitted by Article 10 of the SEC’s Regulation S-X. The Company’s unaudited condensed consolidated financial statements as of June 30, 2014, and for the three and six months ended June 30, 2014 and 2013, include Herbalife and all of its direct and indirect subsidiaries. In the opinion of management, the accompanying financial information contains all adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company’s unaudited condensed consolidated financial statements as of June 30, 2014, and for the three and six months ended June 30, 2014 and 2013. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2013, or the 2013 10-K. Operating results for the three and six months ended June 30, 2014, are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

*New Accounting Pronouncements*

In April 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. This ASU changes the threshold for a disposal to qualify as a discontinued operation. To be considered a discontinued operation a disposal now must represent a strategic shift that has or will have a major effect on an entity’s operations and financial results. This ASU also requires new disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. This update will be applied prospectively and is effective for annual periods, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted provided the disposal was not previously disclosed. The adoption of this guidance will not have a material impact on the Company’s consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new revenue recognition standard provides a five-step analysis of transactions 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. This ASU is effective for annual periods beginning after December 15, 2016 and shall be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, *Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force)*. This ASU clarifies that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. This ASU is effective for

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annual periods, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted. This ASU may be applied either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The adoption of this guidance will not have a material impact on the Company's consolidated financial statements.

### *Reclassifications*

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

### *Venezuela*

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

In February 2013, the Venezuela government announced that it devalued its Bolivar currency and eliminated the SITME regulated system. The SITME 5.3 Bolivars per U.S. dollar rate was eliminated and the CADIVI rate was devalued from 4.3 Bolivars to 6.3 Bolivars per U.S. dollar. This CADIVI rate was approximately 16% less favorable than the previously published 5.3 SITME rate. The Company recognized approximately \$15.1 million of net foreign exchange losses within its condensed consolidated statement of income for the six months ended June 30, 2013, as a result of remeasuring the Company's Bolivar denominated monetary assets and liabilities at the CADIVI rate of 6.3 Bolivars per U.S. dollar.

In March 2013, the Venezuelan government also announced they will introduce an additional complimentary exchange mechanism known as SICAD. During the fourth quarter of 2013, the Company received an approval through the SICAD mechanism for a bid of approximately 6.8 million Bolivars, or approximately \$1.1 million U.S. dollars remeasured using the CADIVI rate, for a distribution of approximately \$0.6 million in U.S. dollars, which resulted in a foreign exchange loss of approximately \$0.5 million during the fourth quarter of 2013, or an effective exchange rate of 11.3 Bolivars per U.S. dollar.

During the first quarter of 2014, the Venezuelan government announced the establishment of CENCOEX which replaced the previous foreign exchange commission, CADIVI. Also, during the first quarter of 2014, additional activities, such as processing of dividend payments, which were previously administered by CADIVI, are now required to be processed at the SICAD auction rate, or SICAD I rate. During March 2014, the government introduced an additional exchange mechanism known as SICAD II. During March 2014, the Company submitted a SICAD II bid to exchange its 5.3 million Bolivars for \$0.1 million U.S. dollars which was approved and resulted in the Company recognizing a \$0.7 million U.S. dollar foreign exchange loss at an effective exchange rate of approximately 56.2 Bolivars per U.S. dollar. The Company continues to evaluate the viability of this SICAD II mechanism and its public availability and accessibility to the Company in future periods. The SICAD II mechanism is still in its early stages and there is limited information being published around this mechanism so it is currently difficult to determine how the SICAD II mechanism functions and if there are any volume constraints around this mechanism.

Based on the events above and the Company's facts and circumstances, the Company remeasured its financial statements at the SICAD I rate of 10.7 Bolivars per U.S. dollar at March 31, 2014. As a result of using the less favorable SICAD I rate for remeasurement, during the three months ended March 31, 2014 the Company's cash and cash equivalents were reduced by approximately \$96.0 million, and the Company recognized \$86.1 million of foreign exchange losses in selling, general & administrative expenses within its condensed consolidated statement of income. The Company continues to use the SICAD I rate for remeasurement which was 10.6 Bolivars per U.S. dollar at June 30, 2014.

As of June 30, 2014, if the Company had used the SICAD II rate of approximately 50 Bolivars per U.S. dollar to remeasure its net monetary assets and liabilities denominated in Bolivars, the Company would have incurred an additional approximate foreign exchange loss of \$109.5 million during the three and six months ended June 30, 2014, and its Herbalife Venezuela cash and cash equivalents would have been further reduced by approximately \$120.2 million at June 30, 2014.



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

As of June 30, 2014, the Company's net monetary assets and liabilities denominated in Bolivars were approximately \$138.9 million, and included approximately \$152.6 million in Bolivar denominated cash and cash equivalents. These Bolivar denominated assets and liabilities were remeasured at the SICAD I rate. These remeasured amounts, including cash and cash equivalents, being reported on the Company's condensed consolidated balance sheet using the published official SICAD I rate may not accurately represent the amount of U.S. dollars that the Company could ultimately realize. Herbalife Venezuela's net sales represented approximately 4% of the Company's consolidated net sales for both the six months ended June 30, 2014 and 2013, and its total assets represented approximately 7% and 10% of the Company's consolidated total assets as of June 30, 2014 and December 31, 2013, respectively. As of June 30, 2014 and December 31, 2013, the majority of Herbalife Venezuela's total assets consisted of Bolivar denominated cash and cash equivalents.

### Investments in Bolivar-Denominated Bonds

During the three and six months ended June 30, 2014, the Company invested in additional Bolivar denominated bonds with a purchase price of 45.1 million and 65.4 million Bolivars, respectively, or approximately \$4.3 million and \$7.6 million, respectively. The Company classifies these bonds as long-term available-for-sale investments which are carried at fair value, inclusive of unrealized gains and losses, and net of discount accretion and premium amortization. The fair value of these bonds is determined using Level 2 inputs which include prices of similar assets traded in active markets in Venezuela and observable yield curves. Net unrealized gains and losses on these bonds are included in other comprehensive income (loss) and are net of applicable income taxes. During the three months and six months ended June 30, 2014, the Company did not sell any of its bonds.

The Company's investments in Bolivar denominated bonds as of June 30, 2014 are summarized as follows:

	Amortized Costs	Gross Unrealized Gain	Gross Unrealized Loss	Net Unrealized Gain	Market Value
	(In thousands)				
Investments in Venezuelan bonds	\$ 8,453	\$ 411	\$ (64)	\$ 347	\$8,800

The Company evaluates securities for other-than-temporary impairment on a quarterly basis. The impairment evaluation considers numerous factors, and their relative significance varies depending on the situation. Factors considered include the length of time and extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer of the securities; when applicable, the foreign exchange rates that are available to the Company; and the intent and ability of the Company to retain the security in order to allow for an anticipated recovery in fair value. If, based upon the analysis, it is determined that the impairment is other-than-temporary, the security is written-down to fair value, and a loss is recognized in other expense, net in the Company's condensed consolidated income statement. Other-than-temporary impairments relating to available-for-sale securities for the three months ended March 31, 2014 was \$3.2 million which was primarily due to the less favorable SICAD I rate being used to determine the U.S. dollar equivalent fair value of these Bolivar denominated bonds as opposed to the previous CADIVI rate. There were no other-than-temporary impairments related to available-for-sale securities during the three months ended June 30, 2014.

The amortized cost and estimated fair value of these bonds as of June 30, 2014 by contractual maturity are as follows:

	Amortized Cost	Estimated Market Value
	(In thousands)	
<b>Contractual Maturity</b>		
Due in 1 year or less	\$ —	\$ —
Due in 1-2 years	—	—
Due in 2-5 years	—	—
Due after 5 years	8,453	8,800
Total investments	<u>\$ 8,453</u>	<u>\$ 8,800</u>

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

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

### 3. Inventories

Inventories consist primarily of finished goods available for resale. Inventories are stated at lower of cost (primarily on the first-in, first-out basis) or market. The following are the major classes of inventory:

	June 30, 2014	December 31, 2013
	(In millions)	
Raw materials	\$ 42.2	\$ 23.1
Work in process	4.5	2.8
Finished goods	296.7	325.3
Total	<u>\$ 343.4</u>	<u>\$ 351.2</u>

### 4. Long-Term Debt

Long-term debt consists of the following:

	June 30, 2014	December 31, 2013
	(In millions)	
Borrowings under the senior secured credit facility	\$ 893.8	\$ 931.3
Convertible senior notes, carrying value of liability component	944.2	—
Total	1,838.0	931.3
Less: current portion	93.8	81.3
Long-term portion	<u>\$1,744.2</u>	<u>\$ 850.0</u>

#### Senior Secured Credit Facility

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

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

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

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

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In February 2014, in connection with issuing the \$1.15 billion Convertible Notes described below, the Company amended the Credit Facility. Pursuant to this amendment, the Company amended the terms of the Credit Facility to provide for technical amendments to the indebtedness, asset sale and dividend covenants and the cross-default event of default to accommodate the issuance of the Convertible Notes and the capped call and prepaid forward share repurchase transactions described in greater detail in Note 10, *Shareholders' (Deficit) Equity*. The amendment also increased by 0.50% the highest applicable margin payable by Herbalife in the event that Herbalife's consolidated total leverage ratio is equal to or exceeds 2.50 to 1.00 and increased the permitted consolidated total leverage ratio of Herbalife under the Credit Facility. The Company incurred approximately \$2.3 million of debt issuance costs in connection with the amendment. The debt issuance costs are recorded as deferred financing costs on the Company's consolidated balance sheet and will be amortized over the life of the Credit Facility. On June 30, 2014 and December 31, 2013, the weighted average interest rate for borrowings under the Credit Facility, including borrowings under the Term Loan, was 3.01% and 2.17%, respectively.

The Credit Facility requires the Company to comply with a leverage ratio and a coverage ratio. In addition, the Credit Facility contains customary covenants, including covenants that limit or restrict the Company's ability to incur liens, incur indebtedness, make investments, dispose of assets, make certain restricted payments, pay dividends, repurchase its common shares, merge or consolidate and enter into certain transactions with affiliates. As of June 30, 2014, and December 31, 2013, the Company was compliant with its debt covenants under the Credit Facility.

During the three months ended March 31, 2014, the Company repaid a total amount of \$18.8 million under the Credit Facility. During the three months ended June 30, 2014, the Company repaid a total amount of \$18.8 million under the Credit Facility. As of June 30, 2014, and December 31, 2013, the U.S. dollar amount outstanding under the Credit Facility was \$893.8 million and \$931.3 million, respectively. Of the \$893.8 million U.S. dollar amount outstanding under the Credit Facility as of June 30, 2014, \$393.8 million was outstanding on the Term Loan and \$500.0 million was outstanding on the revolving credit facility. Of the \$931.3 million U.S. dollar amount outstanding under the Credit Facility as of December 31, 2013, \$431.3 million was outstanding on the Term Loan and \$500.0 million was outstanding on the revolving credit facility. There were no outstanding foreign currency borrowings as of June 30, 2014 and December 31, 2013 under the Credit Facility.

The fair value of the outstanding borrowings on the Company's revolving credit facility and Term Loan approximated their carrying values as of June 30, 2014, due to their variable interest rates which reprice frequently and represent floating market rates. The fair value of the outstanding borrowings on the Company's revolving credit facility and Term Loan are determined by utilizing Level 2 inputs as defined in Note 12, *Fair Value Measurements*, such as observable market interest rates and yield curves.

### *Convertible Senior Notes*

During February 2014, the Company initially issued \$1 billion aggregate principal amount of convertible senior notes, or Convertible Notes, in a private offering to qualified institutional buyers, pursuant to Rule 144A under the Securities Act of 1933, as amended. The Company granted an option to the initial purchasers to purchase up to an additional \$150 million aggregate principal amount of Convertible Notes which was subsequently exercised in full during February 2014, resulting in a total issuance of \$1.15 billion aggregate principal amount of Convertible Notes. The Convertible Notes pay interest at a rate of 2.00% per annum payable semiannually in arrears on February 15 and August 15 of each year, beginning on August 15, 2014. The Convertible Notes mature on August 15, 2019, unless earlier repurchased or converted. The Company may not redeem the Convertible Notes prior to their stated maturity date. Holders of the Convertible Notes may convert their notes at their option under the following circumstances: (i) during any calendar quarter commencing after the calendar quarter ending March 31, 2014, if the last reported sale price of the Company's common shares for at least 20 trading days (whether or not consecutive) in a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter exceeds 130% of the conversion price for the Convertible Notes on each applicable trading day; (ii) during the five business-day period immediately after any five consecutive trading day period, which we refer to as the measurement period, in which the trading price per \$1,000 principal amount of Convertible Notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of 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 to deferred financing costs and additional paid-in capital, respectively, in proportion to the allocation of the proceeds of the Convertible Notes. The \$21.5 million recorded to deferred financing costs on the Company's consolidated balance sheet is being amortized over the contractual term of the Convertible Notes using the effective interest method.

During February 2014, the \$1.15 billion proceeds received from the issuance of the Convertible Notes were initially allocated between long-term debt, or liability component, and additional paid-in-capital, or equity component, within the Company's condensed

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

As of June 30, 2014, the outstanding principal on the Convertible Notes was \$1.15 billion, the unamortized debt discount was \$205.8 million, and the carrying amount of the liability component was \$944.2 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 June 30, 2014, the fair value of the liability component relating to the Convertible Notes was approximately \$911.3 million. At June 30, 2014, the Company determined the fair value of the liability component of the Convertible Notes by reviewing market data that was available for publicly traded, senior, unsecured nonconvertible corporate bonds issued by companies with similar credit ratings. Assumptions used in the estimate represent what market participants would use in pricing the liability component, including market interest rates, credit standing, and yield curves, all of which are defined as Level 2 observable inputs. The Company also used a lattice model, which primarily included Level 2 inputs such as stock price, volatility, debt yield and dividend yield rates when applicable, and Level 3 inputs, such as the price of the Convertible Notes at June 30, 2014. Since the Convertible Notes are not publicly traded, the price of the Convertible Notes at June 30, 2014, was obtained from third party sources; these third party sources used Level 3 inputs, including private transactions, bid and offer prices, and other market adjustments in order to determine the price of the Convertible Notes at June 30, 2014. This valuation approach was similar to the approach the Company used to determine the initial fair value of the liability component of the Convertible Notes on the February 7, 2014, issuance date except that the price of the Convertible Notes on the February 7, 2014, issuance date would not be considered a Level 3 input as the Convertible Notes price paid by the market participants on the issuance date was an observable input.

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

During the three and six months ended June 30, 2014, the Company recognized \$15.2 million and \$24.0 million, respectively, of interest expense relating to the Convertible Notes, which included \$8.5 million and \$13.3 million, respectively, relating to non-cash interest expense relating to the debt discount and \$0.9 million and \$1.4 million, respectively, relating to amortization of deferred financing costs. The Company's total interest expense, including the Credit Facility, was \$24.2 million and \$7.5 million for the three months ended June 30, 2014 and 2013, respectively, and \$41.9 million and \$14.3 million for the six months ended June 30, 2014 and 2013, respectively, which was recognized within its condensed consolidated statement of income.

As of June 30, 2014, the aggregate annual maturities of the Credit Facility were expected to be \$43.8 million for the remainder of 2014, \$100.0 million for 2015, and \$750.0 million for 2016. The \$1.15 billion Convertible Notes are due 2019.

## **5. Contingencies**

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

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

Certain of the Company's subsidiaries have been subject to tax audits by governmental authorities in their respective countries. In certain of these tax audits, governmental authorities are proposing that significant amounts of additional taxes and related interest and penalties are due. The Company and its tax advisors believe that there are substantial defenses to governmental allegations that additional taxes are owed, and the Company is vigorously contesting the additional proposed taxes and related charges. On May 7, 2010, the Company received an assessment from the Mexican Tax Administration Service in an amount equivalent to approximately \$88 million, translated at the period ended spot rate, for various items, the majority of which was Value Added Tax, or VAT, allegedly owed on certain of the Company's products imported into Mexico during the years 2005 and 2006. This assessment is subject to interest and inflationary adjustments. On July 8, 2010, the Company initiated a formal administrative appeal process. On May 13, 2011, the Mexican Tax Administration Service issued a resolution on the Company's administrative appeal. The resolution nullified

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the assessment. Since the Mexican Tax Administration Service can further review the tax audit findings and re-issue some or all of the original assessment, the Company commenced litigation in the Tax Court of Mexico in August 2011 to dispute the assertions made by the Mexican Tax Administration Service in the case. The Mexican Tax Administration Service filed a response which was received by the Company in April 2012. The response challenged the assertions that the Company made in its August 2011 filing. Litigation in this case is currently ongoing.

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

The Mexican Tax Administration Service commenced audits of the Company's Mexican subsidiaries for the period from January to September 2007 and on May 10, 2013, the Company received an assessment of approximately \$23 million, translated at the period ended spot rate, related to that period. On July 11, 2013, the Company filed an administrative appeal disputing the assessment. In addition, the Mexican Tax Administration Service has requested additional information in response to Company filings for VAT refunds. The Company has not recognized a loss as the Company does not believe a loss is probable.

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

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

The Mexican Tax Administration Service has requested information related to the Company's 2010 year. This information has been provided.

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

The Company received a tax assessment in September 2009, from the Federal Revenue Office of Brazil in an amount equivalent to approximately \$3.9 million U.S. dollars, translated at the period ended spot rate, related to withholding/contributions based on payments to the Company's Members during 2004. The Company has appealed this tax assessment to the Administrative Council of Tax Appeals (2nd level administrative appeal) as it believes it has meritorious defenses and it has not recognized a loss as the Company does not believe a loss is probable. On March 6, 2014, the Company was notified of a similar audit of the 2011 year. The Company is currently unable to reasonably estimate the amount of the loss that may result from an unfavorable outcome if additional assessments for other periods were to be issued.

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

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

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*Bostick, et al., v. Herbalife Int'l of Am., Inc., et al.* On April 8, 2013, Herbalife Ltd. and certain of its subsidiaries were named as defendants in a suit filed in the U.S. District Court for the Central District of California, challenging Herbalife's marketing practices and business structure under California laws prohibiting "endless chain schemes," unfair and deceptive business practices, and false advertising, as well as federal RICO statutes. On July 7, 2014, the complaint was amended to add additional plaintiffs. The plaintiffs seek damages in an unspecified amount. The federal RICO claim was dismissed and a class has not been certified to date. The remaining claims are proceeding, and a trial has been set to commence on April 21, 2015. The Company is currently unable to estimate the range of reasonably possible losses that could result from an unfavorable outcome given the early procedural stage of the matter, the inherent difficulty in predicting the outcome of these types of matters, including in particular the outcome of trials, and the additional levels of judicial review available to the Company in the event of an adverse trial verdict. The Company believes it has numerous defenses to the suit, and intends to vigorously defend against the claims.

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

## 6. Segment Information

The Company is a nutrition company that sells a wide range of weight management products, nutritional supplements, energy, sports & fitness products and personal care products. The Company's products are manufactured by third party providers and by the Company in its Changsha, Hunan, China extraction facility, Suzhou, China facility, 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 June 30, 2014, the Company sold products in 91 countries throughout the world and was organized and managed by geographic regions. The Company aggregates its operating segments, excluding China, into one reporting segment, or the Primary Reporting Segment, as management believes that the Company's operating segments have similar operating characteristics and similar long term operating performance. In making this determination, management believes that the operating segments are similar in the nature of the products sold, the product acquisition process, the types of customers to whom products are sold, the methods used to distribute the products, and the nature of the regulatory environment. China has been identified as a separate reporting segment as it does not meet the criteria for aggregation. The operating information for the Primary Reporting Segment and China, and sales by product line are as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	(In millions)			
<b>Net Sales:</b>				
Primary Reporting Segment				
United States	\$ 245.0	\$ 241.7	\$ 487.3	\$ 457.9
Mexico	148.6	145.6	291.3	278.5
South Korea	117.9	112.0	216.9	222.0
Others	624.6	601.9	1,267.4	1,197.9
Total Primary Reporting Segment	1,136.1	1,101.2	2,262.9	2,156.3
China	170.1	118.0	305.9	186.6
Total Net Sales	<u>\$1,306.2</u>	<u>\$1,219.2</u>	<u>\$2,568.8</u>	<u>\$2,342.9</u>
<b>Contribution Margin(1)(2):</b>				
Primary Reporting Segment				
United States	\$ 101.9	\$ 99.5	\$ 205.8	\$ 194.2
Mexico	64.1	64.0	125.5	122.6
South Korea	62.9	56.4	118.3	111.6
Others	277.0	266.8	561.7	531.3
Total Primary Reporting Segment	505.9	486.7	1,011.3	959.7
China	152.3	105.8	276.7	166.3
Total Contribution Margin	<u>\$ 658.2</u>	<u>\$ 592.5</u>	<u>\$1,288.0</u>	<u>\$1,126.0</u>
Selling, general and administrative expenses(2)	461.9	400.1	964.0	764.8
Interest expense, net	21.4	5.6	36.4	10.9
Other expense, net	—	—	3.2	—
Income before income taxes	174.9	186.8	284.4	350.3
Income taxes	55.4	43.6	90.2	88.3
Net Income	<u>\$ 119.5</u>	<u>\$ 143.2</u>	<u>\$ 194.2</u>	<u>\$ 262.0</u>

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	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
(In millions)				
<b>Net sales by product line:</b>				
Weight Management	843.5	\$ 778.2	\$ 1,651.1	\$ 1,489.8
Targeted Nutrition	286.1	277.5	570.1	534.4
Energy, Sports and Fitness	68.9	65.1	135.6	123.4
Outer Nutrition	47.0	37.8	86.7	76.0
Literature, promotional and other(3)	60.7	60.6	125.3	119.3
Total Net Sales	<u>\$1,306.2</u>	<u>\$1,219.2</u>	<u>\$2,568.8</u>	<u>\$2,342.9</u>
<b>Net sales by geographic region:</b>				
North America	250.6	\$ 247.5	\$ 498.4	\$ 469.0
Mexico	148.6	145.6	291.3	278.5
South and Central America	203.3	222.5	448.0	441.9
EMEA	227.3	186.4	438.5	355.9
Asia Pacific	306.3	299.2	586.7	611.0
China	170.1	118.0	305.9	186.6
Total Net Sales	<u>\$1,306.2</u>	<u>\$1,219.2</u>	<u>\$2,568.8</u>	<u>\$2,342.9</u>

- (1) Contribution margin consists of net sales less cost of sales and royalty overrides.
- (2) Service fees to China independent service providers totaling \$80.8 million and \$53.2 million for the three months ended June 30, 2014 and 2013, respectively, and totaling \$142.5 million and \$84.7 million for the six months ended June 30, 2014 and 2013, respectively, are included in selling, general and administrative expenses while Member compensation for all other countries is included in contribution margin.
- (3) Product buybacks and returns in all product categories are included in the literature, promotional and other category.

As of June 30, 2014 and December 31, 2013, total assets for the Company's Primary Reporting Segment were \$2,158.1 million and \$2,253.7 million, respectively. Total assets for the China segment were \$277.6 million and \$220.0 million as of June 30, 2014 and December 31, 2013, respectively. As of both June 30, 2014 and December 31, 2013, goodwill allocated to the Company's reporting units included in the Company's Primary Reporting Segment was \$102.4 million. Goodwill allocated to the China segment was \$3.1 million as of both June 30, 2014 and December 31, 2013.

## 7. Share-Based Compensation

The Company has share-based compensation plans, which are more fully described in Note 9, *Share-Based Compensation*, to the Consolidated Financial Statements in the 2013 10-K. During the six months ended June 30, 2014, the Company granted stock awards subject to service conditions and to service and performance conditions, consisting of stock appreciation rights, or SARs, and stock units with vesting terms fully described in the 2013 10-K.

For the three months ended June 30, 2014 and 2013, share-based compensation expense amounted to \$12.4 million and \$7.4 million, respectively. For the six months ended June 30, 2014 and 2013, share-based compensation expense amounted to \$23.4 million and \$15.3 million, respectively. As of June 30, 2014, the total unrecognized compensation cost related to all non-vested stock awards was \$74.7 million and the related weighted-average period over which it is expected to be recognized is approximately 1.7 years.

The following tables summarize the activity under all share-based compensation plans for the six months ended June 30, 2014:

Stock Options & SARs	Awards (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value(1) (In millions)
Outstanding at December 31, 2013(2) (3) (4)	12,143	\$ 33.24	5.3 years	\$ 552.9
Granted	1,509	\$ 60.13		
Exercised	(757)	\$ 20.04		
Forfeited	(53)	\$ 59.12		
Outstanding at June 30, 2014(2) (3) (4)	<u>12,842</u>	\$ 37.07	5.4 years	\$ 369.1
Exercisable at June 30, 2014(2)	<u>8,311</u>	\$ 25.61	4.0 years	\$ 327.4



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- (1) The intrinsic value is the amount by which the current market value of the underlying stock exceeds the exercise price of the stock awards.
- (2) Includes 1.5 million market condition SARs.
- (3) Includes 0.9 million market and performance condition SARs.
- (4) Includes 0.4 million and 1.0 million performance condition SARs as of December 31, 2013 and June 30, 2014, respectively. The Company granted 0.6 million performance condition awards during the three months ended June 30, 2014.

The weighted-average grant date fair value of SARs granted during the three months ended June 30, 2014 and 2013 was \$25.99 and \$12.68, respectively. The weighted-average grant date fair value of SARs granted during the six months ended June 30, 2014 and 2013 was \$26.02 and \$11.85, respectively. The total intrinsic value of stock options and SARs exercised during the three months ended June 30, 2014 was \$20.1 million. There were no exercises of stock options and SARs during the three months ended June 30, 2013. The total intrinsic value of stock options and SARs exercised during the six months ended June 30, 2014 and 2013 was \$35.0 million and \$0.3 million, respectively.

<u>Incentive Plan and Independent Directors Stock Units</u>	<u>Shares</u> <u>(In thousands)</u>	<u>Weighted</u> <u>Average</u> <u>Grant Date</u> <u>Fair Value</u>
Outstanding and nonvested December 31, 2013	144.5	\$ 14.36
Granted	28.1	\$ 59.98
Vested	(130.9)	\$ 8.91
Forfeited	(4.1)	\$ 38.58
Outstanding and nonvested at June 30, 2014	<u>37.6</u>	<u>\$ 64.89</u>

The total vesting date fair value of stock units which vested during the three months ended June 30, 2014 and 2013, was \$0.3 million and \$2.5 million, respectively. The total vesting date fair value of stock units which vested during the six months ended June 30, 2014 and 2013, was \$8.5 million and \$6.8 million, respectively.

The Company recognizes excess tax benefits associated with share-based compensation to shareholders' (deficit) equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, the Company follows the with-and-without approach. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company, which are also subject to applicable limitations. As of June 30, 2014 and December 31, 2013, the Company had \$18.2 million and \$15.4 million, respectively, of unrealized excess tax benefits.

## 8. Income Taxes

Income taxes were \$55.4 million and \$90.2 million for the three and six months ended June 30, 2014, respectively, as compared to \$43.6 million and \$88.3 million for the same periods in 2013. The effective income tax rate was 31.6% and 31.7% for the three and six months ended June 30, 2014, respectively, as compared to 23.4% and 25.2% for the same periods in 2013. The increase in the effective tax rate for the three and six months ended June 30, 2014, as compared to the same periods in 2013, was primarily due to the inability to fully realize a tax benefit relating to Herbalife Ltd.'s interest expense and Herbalife Venezuela's foreign exchange losses, the impact of changes in the geographic mix of the Company's income, and a decrease in net benefits from discrete events, principally related to favorable tax audit settlements in the comparative 2013 periods.

As of June 30, 2014, the total amount of unrecognized tax benefits, including related interest and penalties was \$40.4 million. If the total amount of unrecognized tax benefits was recognized, \$32.9 million of unrecognized tax benefits, \$4.5 million of interest and \$1.0 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 \$9.9 million within the next twelve months. Of this possible decrease, \$6.4 million would be due to the settlement of audits or resolution of administrative or judicial proceedings. The remaining possible decrease of \$3.5 million would be due to the expiration of statute of limitations in various jurisdictions.

## 9. Derivative Instruments and Hedging Activities

### *Interest Rate Risk Management*

The Company previously engaged in an interest rate hedging strategy for which the hedged transactions were the forecasted interest payments on the Credit Facility. The hedged risk was the variability of forecasted interest rate cash flows, where the hedging strategy involved the purchase of interest rate swaps. These interest rate swaps expired in July 2013 and the Company has not entered into new interest swap arrangements as of June 30, 2014.



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### **Foreign Currency Instruments**

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

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

As of June 30, 2014 and December 31, 2013, the aggregate notional amounts of all foreign currency contracts outstanding designated as cash flow hedges were approximately \$251.7 million and \$244.7 million, respectively. At June 30, 2014, these outstanding contracts were expected to mature over the next twelve months. The Company's derivative financial instruments are recorded on the condensed consolidated balance sheet at fair value based on third-party quotes. As of June 30, 2014, the Company recorded assets at fair value of \$0.9 million and liabilities at fair value of \$4.6 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. As of December 31, 2013, the Company recorded assets at fair value of \$5.7 million and liabilities at fair value of \$4.4 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. The Company assesses hedge effectiveness and measures hedge ineffectiveness at least quarterly. During the three and six months ended June 30, 2014, and 2013, the ineffective portion relating to these hedges was immaterial and the hedges remained effective as of June 30, 2014, and December 31, 2013.

As of June 30, 2014 and December 31, 2013, the majority of the Company's outstanding foreign currency forward contracts had maturity dates of less than twelve months with the majority of freestanding derivatives expiring within two and three months as of June 30, 2014 and December 31, 2013, respectively. There were no foreign currency option contracts outstanding as of June 30, 2014 and December 31, 2013. As of June 30, 2014, the Company had aggregate notional amounts of approximately \$569.1 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 and six months ended June 30, 2014 and 2013:

	Amount of Gain (Loss) Recognized in Other Comprehensive Loss			
	For the Three Months Ended		For the Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	(In millions)			
<b>Derivatives designated as hedging instruments:</b>				
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	\$ (1.8)	\$ 7.1	\$ (2.0)	\$ 3.0

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The following table summarizes gains (losses) relating to derivative instruments recorded to income during the three and six months ended June 30, 2014 and 2013:

	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income			
		For the Three Months Ended		For the Six Months Ended	
		June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
(In millions)					
<b>Derivatives designated as hedging instruments:</b>					
Foreign exchange currency contracts relating to inventory hedges and intercompany management fee hedges(1)	Selling, general and administrative expenses	\$ (1.0)	\$ (1.5)	\$ (2.6)	\$ (2.6)
<b>Derivatives not designated as hedging instruments:</b>					
Foreign exchange currency contracts	Selling, general and administrative expenses	\$ (4.7)	\$ 3.5	\$ (7.6)	\$ (5.2)

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

The following table summarizes gains (losses) relating to derivative instruments reclassified from accumulated other comprehensive loss into income during the three and six months ended June 30, 2014 and 2013:

	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		For the Six Months Ended	
		June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
(In millions)					
<b>Derivatives designated as hedging instruments:</b>					
Foreign exchange currency contracts relating to inventory hedges	Cost of sales	\$ 1.2	\$ (0.8)	\$ 1.5	\$ (2.1)
Foreign exchange currency contracts relating to intercompany management fee hedges	Selling, general and administrative expenses	—	—	—	\$ (0.1)
Interest rate swaps	Interest expense, net	—	\$ (0.9)	—	\$ (1.8)

The Company reports its derivatives at fair value as either assets or liabilities within its condensed consolidated balance sheet. See Note 12 *Fair Value Measurements*, for information on derivative fair values and their condensed consolidated balance sheet location as of June 30, 2014, and December 31, 2013.

## 10. Shareholders' (Deficit) Equity

Changes in shareholders' (deficit) equity for the six months ended June 30, 2014 were as follows (in thousands):

Total shareholders' equity as of December 31, 2013	\$ 551,446
Net income	194,160
Issuance of common shares from exercise of stock options, SARs, restricted stock grants, and employee stock purchase plan	2,039
Excess tax benefit from exercise of stock options, SARs and restricted stock grants	6,693
Additional capital from share-based compensation	23,398
Repurchases of common shares, including Forward Transactions	(1,277,929)
Allocation to additional paid-in capital due to issuance of the Convertible Notes and Forward Transactions.	249,797
Reduction in additional paid-in capital from the Capped Call Transactions	(123,825)
Dividends paid and received, net	(26,984)
Foreign currency translation adjustment, net of income taxes	182
Unrealized loss on derivatives, net of income taxes	(3,178)
Unrealized gain on available-for-sale investments, net of income taxes	133
Total shareholders' deficit as of June 30, 2014	<u>\$ (404,068)</u>

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### ***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 as long as no default or event of default exists and the consolidated leverage ratio specified in the Credit Facility is not exceeded.

On February 18, 2014, the Company announced that its board of directors approved a cash dividend of \$0.30 per common share in an aggregate amount of \$30.4 million that was paid to shareholders on March 18, 2014. On April 28, 2014, the Company announced that its board of directors approved terminating the Company's quarterly cash dividend and instead utilizing the cash to repurchase additional common shares as discussed below. There were no dividends declared and paid during the three months ended June 30, 2014. The aggregate total amount of dividends declared and paid during the three months ended June 30, 2013 was \$30.9 million. The aggregate amount of dividends declared and paid during the six months ended June 30, 2014 and 2013 were \$30.4 million and \$61.8 million, respectively.

During the six months ended June 30, 2014, the Company received \$3.4 million of dividends primarily relating to the Forward Transactions described below which was recorded directly to its (accumulated deficit) retained earnings. The Company did not receive any dividends during the three months ended June 30, 2014.

### ***Share Repurchases***

On July 30, 2012, the Company announced that its board of directors authorized a new \$1 billion share repurchase program that will expire on June 30, 2017. On February 3, 2014, the Company announced that its board of directors authorized an increase in the existing share repurchase authorization to an available balance of \$1.5 billion. This share repurchase program allows the Company to repurchase its common shares, at such times and prices as determined by the Company's management as market conditions warrant, and to the extent Herbalife Ltd.'s distributable reserves are available under Cayman Islands law. The Credit Facility permits the Company to repurchase its common shares as long as no default or event of default exists and the consolidated leverage ratio specified in the Credit Facility is not exceeded.

In conjunction with the issuance of the Convertible Notes during February 2014, the Company paid approximately \$685.8 million to enter into prepaid forward share repurchase transactions, or the Forward Transactions, with certain financial institutions, or Forward Counterparties, pursuant to which the Company purchased approximately 9.9 million common shares for settlement on or around the August 15, 2019 maturity date for the Convertible Notes, subject to the ability of each Forward Counterparty to elect to settle all or a portion of its Forward Transactions early. 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. As a result of the Forward Transactions, the Company's total shareholders' (deficit) equity within its consolidated balance sheet was reduced by approximately \$685.8 million during the first quarter of 2014, with amounts of \$653.9 million and \$31.9 million being allocated between (accumulated deficit) retained earnings and additional paid-in-capital, respectively, within total shareholders' (deficit) equity. Also, upon executing the Forward Transactions, the Company recorded \$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, reflecting the fair value of the Forward Transactions. These non-cash issuance costs will be amortized to interest expense over the contractual term of the Forward Transactions. For the three and six months ended June 30, 2014, the Company recognized \$1.6 million and \$2.6 million, respectively, of non-cash interest expense within its consolidated statement of income relating to amortization of these non-cash issuance costs.

On May 6, 2014, the Company entered into an agreement with Merrill Lynch International to repurchase \$266.0 million of its common shares, or the Repurchase Agreement, which expired on June 30, 2014. Under the terms of the Repurchase Agreement, the Company paid \$266.0 million on May 7, 2014, and received an aggregate 4.3 million of its common shares under the Repurchase Agreement during May and June 2014. The total number of common shares repurchased under the Repurchase Agreement was determined generally upon a discounted volume-weighted average share price of the Company's common shares over the course of the Repurchase Agreement.

During the three months ended March 31, 2014, the Company effectively repurchased approximately 9.9 million of its common shares through the Forward Transactions at an aggregate cost of approximately \$685.8 million or an average cost of \$69.02 per share and they are treated as retired shares for basic and diluted EPS purposes although they remain legally outstanding. During the three months ended June 30, 2014, the Company repurchased approximately 9.8 million of its common shares through open market purchases and under the Repurchase Agreement, at an aggregate cost of approximately \$581.3 million or an average cost of \$59.41 per share. As of June 30, 2014, the remaining authorized capacity under the Company's share repurchase program was \$232.9 million inclusive of reductions for the Forward Transactions.

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

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

### Capped Call Transactions

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

### Accumulated Other Comprehensive Income (Loss)

The following table summarizes changes in accumulated other comprehensive income (loss) during the three months ended June 30, 2014:

	Changes in Accumulated Other Comprehensive Income (Loss) by Component			Total
	Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on Derivatives	Unrealized Gain (Loss) on Available-For-Sale Investments	
Beginning Balance	\$ (27.8)	\$ 5.3	\$ —	\$(22.5)
Other comprehensive income (loss) before reclassifications, net of tax	2.4	(1.6)	0.2	1.0
Amounts reclassified from accumulated other comprehensive income (loss) to income, net of tax(1)	—	(1.2)	—	(1.2)
Total other comprehensive income (loss), net of reclassifications	2.4	(2.8)	0.2	(0.2)
Ending balance	\$ (25.4)	\$ 2.5	\$ 0.2	\$(22.7)

- (1) See Note 2, *Significant Accounting Policies*, and Note 9, *Derivative Instruments and Hedging Activities*, for information regarding the location in the condensed consolidated statements of income of gains (losses) reclassified from accumulated other comprehensive income (loss) into income during the three and six months ended June 30, 2014.

Other comprehensive income (loss) before reclassifications was net of tax expense of \$1.6 million, tax benefit of \$0.2 million, and tax expense of \$0.1 million for foreign currency translation adjustments, unrealized gain (loss) on derivatives, and unrealized gain (loss) on available-for-sale investments, respectively, for the three months ended June 30, 2014.

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The following table summarizes changes in accumulated other comprehensive income (loss) during the six months ended June 30, 2014:

	Changes in Accumulated Other Comprehensive Income (Loss) by Component Six Months Ended June 30, 2014			Total
	Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on Derivatives	Unrealized Gain (Loss) on Available-For-Sale Investments	
	(In millions)			
Beginning Balance	\$ (25.6)	\$ 5.7	\$ 0.1	\$ (19.8)
Other comprehensive income (loss) before reclassifications, net of tax	0.2	(1.7)	(1.9)	(3.4)
Amounts reclassified from accumulated other comprehensive income (loss) to income, net of tax(1)	—	(1.5)	2.0	0.5
Total other comprehensive income (loss), net of reclassifications	0.2	(3.2)	0.1	(2.9)
Ending balance	\$ (25.4)	\$ 2.5	\$ 0.2	\$ (22.7)

- (1) See Note 2, *Significant Accounting Policies*, and Note 9, *Derivative Instruments and Hedging Activities*, for information regarding the location in the condensed consolidated statements of income of gains (losses) reclassified from accumulated other comprehensive income (loss) into income during the three and six months ended June 30, 2014.

Other comprehensive income (loss) before reclassifications was net of tax expense of \$1.5 million, tax benefits of \$0.3 million, and tax benefits of \$0.9 million for foreign currency translation adjustments, unrealized gain (loss) on derivatives, and unrealized gain (loss) on available-for-sale investments, respectively, for the six months ended June 30, 2014. Amounts reclassified from accumulated other comprehensive income (loss) to income was net of tax expense of \$1.0 million for unrealized gain (loss) on available-for-sale investments for the six months ended June 30, 2014.

The following table summarizes changes in accumulated other comprehensive income (loss) during the three months ended June 30, 2013:

	Changes in Accumulated Other Comprehensive Income (Loss) by Component Three Months Ended June 30, 2013			Total
	Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on Derivatives		
	(In millions)			
Beginning Balance	\$ (37.5)	\$ (4.2)		\$ (41.7)
Other comprehensive income (loss) before reclassifications, net of tax	(9.2)	4.8		(4.4)
Amounts reclassified from accumulated other comprehensive income (loss) to income, net of tax(1)	—	1.8		1.8
Total other comprehensive income (loss), net of reclassifications	(9.2)	6.6		(2.6)
Ending balance	\$ (46.7)	\$ 2.4		\$ (44.3)

- (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 and six months ended June 30, 2013.

Other comprehensive income (loss) before reclassifications was net of tax benefits of \$1.5 million and tax expense of \$2.2 million for foreign currency translation adjustments and unrealized gain (loss) on derivatives, respectively, for the three months ended June 30, 2013.

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The following table summarizes changes in accumulated other comprehensive income (loss) during the six months ended June 30, 2013:

	Changes in Accumulated Other Comprehensive Income (Loss) by Component Six Months Ended June 30, 2013		
	Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on Derivatives  (In millions)	Total
Beginning Balance	\$ (28.8)	\$ (2.9)	\$ (31.7)
Other comprehensive income (loss) before reclassifications, net of tax	(17.9)	2.0	(15.9)
Amounts reclassified from accumulated other comprehensive income (loss) to income, net of tax(1)	—	3.3	3.3
Total other comprehensive income (loss), net of reclassifications	(17.9)	5.3	(12.6)
Ending balance	\$ (46.7)	\$ 2.4	\$ (44.3)

- (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 and six months ended June 30, 2013.

Other comprehensive income (loss) before reclassifications was net of tax benefits of \$1.8 million and tax expense of \$1.0 million for foreign currency translation adjustments and unrealized gain (loss) on derivatives, respectively, for the six months ended June 30, 2013. Amounts reclassified from accumulated other comprehensive income (loss) to income was net of tax expense of \$0.7 million for unrealized gain (loss) on derivatives for the six months ended June 30, 2013.

## 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 June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Weighted average shares used in basic computations	86,113	102,993	90,732	103,551
Dilutive effect of exercise of equity grants outstanding	5,059	4,090	5,202	4,038
Weighted average shares used in diluted computations	91,172	107,083	95,934	107,589

There were an aggregate of 3.5 million of equity grants that were outstanding during both the three and six months ended June 30, 2014, and an aggregate of 4.1 million of equity grants that were outstanding during both the three and six months ended June 30, 2013, consisting of stock options, SARs, and stock units, but were not included in the computation of diluted earnings per share because their effect would be anti-dilutive or the market condition for the award 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 and six months ended June 30, 2014, the Convertible Notes have been excluded from the computation of diluted earnings per share as the effect would be anti-dilutive since the conversion price of the Convertible Notes exceeded the average market price of the Company's common shares for the three and six months ended June 30, 2014. The initial conversion rate and conversion price is described further in Note 4, *Long-Term Debt*.

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

**12. Fair Value Measurements**

The Company applies the provisions of the 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 consolidated financial statements. Foreign exchange currency contracts are valued using standard calculations and models primarily based on inputs such as observable forward rates, spot rates and foreign currency exchange rates at the reporting period ended date. The Company's derivative assets and liabilities are measured at fair value and consisted of Level 2 inputs and their amounts are shown below at their gross values at June 30, 2014 and December 31, 2013:

**Fair Value Measurements at Reporting Date**

	<u>Derivative Balance Sheet Location</u>	<u>Significant Other Observable Inputs (Level 2) Fair Value at June 30, 2014</u>	<u>Significant Other Observable Inputs (Level 2) Fair Value at December 31, 2013</u>
(in millions)			
<b>ASSETS:</b>			
<b>Derivatives designated as cash flow hedging instruments:</b>			
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	Prepaid expenses and other current assets	\$ 0.9	\$ 5.7
<b>Derivatives not designated as cash flow hedging instruments:</b>			
Foreign exchange currency contracts	Prepaid expenses and other current assets	<u>\$ 1.5</u>	<u>\$ 2.3</u>
		<u>\$ 2.4</u>	<u>\$ 8.0</u>
<b>LIABILITIES:</b>			
<b>Derivatives designated as cash flow hedging instruments:</b>			
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	Accrued expenses	\$ 4.6	\$ 4.4
<b>Derivatives not designated as hedging instruments:</b>			
Foreign exchange currency contracts	Accrued expenses	<u>\$ 2.2</u>	<u>\$ 0.7</u>
		<u>\$ 6.8</u>	<u>\$ 5.1</u>

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The Company's deferred compensation plan assets consist of Company owned life insurance policies. As these policies are recorded at their cash surrender value, they are not required to be included in the fair value table above. See Note 6, *Employee Compensation Plans*, to the Company's 2013 10-K for a further description of its deferred compensation plan assets.

The following tables summarize the offsetting of the fair values of the Company's derivative assets and derivative liabilities for presentation in the Company's condensed consolidated balance sheet at June 30, 2014 and December 31, 2013:

Offsetting of Derivative Assets			
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets Presented in the Balance Sheet
(In millions)			
<b>June 30, 2014</b>			
Foreign exchange currency contracts	\$ 2.4	\$ (2.2)	\$ 0.2
Total	<u>\$ 2.4</u>	<u>\$ (2.2)</u>	<u>\$ 0.2</u>
<b>December 31, 2013</b>			
Foreign exchange currency contracts	\$ 8.0	\$ (3.0)	\$ 5.0
Total	<u>\$ 8.0</u>	<u>\$ (3.0)</u>	<u>\$ 5.0</u>
Offsetting of Derivative Liabilities			
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Liabilities Presented in the Balance Sheet
(In millions)			
<b>June 30, 2014</b>			
Foreign exchange currency contracts	\$ 6.8	\$ (2.2)	\$ 4.6
Total	<u>\$ 6.8</u>	<u>\$ (2.2)</u>	<u>\$ 4.6</u>
<b>December 31, 2013</b>			
Foreign exchange currency contracts	\$ 5.1	\$ (3.0)	\$ 2.1
Total	<u>\$ 5.1</u>	<u>\$ (3.0)</u>	<u>\$ 2.1</u>

The Company offsets all of its derivative assets and derivative liabilities in its consolidated balance sheet to the extent it maintains master netting arrangements with related financial institutions. As of June 30, 2014, and December 31, 2013, all of the Company's derivatives were subject to master netting arrangements and no collateralization was required for the Company's derivative assets and derivative liabilities.

### 13. Professional Fees and Other Expenses

In late 2012, a hedge fund manager publicly raised allegations regarding the legality of the Company's network marketing program and announced that the hedge fund manager had taken a significant short position regarding the Company's common shares, leading to intense public scrutiny and significant stock price volatility. The Company believes that the hedge fund manager's allegations are inaccurate and misleading. The Company has engaged legal and advisory firms to assist with responding to the allegations and to perform other related services in connection to these events. The Company recognizes the related expenses as a part of selling, general & administrative expenses within its consolidated statement of income. For the three months ended June 30, 2014 and 2013, the Company recorded approximately \$8.0 million and \$8.1 million, respectively, and for the six months ended June 30, 2014 and 2013, the Company recorded approximately \$12.3 million and \$17.6 million, respectively, of professional fees and other expenses related to this matter.

Of the approximately \$8.0 million and \$8.1 million in expenses incurred during the three months ended June 30, 2014 and 2013, respectively, discussed above, approximately \$1.3 million and \$1.5 million, respectively, were recognized for advisory retainer fees. Of the approximately \$12.3 million and \$17.6 million in expenses incurred during the six months ended June 30, 2014 and 2013, respectively, discussed above, approximately \$2.6 million and \$3.0 million, respectively, were recognized for advisory retainer fees. The minimum guaranteed retainer fees were approximately \$2.0 million as of June 30, 2014 and the expense recognition of these fees could accelerate based on certain conditions.



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The Company also had a cash settlement liability award, or the Liability Award, outstanding as of June 30, 2014 and December 31, 2013, which is tied to the Company's stock price and which only vests if certain conditions are met relating to the above matter. The fair value of the Liability Award will be revalued each quarter until settlement and the Company will recognize and adjust the expense over the expected requisite service period. The expense recognized during the three months ended June 30, 2014 and 2013, relating to the Liability Award was approximately \$0.3 million and \$0.3 million, respectively, and is included in the approximately \$8.0 million and \$8.1 million amounts described above. The benefit and expense recognized during the six months ended June 30, 2014 and 2013, relating to the Liability Award was approximately \$0.2 million and \$1.3 million, respectively, and is included in the approximately \$12.3 million and \$17.6 million amounts described above. The remaining unrecognized expense relating to the Liability Award was approximately \$2.0 million as of June 30, 2014, based on the fair value of the Liability Award as of that date. The recognition of the unrecognized expense relating to the Liability Award could accelerate and change based on certain conditions.

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

#### **Overview**

We are a global nutrition company that sells weight management products, nutritional supplements, energy, sports & fitness products and personal care products. As of June 30, 2014, we sold our products to and through a network of 3.9 million independent members, or Members, which included approximately 0.2 million in China. In China, we sell our products through retail stores, sales representatives, sales officers, and independent service providers. Other than in China, we are in the process of making the terminology change from "distributors" to "Members," since most of them are discount customers. We refer to Members that distribute our products and achieve certain qualification requirements as "sales leaders."

We pursue our mission of "changing people's lives" by providing high quality, science-based products to Members and their customers who seek a healthy lifestyle and we also offer a financially rewarding business opportunity to those Members who seek part time or full time income. We believe the global obesity epidemic has made our quality products more relevant and the effectiveness of our distribution network, coupled with geographic expansion, have been the primary reasons for our success throughout our 34-year operating history. As of June 30, 2014, we sold our products in 91 countries.

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

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

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

We report revenue from our six regions:

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

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

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

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

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	Three Months Ended June 30,			Six Months Ended June 30,		
	2014	2013	% Change	2014	2013	% Change
	(Volume Points in millions)					
North America	335.8	339.9	(1.2)%	672.2	648.9	3.6%
Mexico	231.3	219.9	5.2%	451.6	426.2	6.0%
South & Central America	206.3	222.6	(7.3)%	434.1	442.4	(1.9)%
EMEA	218.8	179.3	22.0%	421.0	340.6	23.6%
Asia Pacific (excluding China)	320.2	316.9	1.0%	622.4	636.9	(2.3)%
China	118.5	85.9	38.0%	209.5	133.5	57.0%
Worldwide	<u>1,430.9</u>	<u>1,364.5</u>	4.9%	<u>2,810.8</u>	<u>2,628.5</u>	6.9%

### Average Active Sales Leaders by Geographic Region

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2014	2013	% Change	2014	2013	% Change
North America	75,772	72,282	4.8%	75,007	70,317	6.7%
Mexico	64,656	62,940	2.7%	64,112	61,578	4.1%
South & Central America	62,172	54,614	13.8%	62,017	53,332	16.3%
EMEA	56,692	48,008	18.1%	55,403	47,051	17.8%
Asia Pacific (excluding China)	74,916	70,802	5.8%	73,271	69,746	5.1%
China	18,703	14,070	32.9%	17,676	12,967	36.3%
Worldwide(1)	<u>340,644</u>	<u>311,503</u>	9.4%	<u>335,273</u>	<u>304,210</u>	10.2%

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

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

Our compensation system requires each sales leader to re-qualify for such status each year, prior to February, in order to maintain their 50% discount on products and be eligible to receive royalty payments. In February of each year, we demote from the rank of sales leader those Members who did not satisfy the re-qualification requirements during the preceding twelve months. The re-qualification requirement does not apply to new sales leaders (i.e. those who became sales leaders subsequent to the January re-qualification of the prior year). For the latest twelve month re-qualification period ending January 31, 2014, approximately 51.8% of our sales leaders, excluding China and temporarily Venezuela, re-qualified. We chose not to require Venezuelan sales leaders to re-qualify for the latest twelve month re-qualification period ending January 31, 2014, due to product supply limitation that may have prevented some sales leaders from re-qualifying. However, had we demoted those Venezuelan sales leaders that did not meet our re-qualifying criteria, our overall retention rate would have been slightly higher than 51.8%.

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

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The statistics below further highlight the calculation for retention.

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

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.

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

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

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

## Presentation

"Retail sales" represent the suggested retail price of products we sell to our Members and is the gross sales amount reflected on our invoices. This is not the price paid to us by our Members. Our Members purchase product from us at a discount from the suggested retail price. We refer to these discounts as "Distributor Allowance", and we refer to retail sales less distributor allowances as "Product Sales".

Total distributor allowances for the three months ended June 30, 2014 and 2013 were 41.9% and 44.3% of Retail Sales, respectively. Total distributor allowances for the six months ended June 30, 2014 and 2013 were 42.2% and 44.9% of Retail Sales, respectively. Distributor allowances as a percentage of retail sales may vary by country depending upon regulatory restrictions that limit or otherwise restrict distributor allowances. We also offer reduced distributor allowances with respect to certain products worldwide. Each Member's level of discount is determined by qualification based on volume of purchases. In cases where a Member has qualified for less than the maximum discount, the remaining discount, which we also refer to as a wholesale commission, is received by their sponsoring Members. Therefore, product sales are recognized net of product returns and distributor allowances.

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

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During 2013 we simplified our pricing structure for most markets, increasing suggested retail prices and reducing total shipping and handling fees, eliminating a “packaging and handling” line item from our invoices to Members, with no impact on total Member cost. In conjunction, the method for Distributor Allowances and Marketing Plan payouts now generally utilizes 90% to 95% of suggested retail price, depending on the product and market, to which we apply discounts of up to 50% for Distributor Allowances and payout rates of up to 15% for royalty overrides, up to 7% for production bonuses, and approximately 1% for the Mark Hughes bonus. Consequently, the revision to our pricing structure did not have a meaningful impact on the amounts of Distributor Allowance or payouts under our Marketing Plan and did not materially impact our consolidated Net Sales and profitability.

We do not have visibility into all of the sales from our Members to their customers, but such a figure would differ from our reported “retail sales” by factors including (a) the amount of product purchased by our Members for their own personal consumption and (b) prices charged by our Members to their customers other than our suggested retail prices. We discuss retail sales because of its fundamental role in our systems, internal controls and operations, and its correlation to Member discounts and Royalty Overrides. In addition, it is used as the basis for certain information included in daily and monthly reports reviewed by our management. However, such a measure is not in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. Retail sales should not be considered in isolation from, nor as a substitute for, net sales and other consolidated income or cash flow statement data prepared in accordance with U.S. GAAP, or as a measure of profitability or liquidity. A reconciliation of retail sales to net sales is presented below under *Results of Operations*.

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

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

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

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

During the three months ended June 30, 2014 and 2013, total Royalty overrides were 29.9% and 31.1% of our net sales, respectively. During the six months ended June 30, 2014 and 2013, total Royalty overrides were 30.1% and 31.7% of our net sales, respectively. Royalty overrides are compensation to Members for the development, retention and improved productivity of their sales organizations and are paid to several levels of Members on each sale. Royalty overrides are compensation for services rendered to the Company and as such are recorded as an operating expense.

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

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

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

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

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

### Summary Financial Results

Net sales for the three and six months ended June 30, 2014 were \$1,306.2 million and \$2,568.8 million, respectively. Net sales increased \$87.0 million, or 7.1%, and \$226.0 million, or 9.6%, for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. In local currency, including the remeasurement impact of Venezuela’s Bolivar denominated net sales, net sales for the three and six months ended June 30, 2014 increased 10.8% and 13.9%, respectively, as compared to the same periods in 2013. The increase in net sales in both periods was primarily due to the continued successful adoption and operation of daily consumption DMOs; increased Member engagement and an increase in average active sales leaders; branding activities and increased Member recruiting.

Net income for the three and six months ended June 30, 2014 was \$119.5 million, or \$1.31 per diluted share, and \$194.2 million, or \$2.02 per diluted share, respectively. Net income decreased \$23.6 million, or 16.5%, and \$67.9 million, or 25.9%, for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. The decrease for the three and six months ended June 30, 2014 was primarily due to the higher selling, general and administrative expenses to support the growth of our business and the foreign exchange loss related to the remeasurement of our Venezuela Bolivar-denominated assets and liabilities described below, and higher interest expense, partially offset by higher contribution margin driven by the sales growth discussed above.

Net income for the three months ended June 30, 2014 included an \$8.0 million pre-tax unfavorable impact (\$5.6 million post-tax) related to legal, advisory services and other expenses for the Company’s response to allegations and other negative information put forward in the marketplace by a hedge fund manager which started in late 2012 (See *Selling, General and Administrative Expenses* below for further discussion); a \$5.1 million pre-tax unfavorable impact (\$3.1 million post-tax) from expenses related to the Federal Trade Commission’s (FTC) inquiry; a \$10.1 million unfavorable impact of non-cash interest expense related to the Convertible Notes and the Forward Transactions (See *Liquidity and Capital Resources — Convertible Senior Notes* below for further discussion), a \$0.2 million pre-tax unfavorable impact (\$2.6 million post-tax) foreign exchange loss related to Venezuela, and a \$0.4 million unfavorable impact related to expenses incurred for the recovery of costs associated with the re-audit. Net income for the six months ended June 30, 2014 included an \$89.5 million pre-tax unfavorable impact (\$69.2 million post-tax), comprised of an \$86.3 million foreign exchange loss related to the remeasurement of Venezuela Bolivar-denominated assets and liabilities at the SICAD I rate and a \$3.2 million impairment loss on Venezuela bonds during the first quarter of 2014 (See *Liquidity and Capital Resources — Venezuela* below for further discussion of currency exchange rate issues in Venezuela and *Other Expense, net* below for further discussion of Venezuela bonds); a \$12.3 million pre-tax unfavorable impact (\$8.9 million post-tax) related to legal, advisory services and other expenses for the Company’s response to allegations and other negative information put forward in the marketplace by a hedge fund manager which started in late 2012 (See *Selling, General and Administrative Expenses* below for further discussion); a \$6.0 million pre-tax unfavorable impact (\$3.8 million post-tax) from expenses related to the Federal Trade Commission’s (FTC) inquiry; a \$15.9 million unfavorable impact of non-cash interest expense related to the Convertible Notes and the Forward Transactions, and a \$0.4 million unfavorable impact related to expenses incurred for the recovery of costs associated with the re-audit. The income tax impact of the expenses discussed above is based on forecasted items affecting the Company’s 2014 full year effective tax rate. Adjustments to forecasted items unrelated to these expenses, as well as impacts related to interim reporting, will have an effect on the income tax impact of these items in subsequent periods.

Net income for the three and six months ended June 30, 2013 included approximately \$8.1 million and \$17.6 million pre-tax unfavorable impact (\$7.1 million and \$15.1 million, respectively, post-tax) related to legal and advisory services and other expenses for the Company’s response to allegations and other negative information put forward in the marketplace by a hedge fund manager which started in late 2012 and approximately \$3.5 million pre-tax unfavorable impact (\$2.7 million post-tax) related to professional fees for the re-audit of the Company’s 2010 to 2012 financial statements. Net income for the six months ended June 30, 2013 also included a \$15.1 million pre-tax unfavorable impact (\$8.3 million post-tax) related to the Venezuela Bolivar devaluation (See *Liquidity and Capital Resources — Working Capital and Operating Activities* below for further discussion of currency exchange rate issues in Venezuela).

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### Results of Operations

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

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

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
<b>Operations:</b>				
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	19.7	20.3	19.8	20.2
Gross profit	80.3	79.7	80.2	79.8
Royalty overrides(1)	29.9	31.1	30.1	31.7
Selling, general and administrative expenses(1)(2)	35.4	32.8	37.5	32.6
Operating income	15.0	15.8	12.6	15.5
Interest expense, net	1.6	0.5	1.4	0.5
Other expense, net	—	—	0.1	—
Income before income taxes	13.4	15.3	11.1	15.0
Income taxes	4.2	3.6	3.5	3.8
Net income	9.2%	11.7%	7.6%	11.2%

- (1) Service fees to our independent service providers in China are included in selling, general and administrative expenses while Member compensation for all other countries is included in royalty overrides.
- (2) During the six months ended June 30, 2014, selling, general and administrative expenses as a percentage of net sales was significantly higher than in the six months ended June 30, 2013, primarily due to the foreign exchange losses relating to our Venezuela business as discussed further below.

### Net Sales

The following chart reconciles retail sales to net sales:

#### Sales by Geographic Region

	Three Months Ended June 30,										
	2014					2013					
	Retail Sales(1)	Distributor Allowance	Product Sales	Shipping & Handling Revenues(1)	Net Sales	Retail Sales(1)	Distributor Allowance	Product Sales	Shipping & Handling Revenues(1)	Net Sales	Change in Net Sales
North America	\$ 416.5	\$ (189.6)	\$ 226.9	\$ 23.7	\$ 250.6	\$ 407.7	\$ (187.4)	\$ 220.3	\$ 27.2	\$ 247.5	1.3%
Mexico	257.4	(118.0)	139.4	9.2	148.6	235.6	(115.2)	120.4	25.2	145.6	2.1%
South & Central America	327.4	(153.1)	174.3	29.0	203.3	349.3	(165.8)	183.5	39.0	222.5	(8.6)%
EMEA	390.3	(176.6)	213.7	13.6	227.3	299.8	(143.5)	156.3	30.1	186.4	21.9%
Asia Pacific	482.7	(205.2)	277.5	28.8	306.3	459.9	(203.4)	256.5	42.7	299.2	2.4%
China	193.7	(24.2)	169.5	0.6	170.1	140.3	(22.3)	118.0	—	118.0	44.2%
Worldwide	<u>\$2,068.0</u>	<u>\$ (866.7)</u>	<u>\$1,201.3</u>	<u>\$ 104.9</u>	<u>\$1,306.2</u>	<u>\$ 1,892.6</u>	<u>\$ (837.6)</u>	<u>\$1,055.0</u>	<u>\$ 164.2</u>	<u>\$1,219.2</u>	7.1%

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	Six Months Ended June 30,										
	2014					2013					
	Retail Sales(1)	Distributor Allowance	Product Sales	Shipping & Handling Revenues(1)	Net Sales	Retail Sales(1)	Distributor Allowance	Product Sales	Shipping & Handling Revenues(1)	Net Sales	Change in Net Sales
	(In millions)										
North America	\$ 828.3	\$ (376.9)	\$ 451.4	\$ 47.0	\$ 498.4	\$ 757.7	\$ (354.1)	\$ 403.6	\$ 65.4	\$ 469.0	6.3%
Mexico	503.1	(229.8)	273.3	18.0	291.3	450.6	(220.3)	230.3	48.2	278.5	4.6%
South & Central America	713.2	(330.2)	383.0	65.0	448.0	692.6	(327.3)	365.3	76.6	441.9	1.4%
EMEA	753.8	(341.1)	412.7	25.8	438.5	574.5	(276.0)	298.5	57.4	355.9	23.2%
Asia Pacific	928.8	(396.8)	532.0	54.7	586.7	946.3	(423.8)	522.5	88.5	611.0	(4.0)%
China	349.3	(44.3)	305.0	0.9	305.9	220.0	(33.6)	186.4	0.2	186.6	63.9%
Worldwide	<u>\$4,076.5</u>	<u>\$ (1,719.1)</u>	<u>\$2,357.4</u>	<u>\$ 211.4</u>	<u>\$2,568.8</u>	<u>\$3,641.7</u>	<u>\$ (1,635.1)</u>	<u>\$2,006.6</u>	<u>\$ 336.3</u>	<u>\$2,342.9</u>	9.6%

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

Changes in net sales are directly associated with the retailing of our products, recruiting and retention of our Member force, the quality and completeness of our product offerings that the Member force has to sell and the number of countries in which we operate. Management’s role, both in-country and at the region and corporate level, is to provide Members with a competitive and broad product line, encourage strong teamwork and Member leadership and offer leading edge business tools and technology services to make doing business with Herbalife simple. Management uses the Member marketing program coupled with educational and motivational tools and promotions to encourage Members to increase 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 productivity of the sales leader network. The expenses for such programs are included in selling, general and administrative expenses. Sales are driven by several factors, including the number and productivity of Members, including sales leaders, who continually build, educate and motivate their respective distribution and sales organizations. We also use event and non-event product promotions to motivate Members to increase 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.

The factors described above have helped Members increase their business, which in turn helps drive Volume Point growth in our business, and thus, net sales growth. The discussion below of net sales by geographic region further details some of the specific drivers of growth of our business and causes of sales fluctuations during the three and six months ended June 30, 2014 as compared to the same periods in 2013, as well as the unique growth or contraction factors specific to certain geographic regions or significant countries within a region during these periods. We believe that the correct business foundation, coupled with ongoing training and promotional initiatives, is required to increase retailing of our products and recruiting and retention of Members. The correct business foundation includes strong country management that works closely with the Member leadership, actively engaged and unified Member leadership, a broad product line that appeals to local consumer needs, a favorable regulatory environment, a scalable and stable technology platform and an attractive Member marketing plan. Initiatives, such as Success Training Seminars, Leadership Development Weekends, Promotional Events and regional Extravaganzas are integral components of developing a highly motivated and educated Member sales organization that will work toward increasing the recruitment and retention of Members.

We anticipate that our strategy will continue to include creating and maintaining growth within existing markets while expanding into new markets. In addition, new ideas and DMOs are being generated in many of our markets and are globalized where applicable through the combined efforts of Members, country, regional and corporate management. While we support a number of different DMOs, one of the most popular DMOs is the daily consumption DMO. Under our traditional DMO, a Member typically sells to its customers on a somewhat infrequent basis (e.g., monthly) which provides fewer opportunities for interaction with their customers. Under a daily consumption DMO, a Member interacts with its customers on a more frequent basis which enables the Member to better educate and advise customers about nutrition and the proper use of the products and helps promote daily usage as well, thereby helping the Member grow his or her business. Specific examples of DMOs include the Club concept in Mexico, Premium Herbalife Opportunity Meetings in Korea, the Healthy Breakfast concept in Russia, and the Internet/Sampling and Weight Loss Challenge in the U.S. Management’s strategy is to review the applicability of expanding successful country initiatives throughout a region, and where appropriate, financially support the globalization of these initiatives.



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### *North America*

The North America region reported net sales of \$250.6 million and \$498.4 million for the three and six months ended June 30, 2014, respectively. Net sales increased \$3.1 million, or 1.3%, and \$29.4 million, or 6.3%, for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. In local currency, net sales increased 1.3% and 6.4% for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. The overall increase in net sales in the region was a result of net sales growth in the U.S. of \$3.3 million, or 1.4%, and \$29.4 million, or 6.4%, for the three and six months ended June 30, 2014, as compared to the same periods in 2013. The increase in net sales in the US was driven by a price increase of 3% in March, which offset a slight decline volume point sales.

In the U.S. we continue to see the success of our Members converting their business strategy toward a combination of daily consumption and a health active lifestyle. Sales for the second quarter versus the prior year period reflect in part the short-term negative impact of the ongoing shift toward Sales Leader qualification via purchases of 5,000 volume points over 12 months, offset by a price increase for the U.S. initiated late in the first quarter. The company just completed its new simplified training materials that will launch through an 18-city tour in the third quarter.

Average active sales leaders in the region increased 4.8% and 6.7% for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. Average active sales leaders in the U.S. increased 4.9% and 6.8% for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013.

### *Mexico*

The Mexico region reported net sales of \$148.6 million and \$291.3 million for the three and six months ended June 30, 2014, respectively. Net sales for the three and six months ended June 30, 2014 increased \$3.0 million, or 2.1%, and \$12.8 million, or 4.6%, respectively, as compared to the same periods in 2013. In local currency, net sales for the three and six months ended June 30, 2014 increased 6.5% and 9.3%, respectively, as compared to the same periods in 2013. The fluctuation of foreign currency rates had an unfavorable impact of \$6.4 million and \$13.1 million on net sales for the three and six months ended June 30, 2014, respectively.

The growth in net sales is primarily the result of several factors including a series of 1% price increases in October 2013, December 2013, February 2014, and April 2014, increased Member engagement, and the continued success of the Nutrition Club DMO. Another growth driver in Mexico has been the ongoing transition from home clubs to commercial clubs by many Members, which are generally able to generate higher volumes of sales through the servicing of more customers and longer operating hours. Also, Herbalife has been expanding the number of access points for Members to obtain product easily and quickly. Most significantly twelve new sales centers have been opened over the past twelve months bringing the total to 43, but we have also increased the number of local retailers in which Members can pick up product, and introduced several "Herbamobile" vehicles.

Average active sales leaders in Mexico increased 2.7% and 4.1% for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013.

### *South and Central America*

The South and Central America region reported net sales of \$203.3 million and \$448.0 million for the three and six months ended June 30, 2014, respectively. Net sales decreased \$19.2 million, or 8.6%, and increased \$6.1 million, or 1.4%, for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. In local currency, including the remeasurement impact of Venezuela's Bolivar denominated net sales, net sales increased 7.6% and 16.8% for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. The fluctuation of foreign currency rates had a \$35.8 million and \$68.2 million unfavorable impact on net sales for the three and six months ended June 30, 2014, respectively. The decrease in net sales for the three months ended June 30, 2014, as compared to the same period in 2013, was primarily driven by Venezuela. The increase in net sales for the six months ended June 30, 2014, as compared to the same period in 2013, was primarily driven by increases in the majority of countries in the region, partially offset by a decline in Venezuela. The growth for the six month period was primarily driven by the adoption and expansion of daily consumption DMOs throughout the region.

In Brazil, the region's largest market, net sales decreased \$7.4 million, or 8.1%, and \$1.5 million, or 0.8%, for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. In local currency, net sales decreased 0.6% and increased 12.9% for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. The fluctuation of foreign currency rates had a \$6.9 million and \$26.1 million unfavorable impact on net sales in Brazil for the three and six months ended June 30, 2014, respectively. The increase in local currency net sales for the six month period ended June 30, 2014 continues to be driven by the successful adoption of Nutrition Clubs and other daily consumption DMOs. We believe the slight decline in local currency net sales for the three month period ended June 30, 2014 was due in part to decreases for certain Member sales organizations, as well as the hosting of only one Extravaganza in Brazil during the second quarter of 2014 compared to 3 regional Extravanzas during the same period in 2013 and, to a lesser extent, an economic slowdown as a result of Brazil hosting the World Cup event which began in mid-June and impacted the attendance at nutrition clubs.

Net sales in Venezuela decreased \$12.5 million, or 24.8%, and \$9.8 million, or 9.6%, for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. The sales decrease was primarily due to order size limitations and local political and economic challenges in Venezuela. These decreases were partially offset by cumulative price increases in 2013 of 123%. These price increases were implemented to better align product prices with the economic conditions of the market. During January 2014, an additional price increase was planned but not allowed after a review by local governmental agencies. As of March 31, 2014, we began remeasuring our net sales in Venezuela using the SICAD I rate instead of the previous CADIVI rate of 6.3 Venezuelan Bolivars per U.S. dollar. Use of the SICAD I and previous CADIVI rates instead of the more favorable official rates in

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2013 had \$22.9 million and \$27.2 million unfavorable impacts on net sales in Venezuela for the three and six months ended June 30, 2014, respectively. In July 2014, Herbalife Venezuela increased its prices on certain products in response to a recent announcement by the Venezuelan government regarding calculating Bolivar denominated duties on U.S. dollar shipments using a default SICAD II rate if shipments are not settled using the SICAD I or CENCOEX exchange rates. We continue to monitor and assess our product pricing in Venezuela. See *Liquidity and Capital Resources — Working Capital and Operating Activities* below for further discussion of currency exchange rate issues in Venezuela and our evaluation of several options to reduce our economic exposure to this market.

Average active sales leaders in the region increased 13.8% and 16.3% for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013.

### ***EMEA***

The EMEA region reported net sales of \$227.3 million and \$438.5 million for the three and six months ended June 30, 2014, respectively. Net sales increased \$40.9 million, or 21.9%, and \$82.6 million, or 23.2%, for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. In local currency, net sales increased 21.4% and 23.7% for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. The fluctuation of foreign currency rates had a favorable impact of \$1.1 million and an unfavorable impact of \$1.9 million on net sales for the three and six months ended June 30, 2014, respectively. The increase in net sales for the three and six months ended June 30, 2014 was primarily driven by increases in Russia, the United Kingdom, Spain, and Italy.

Net sales in Russia increased \$9.3 million, or 29.8%, and \$15.1 million, or 25.5%, for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. In local currency, net sales increased 43.3% and 41.3% for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. The fluctuation of foreign currency rates had a \$4.2 million and \$9.4 million unfavorable impact on net sales in Russia for the three and six months ended June 30, 2014, respectively. The increase in Russia was driven by the ongoing adoption of the Commercial Nutrition Club, additional sales centers which have increased access to our products and improving brand image including the sponsorship of FC Spartak Moscow football club.

Net sales in Italy increased \$8.8 million, or 30.2%, and \$16.4 million, or 29.9%, for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. In local currency, net sales increased 24.0% and 24.5% for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. The fluctuation of foreign currency rates had a \$1.8 million and \$3.0 million favorable impact on net sales in Italy for the three and six months ended June 30, 2014, respectively. Italy has now had five consecutive quarters of positive year-over-year sales growth. Management believes this is a strong indication that the market is embracing the daily consumption DMO.

Net sales in Spain increased \$7.2 million, or 42.0%, and \$14.3 million, or 45.9%, for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. In local currency, net sales in Spain increased 35.3% and 39.8% for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. The fluctuation of foreign currency rates had a \$1.1 million and \$1.9 million favorable impact on net sales in Spain for the three and six months ended June 30, 2014, respectively. The increase in Spain was mainly due to the positive effect of increased Member engagement and retention as well as a focus on regionalization and city by city promotions.

Net sales in the United Kingdom increased \$4.9 million, or 32.8%, and \$12.9 million, or 50.4%, for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. In local currency, net sales in the United Kingdom increased 21.3% and 39.2% for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. The fluctuation of foreign currency rates had a \$1.7 million and \$2.9 million favorable impact on net sales in the United Kingdom for the three and six months ended June 30, 2014, respectively. The increase in the United Kingdom was primarily due to the successful adoption of Nutrition Clubs and Weight Loss Challenge DMO.

Average active sales leaders in the region increased 18.1% and 17.8% for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013.

### ***Asia Pacific***

The Asia Pacific region, which excludes China, reported net sales of \$306.3 million and \$586.7 million for the three and six months ended June 30, 2014, respectively. Net sales increased \$7.1 million, or 2.4%, and decreased \$24.3 million, or 4.0%, for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. In local currency, net sales increased 2.9% and decreased 1.2% for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. The fluctuation of foreign currency rates had an unfavorable impact of \$1.5 million and \$17.2 million on net sales for the three and six months ended June 30, 2014, respectively. The increase in net sales for the three months ended June 30, 2014 was driven primarily by increases in India, South Korea, Philippines, Australia, and Hong Kong and was partially offset by declines in Malaysia, Taiwan, and Indonesia. The decrease in net sales for the six months ended June 30, 2014 was driven primarily by declines in Malaysia, South Korea, Indonesia, and Taiwan and was partially offset by increases in India, Philippines, and Australia. Eleven countries within the region participated in the launch of a new SKIN product line of personal care products during the second quarter of 2014. Four countries – India, Indonesia, Thailand, and Vietnam – will launch the SKIN product line later this year.

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Net sales in South Korea increased \$5.9 million, or 5.3%, and decreased \$5.1 million, or 2.3%, for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. In local currency, net sales decreased 3.5% and 7.4% for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. The fluctuation of foreign currency rates had a favorable impact on net sales of \$9.8 million and \$11.4 million for the three and six months ended June 30, 2014, respectively. South Korea continues to be impacted by a modest slowdown in the number of Nutrition Clubs openings as well as a decline in productivity in certain Nutrition Clubs compared to the prior year period. We believe that several actions we took starting in the fourth quarter of 2013 have mitigated these issues and created a platform for stable growth going forward. In addition, net sales for the second quarter of 2014 benefited from the launch of the new SKIN product line of personal care products.

Net sales in India increased \$7.7 million, or 24.0%, and \$7.1 million, or 9.8%, for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. In local currency, net sales increased 33.2% and 21.5% for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. The fluctuation of foreign currency rates had an unfavorable impact on net sales of \$2.9 million and \$8.4 million for the three and six months ended June 30, 2014, respectively. The increase in net sales for the three and six months ended June 30, 2014 was primarily driven by increased product access and the successful adoption of the daily consumption DMOs, especially the Nutrition Club.

Net sales in Taiwan decreased \$4.4 million, or 11.5%, and \$12.1 million, or 15.4%, for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. In local currency, net sales decreased 10.7% and 13.8% for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. The fluctuation of foreign currency rates had an unfavorable impact on net sales of \$0.3 million and \$1.2 million for the three and six months ended June 30, 2014, respectively. In November 2013 Taiwan instituted a first order limitation rule which limits the amount of product a new Member may order after initially signing up. The benefit of the first order limitation rule is that it creates a more stable ordering base but does have a modest negative impact when first implemented. Partially offsetting this impact was the benefit from the launch of a new SKIN product line of personal care products during the second quarter of 2014.

Net sales in Indonesia decreased \$6.0 million, or 16.0%, and \$8.4 million, or 11.9%, for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. In local currency, net sales decreased 0.6% and increased 5.7% for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. The fluctuation of foreign currency rates had an unfavorable impact on net sales of \$5.8 million and \$12.4 million for the three and six months ended June 30, 2014, respectively. The primary catalyst driving the local currency net sales increase in Indonesia for the six months ended June 30, 2014 was the growth in Nutrition Clubs.

Net sales in Malaysia decreased \$9.7 million, or 37.3%, and \$27.1 million, or 42.9%, for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. In local currency, net sales decreased 33.8% and 39.2% for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. The fluctuation of foreign currency rates had an unfavorable impact on net sales of \$0.9 million and \$2.3 million for the three and six months ended June 30, 2014, respectively. A new competitor who entered Malaysia in October of 2013 led by a former Herbalife executive continues to have an impact on our business in the market. While the impact was particularly strong during the third and fourth quarters of 2013, it has remained an issue throughout the first half of this year. Although we are beginning to see some positive signs that the impact is decreasing and the business is stabilizing, it is likely that the market is not expected to improve in 2014. In addition, during 2012 we saw tremendous growth in Nutrition Home Clubs and some of these clubs suffered from a lack of proper training and have declined in number and activity levels as a result. We are working with Member leadership in Malaysia to address these training issues. We believe that the underlying DMOs currently used by Members in the country (Nutrition Clubs, Road Shows, and Mega Herbalife Opportunity Meetings) provide for a solid base of growth going forward.

Average active sales leaders in the region increased 5.8% and 5.1% for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013.

### ***China***

Net sales in China were \$170.1 million and \$305.9 million for the three and six months ended June 30, 2014, respectively. Net sales increased \$52.1 million, or 44.2%, and \$119.3 million, or 63.9%, for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. In local currency, net sales increased 45.7% and 63.7% for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. The fluctuation of foreign currency rates had an unfavorable impact of \$2.2 million and a favorable impact of \$0.4 million on net sales for the three and six months ended June 30, 2014, respectively.

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

Average active sales leaders in China increased 32.9% and 36.3% for the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. We believe that the increase in the number of average active sales leaders in China is indicative of the market transitioning to daily consumption DMOs.

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As of June 30, 2014, we were operating in 66 retail stores in 29 provinces in China. As of June 30, 2014, we had direct selling licenses to 25 out of the 29 provinces in which we were operating. We continue to seek additional provincial licenses where appropriate.

### Sales by Product Category

	Three Months Ended June 30,										% Change in Net Sales
	2014					2013					
	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	
	(In millions)										
Weight Management	\$1,362.5	\$ (588.2)	\$ 774.3	\$ 69.2	\$ 843.5	\$1,235.1	\$ (564.3)	\$ 670.8	\$ 107.4	\$ 778.2	8.4%
Targeted Nutrition	462.3	(199.6)	262.7	23.4	286.1	440.7	(201.3)	239.4	38.1	277.5	3.1%
Energy, Sports and Fitness	111.2	(47.9)	63.3	5.6	68.9	103.3	(47.2)	56.1	9.0	65.1	5.8%
Outer Nutrition	75.9	(32.8)	43.1	3.9	47.0	60.0	(27.4)	32.6	5.2	37.8	24.3%
Literature, Promotional and Other(1)	56.1	1.8	57.9	2.8	60.7	53.5	2.6	56.1	4.5	60.6	0.2%
Total	<u>\$2,068.0</u>	<u>\$ (866.7)</u>	<u>\$1,201.3</u>	<u>\$ 104.9</u>	<u>\$1,306.2</u>	<u>\$1,892.6</u>	<u>\$ (837.6)</u>	<u>\$1,055.0</u>	<u>\$ 164.2</u>	<u>\$1,219.2</u>	7.1%

  

	Six Months Ended June 30,										% Change in Net Sales
	2014					2013					
	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	
	(In millions)										
Weight Management	\$2,676.0	\$ (1,163.7)	\$1,512.3	\$ 138.8	\$1,651.1	\$2,370.1	\$ (1,099.2)	\$1,270.9	\$ 218.9	\$1,489.8	10.8%
Targeted Nutrition	924.1	(401.9)	522.2	47.9	570.1	850.2	(394.3)	455.9	78.5	534.4	6.7%
Energy, Sports and Fitness	219.7	(95.5)	124.2	11.4	135.6	196.3	(91.0)	105.3	18.1	123.4	9.9%
Outer Nutrition	140.5	(61.1)	79.4	7.3	86.7	120.9	(56.1)	64.8	11.2	76.0	14.1%
Literature, Promotional and Other(1)	116.2	3.1	119.3	6.0	125.3	104.2	5.5	109.7	9.6	119.3	5.0%
Total	<u>\$4,076.5</u>	<u>\$ (1,719.1)</u>	<u>\$2,357.4</u>	<u>\$ 211.4</u>	<u>\$2,568.8</u>	<u>\$3,641.7</u>	<u>\$ (1,635.1)</u>	<u>\$2,006.6</u>	<u>\$ 336.3</u>	<u>\$2,342.9</u>	9.6%

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

Net sales for all product categories increased for the three and six months ended June 30, 2014 as compared to the same periods in 2013. The growth factors described in the above discussions of the individual geographic regions apply generally to all product categories.

### Gross Profit

Gross profit was \$1,049.0 million and \$2,060.5 million for the three and six months ended June 30, 2014, respectively, as compared to \$972.0 million and \$1,869.7 million for the same periods in 2013. As a percentage of net sales, gross profit for the three and six months ended June 30, 2014 increased to 80.3% and 80.2%, respectively, as compared to 79.7% and 79.8% for the same periods in 2013, or a favorable net increase of 60 and 40 basis points, respectively. The net 60 basis point increase for the three months ended June 30, 2014 as compared to the same period in 2013, was primarily due to the favorable impact of country mix, price increases and lower inventory write-downs partially offset by the unfavorable impact of foreign currency fluctuations and higher other costs. The net 40 basis point increase for the six months ended June 30, 2014 as compared to the same period in 2013 was primarily due to the favorable impact of country mix and price increases partially offset by higher other costs.

### Royalty Overrides

Royalty overrides were \$390.8 million and \$772.6 million for the three and six months ended June 30, 2014, respectively, as compared to \$379.6 million and \$743.6 million for the same periods in 2013. Royalty overrides as a percentage of net sales was 29.9% and 30.1% for the three and six months ended June 30, 2014, respectively, as compared to 31.1% and 31.7% for the same periods in 2013. Generally, this ratio varies slightly from period to period due to changes in the mix of products and countries because full royalty overrides are not paid on certain products and in certain countries. Compensation to our independent service providers in China is included in selling, general and administrative expenses as opposed to royalty overrides where it is included for all other Members under our worldwide marketing plan. We anticipate fluctuations in royalty overrides as a percentage of net sales reflecting the growth prospect of our China business relative to that of our worldwide business.

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### Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$461.9 million and \$964.0 million for the three and six months ended June 30, 2014, respectively, as compared to \$400.1 million and \$764.8 million for the same periods in 2013. Selling, general and administrative expenses as a percentage of net sales were 35.4% and 37.5% for the three and six months ended June 30, 2014, respectively, as compared to 32.8% and 32.6% for and the same periods in 2013.

The increase in selling, general and administrative expenses for the three months ended June 30, 2014 included higher variable expenses related to sales growth including \$27.6 million in higher expenses related to China independent service providers; \$7.0 million in higher advertising and sponsorship costs; \$10.2 million in higher salaries, bonuses and benefits; and \$5.1 million in expenses associated with the Federal Trade Commission's (FTC) inquiry, partially offset by \$3.5 million in expenses incurred during the comparative 2013 period related to the re-audit of the 2010-2012 financial statements.

The increase in selling, general and administrative expenses for the six months ended June 30, 2014 included \$72.7 million in higher net foreign exchange loss primarily due to an \$86.3 million net foreign exchange loss in 2014 related to the remeasurement of the Company's Bolivar-denominated monetary assets and liabilities as compared to the \$15.1 million net foreign exchange loss during the same period in 2013 related to the Venezuela Bolivar devaluation (See *Liquidity and Capital Resources — Working Capital and Operating Activities*, for further discussion of currency exchange rate issues in Venezuela); higher variable expenses related to sales growth including \$57.8 million in higher expenses related to China independent service providers; \$11.2 million in higher advertising and sponsorship costs; \$22.9 million in higher salaries, bonuses and benefits; and \$6.0 million in expenses associated with the FTC inquiry, partially offset by \$3.5 million in expenses incurred during the comparative 2013 period related to the re-audit of the 2010-2012 financial statements.

In late 2012, a hedge fund manager publicly raised allegations regarding the legality of the Company's network marketing program and announced that the hedge fund manager had taken a significant short position regarding our common shares, leading to intense public scrutiny and significant stock price volatility. We have engaged legal and advisory services firms to assist with responding to the allegations and to perform other related services in connection to these events. For the three months ended June 30, 2014 and 2013, we recorded approximately \$8.0 million and \$8.1 million, respectively, of expenses related to this matter, which includes approximately \$7.2 million and \$7.1 million, respectively, of legal, advisory and other professional service fees. For the six months ended June 30, 2014 and 2013, we recorded approximately \$12.3 million and \$17.6 million, respectively, of expenses related to this matter, which includes approximately \$11.2 million and \$15.5 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		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	(Dollars in millions)			
Interest expense	24.2	7.5	41.9	14.3
Interest income	(2.8)	(2.0)	(5.5)	(3.4)
Net interest expense	<u>\$ 21.4</u>	<u>\$ 5.5</u>	<u>\$ 36.4</u>	<u>\$ 10.9</u>

The increase in net interest expense for the three and six months ended June 30, 2014, as compared to the same periods in 2013, was primarily due to higher weighted average interest rates on our senior secured credit facility and our issuance of \$1.15 billion senior convertible notes in February 2014, including both cash and non-cash interest expense, discussed in *Liquidity and Capital Resources* below.

### Other expense, net

The \$3.2 million increase in the other expense, net, for the six months ended June 30, 2014, as compared to the same period in 2013, was due to the other than temporary impairment loss recognized on our investments in Bolivar-denominated bonds. This impairment loss was primarily due to using the less favorable SICAD I rate to remeasure our Bolivar-denominated investments as opposed to the previous CADIVI rate.

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### **Income Taxes**

Income taxes were \$55.4 million and \$90.2 million for the three and six months ended June 30, 2014, respectively, as compared to \$43.6 million and \$88.3 million for the same periods in 2013. The effective income tax rate was 31.6% and 31.7% for the three and six months ended June 30, 2014, respectively, as compared to 23.4% and 25.2% for the same periods in 2013. The increase in the effective tax rate for the three and six months ended June 30, 2014, as compared to the same periods in 2013, was primarily due to the inability to fully realize a tax benefit relating to Herbalife Ltd.'s interest expense and Herbalife Venezuela's foreign exchange losses, the impact of changes in the geographic mix of our income, and a decrease in net benefits from discrete events, principally related to favorable tax audit settlements in the comparative 2013 periods.

### **Liquidity and Capital Resources**

We have historically met our working capital and capital expenditure requirements, including funding for expansion of operations, through net cash flows provided by operating activities. Variations in sales of our products directly affect the availability of funds. There are no material contractual restrictions on our ability to transfer and remit funds among our international affiliated companies. However, there are foreign currency restrictions in certain countries, such as Venezuela as discussed below, which could reduce our ability to timely obtain U.S. dollars. Even with these restrictions, we believe we will have sufficient resources, including cash flow from operating activities, to meet debt service obligations in a timely manner and be able to continue to meet our objectives.

Our existing debt has not resulted from the need to fund our normal operations, but instead has resulted primarily from our previous and ongoing share repurchase program. Since inception in 2007, total share repurchases amounted to approximately \$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 \$773.5 million cash and cash equivalents and our senior secured credit facility, which includes \$194.6 million of undrawn capacity as of June 30, 2014, in addition to cash flow from operations, can be used to support general corporate purposes, including, our future share repurchases, dividends, and strategic investment opportunities.

We also have a cash pooling arrangement with a financial institution for cash management purposes. This cash pooling arrangement allows certain of our participating subsidiaries to withdraw cash from this financial institution based upon our aggregate cash deposits held by subsidiaries who participate in the cash pooling arrangement. We did not owe any amounts to this financial institution under the pooling arrangement as of June 30, 2014 and December 31, 2013.

For the six months ended June 30, 2014, we generated \$347.6 million of operating cash flow, as compared to \$351.5 million for the same period in 2013. The decrease in cash generated from operations was primarily due to changes in working capital and lower net income offset by the higher non-cash interest and charges, which included the foreign exchange loss relating to Venezuela. The change in working capital included the higher payments to renew an annual insurance policy which increased prepaid expenses and other current assets balance, and the higher payment of the Mark Hughes bonus to members which reduced the royalty override balances.

Capital expenditures, including capital leases and accrued capital expenditures, for the six months ended June 30, 2014 and 2013 were \$89.3 million and \$56.2 million, respectively. The majority of these expenditures represented investments in manufacturing facilities domestically and internationally, management information 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 \$175 million to \$195 million for the full year of 2014, which includes capital expenditures associated with the Winston-Salem, North Carolina facility that was acquired during December 2012 and has begun production.

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

### *Senior Secured Credit Facility*

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



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

In February 2014, in connection with issuing the Convertible Notes described below, we amended the Credit Facility. Pursuant to this amendment, we amended the terms of the Credit Facility to provide for technical amendments to the indebtedness, asset sale and dividend covenants and the cross-default event of default to accommodate the issuance of the Convertible Notes and the capped call and prepaid forward share repurchase transactions described in greater detail below. The amendment also increased by 0.50% the highest applicable margin payable by us in the event that our consolidated total leverage ratio is equal to or exceeds 2.50 to 1.00 and increased our permitted consolidated total leverage ratio under the Credit Facility. We incurred approximately \$2.3 million of debt issuance costs in connection with the amendment. The debt issuance costs are recorded as deferred financing costs on our consolidated balance sheet and will be amortized over the life of the Credit Facility. On June 30, 2014 and December 31, 2013, the weighted average interest rate for borrowings under the Credit Facility, including borrowings under the Term Loan, was 3.01% and 2.17%, respectively.

The Credit Facility requires us to comply with a leverage ratio and a coverage ratio. In addition, the Credit Facility contains customary covenants, including covenants that limit or restrict our ability to incur liens, incur indebtedness, make investments, dispose of assets, make certain restricted payments, pay dividends, repurchase our common shares, merge or consolidate and enter into certain transactions with affiliates. As of June 30, 2014 and December 31, 2013, we were compliant with our debt covenants under the Credit Facility.

During the three months ended March 31, 2014, we repaid a total amount of \$18.8 million under the Credit Facility. During the three months ended June 30, 2014, we repaid a total amount of \$18.8 million under the Credit Facility. Our cash and cash equivalents provided by our borrowings provide us with greater flexibility to execute strategic initiatives and to be opportunistically responsive to future events. As of June 30, 2014 and December 31, 2013, the U.S. dollar amount outstanding under the Credit Facility was \$893.8 million and \$931.3 million, respectively. Of the \$893.8 million U.S. dollar amount outstanding under the Credit Facility as of June 30, 2014, \$393.8 million was outstanding on the Term Loan and \$500.0 million was outstanding on the revolving credit facility. Of the \$931.3 million U.S. dollar amount outstanding under the Credit Facility as of December 31, 2013, \$431.3 million was outstanding on the Term Loan and \$500.0 million was outstanding on the revolving credit facility. There were no outstanding foreign currency borrowings as of June 30, 2014 and December 31, 2013 under the Credit Facility.

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

### *Convertible Senior Notes*

During February 2014, we issued \$1.15 billion aggregate principal amount of convertible senior notes, or the Convertible Notes. The Convertible Notes pay interest at a rate of 2.00% per annum payable semiannually in arrears on February 15 and August 15 of each year, beginning on August 15, 2014. The Convertible Notes mature on August 15, 2019, unless earlier repurchased or converted. We may not redeem the Convertible Notes prior to their stated maturity date. Holders of our Convertible Notes may convert their notes at their option under the following circumstances: (i) during any calendar quarter commencing after the calendar quarter ending March 31, 2014, if the last reported sale price of our common shares for at least 20 trading days (whether or not consecutive) in a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter exceeds 130% of the conversion price for the Convertible Notes on each applicable trading day; (ii) during the five business-day period immediately after any five consecutive trading day period, which we refer to as the measurement period, in which the trading price per \$1,000 principal amount of Convertible Notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of our common shares and the conversion rate for the Convertible Notes for each such day; or (iii) upon the occurrence of specified corporate events. On and after May 15, 2019, holders may convert their Convertible Notes at any time, regardless of the foregoing circumstances. Upon conversion, the Convertible Notes will be settled in cash and, if applicable, our common shares, based on the applicable conversion rate at such time. The Convertible Notes had an initial conversion rate of 11.5908 common shares per \$1,000 principal amount of the Convertible Notes (which is equal to an initial conversion price of approximately \$86.28 per common share). We incurred approximately \$26.6 million of issuance costs during the first quarter of 2014 relating to the issuance of our Convertible Notes. During February 2014, the Company also executed capped call and prepaid forward share repurchase transactions as discussed further below. The primary purpose of the issuance of the Convertible Notes was for share repurchase purposes. See Note 4, *Long-Term Debt*, to the Condensed Consolidated Financial Statements for a further discussion on the Convertible Notes.

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### ***Off-Balance Sheet Arrangements***

At June 30, 2014 and December 31, 2013, we had no material off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

### ***Dividends***

The declaration of future dividends is subject to the discretion of our board of directors and will depend upon various factors, including 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 as long as no default or event of default exists and the consolidated leverage ratio specified in the Credit Facility is not exceeded.

On February 18, 2014, we announced that our board of directors approved a cash dividend of \$0.30 per common share in an aggregate amount of \$30.4 million that was paid to shareholders on March 18, 2014. On April 28, 2014, we announced that our board of directors approved terminating our quarterly cash dividend and instead utilizing the cash to repurchase additional common shares as discussed below. There were no dividends declared and paid during the three months ended June 30, 2014. The aggregate total amount of dividends declared and paid during the three months ended June 30, 2013 was \$30.9 million. The aggregate amount of dividends declared and paid during the six months ended June 30, 2014 and 2013 were \$30.4 million and \$61.8 million, respectively.

During the six months ended June 30, 2014, we received \$3.4 million of dividends primarily relating to the Forward Transactions described below which was recorded directly to our (accumulated deficit) retained earnings. We did not receive any dividends during the three months ended June 30, 2014.

### ***Share Repurchases***

On July 30, 2012, we announced that our board of directors authorized a new \$1 billion share repurchase program that will expire on June 30, 2017. On February 3, 2014, we announced that our board of directors authorized an increase in the existing share repurchase authorization to an available balance of \$1.5 billion. This share repurchase program allows us to repurchase our common shares, at such times and prices as determined by our management as market conditions warrant, and to the extent Herbalife Ltd.'s distributable reserves are available under Cayman Islands law. The Credit Facility permits us to repurchase our common shares as long as no default or event of default exists and the consolidated leverage ratio specified in the Credit Facility is not exceeded.

In conjunction with the issuance of the Convertible Notes during February 2014, we paid approximately \$685.8 million to enter into prepaid forward share repurchase transactions, or the Forward Transactions, with certain financial institutions, or Forward Counterparties, pursuant to which we purchased approximately 9.9 million common shares for settlement on or around the August 15, 2019 maturity date for the Convertible Notes, subject to the ability of each Forward Counterparty to elect to settle all or a portion of our Forward Transactions early. 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. As a result of the Forward Transactions, our total shareholders' (deficit) equity within our consolidated balance sheet was reduced by approximately \$685.8 million during the first quarter of 2014.

On May 6, 2014, we entered into an agreement with Merrill Lynch International to repurchase \$266.0 million of our common shares, or the Repurchase Agreement. Under the terms of the Repurchase Agreement, we paid \$266.0 million on May 7, 2014 and the agreement expired on June 30, 2014. We received an aggregate 4.3 million of our common shares under the Repurchase Agreement during May and June 2014. The total number of common shares repurchased under the Repurchase Agreement was determined generally upon a discounted volume-weighted average share price of our common shares over the course of the Repurchase Agreement.

During the three months ended March 31, 2014, we effectively repurchased approximately 9.9 million of our common shares through the Forward Transactions at an aggregate cost of approximately \$685.8 million or an average cost of \$69.02 per share. The 9.9 million common shares effectively purchased as a result of the Forward Transactions are treated as retired for basic and diluted EPS purposes although they remain legally outstanding. During the three months ended June 30, 2014, we repurchased approximately 9.8 million of our common shares through open market purchases and under the Repurchase Agreement, at an aggregate cost of approximately \$581.3 million or an average cost of \$59.41 per share. As of June 30, 2014, the remaining authorized capacity under our share repurchase program was \$232.9 million inclusive of reductions for the Forward Transactions.

### ***Capped Call Transactions***

In connection with the issuance of Convertible Notes, we paid approximately \$123.8 million to enter into capped call transactions with respect to our common shares, or the Capped Call Transactions, with certain financial institutions. The Capped Call



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Transactions are expected generally to reduce the potential dilution upon conversion of the Convertible Notes in the event that the market price of the common shares is greater than the strike price of the Capped Call Transactions, initially set at \$86.28 per common share, with such reduction of potential dilution subject to a cap based on the cap price initially set at \$120.79 per common share. The strike price and cap price are subject to certain adjustments under the terms of the Capped Call Transactions. Therefore, as a result of executing the Capped Call Transactions, we in effect will only be exposed to potential net dilution once the market price of our common shares exceeds the adjusted cap price. As a result of the Capped Call Transactions, our total shareholders' (deficit) equity within our consolidated balance sheet was reduced by \$123.8 million during the first quarter of 2014.

### ***Working Capital and Operating Activities***

As of June 30, 2014 and December 31, 2013, we had positive working capital of \$552.4 million and \$720.9 million, respectively, or a decrease of \$168.5 million. This decrease was primarily related to the decrease in our cash and cash equivalents, increases in accrued expenses and advanced sales deposits, partially offset by increases in prepaid expense and prepaid income tax, and decreases in accrued royalty and accrued compensation.

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

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

## ***Venezuela***

### ***Currency Restrictions***

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

We plan to utilize the official rates to the extent allowable under current restrictions in order to exchange Bolivars for U.S. dollars. We also plan to access government, PDVSA bond offerings, and alternative legal exchange mechanisms when they are made available. As discussed above, these alternative legal exchange mechanisms or less favorable official exchange mechanisms, such as SICAD II, could cause us to recognize significant foreign exchange losses if they are less favorable than the SICAD I rate, which could also result in our Bolivar denominated cash and cash equivalents reported on our consolidated balance sheet being significantly reduced. To illustrate our sensitivity to potential future changes in the official rate, using unfavorable alternative legal exchange mechanisms or using the SICAD II mechanism to exchange Bolivars to U.S. dollars, if the exchange rate was approximately 50 Bolivars per U.S. dollar and this unfavorable exchange rate was used to convert our Bolivar denominated cash and cash equivalents as of June 30, 2014, our \$152.6 million in Bolivar denominated cash and cash equivalents as of June 30, 2014, would be reduced by \$120.2 million and we would incur \$109.5 million of foreign exchange losses. If this unfavorable rate is used to remeasure Herbalife Venezuela's financial statements in future periods and the extent to which we can increase local prices is restricted, this could negatively impact our future operating income and have an adverse impact to our Venezuelan business. This less favorable exchange rate is not necessarily representative of exchange rates which could be available to us for future exchanges and approximates the SICAD II rate that was published as of June 30, 2014. Our ability to access the official SICAD I and SICAD II exchange rates could impact what exchange rates will be used for remeasurement purposes in future periods. We continue to assess and monitor the current economic and political environment in Venezuela.

### ***Consolidation of Herbalife Venezuela***

We plan to continue our operation in Venezuela and to import products into Venezuela despite the foreign currency constraints that exist in the country. We are evaluating several options to limit our financial exposure from currency restrictions and devaluations

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

Herbalife Venezuela's net sales represented approximately 4% of our consolidated net sales for both the six months ended June 30, 2014 and 2013, and its total assets represented approximately 7% and 10% of our consolidated total assets as of June 30, 2014 and December 31, 2013, respectively. As of June 30, 2014 and December 31, 2013, the majority of its total assets consisted of Bolivar denominated cash and cash equivalents.

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

### **Contingencies**

See Note 5, *Contingencies*, to the Condensed Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q, for information on our contingencies as of June 30, 2014.

### **Critical Accounting Policies**

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

We are a nutrition company that sells a wide range of weight management products, nutritional supplements, energy, sports & fitness products and personal care products. Our products are manufactured by third party providers and 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 June 30, 2014, we sold products in 91 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, and the nature of the regulatory environment.

We generally recognize revenue upon delivery and when both the title and risk and rewards pass to the Member or importer, or as products are sold in our retail stores in China or through our independent service providers in China. Net sales include product sales and shipping and handling revenues. Product sales are recognized net of product returns, and discounts referred to as "distributor allowances." We generally receive the net sales price in cash or through credit card payments at the point of sale. Related royalty overrides are recorded when revenue is recognized.

Allowances for product returns, primarily in connection with our buyback program, are provided at the time the sale is recorded. This accrual is based upon historical return rates for each country and the relevant return pattern, which reflects anticipated returns to be received over a period of up to 12 months following the original sale. Historically, product returns and buybacks have not been significant. Product returns and buybacks were approximately 0.1% of product sales for the three and six months ended June 30, 2014, as compared to 0.2% and 0.3% for the same periods in 2013.

We adjust our inventories to lower of cost or market. Additionally we adjust the carrying value of our inventory based on assumptions regarding future demand for our products and market conditions. If future demand and market conditions are less favorable than management's assumptions, additional inventory write-downs could be required. Likewise, favorable future demand and market conditions could positively impact future operating results if previously written down inventories are sold. We have obsolete and slow moving inventories which have been adjusted downward \$40.1 million and \$32.4 million to present them at their lower of cost or market in our consolidated balance sheets as of June 30, 2014 and December 31, 2013, respectively.

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

In order to estimate the fair value of goodwill, we also primarily use an income approach. The determination of impairment is made at the reporting unit level and consists of two steps. First, we determine the fair value of a reporting unit and compare it to its carrying amount. The determination of the fair value of the reporting units requires us to make significant estimates and assumptions. These estimates and assumptions include estimates of future revenues and expense growth rates, capital expenditures and the depreciation and amortization related to these capital expenditures, discount rates, and other inputs. Due to the inherent uncertainty involved in making these estimates, actual future results could differ. Changes in assumptions regarding future results or other underlying assumptions could have a significant impact on the fair value of the reporting unit. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill and other intangibles over the implied fair value as determined in Step 2 of the goodwill impairment test. Also, if during Step 1 of a goodwill impairment test we determine we have reporting units with zero or negative carrying amounts, then we perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. During Step 2 of a goodwill impairment test, the implied fair value of goodwill is determined in a similar manner as how the amount of goodwill recognized in a business combination is determined, in accordance with the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 805, *Business Combinations*. We would assign the fair value of a reporting unit to all of the assets and liabilities of that reporting unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. As of both June 30, 2014 and December 31, 2013, we had goodwill of approximately \$105.5 million and marketing related intangible assets of approximately \$310.0 million. No marketing related intangibles or goodwill impairment was recorded during the three and six months ended June 30, 2014 and 2013, as their estimated fair value significantly exceeded their carrying amounts.

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

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

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

We account for foreign currency transactions in accordance with the 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 consolidated balance sheets. Foreign currency transaction gains and losses and foreign currency remeasurements are generally included in selling, general and administrative expenses in the accompanying consolidated statements of income.

### ***New Accounting Pronouncements***

See discussion under Note 2, *Significant Accounting Policies*, to the Condensed Consolidated Financial Statements included in Item 1 of Part I 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 consolidated statements of income when the hedged item affects earnings. ASC 815 defines the requirements for designation and documentation of hedging relationships as well as ongoing effectiveness assessments in order to use hedge accounting. For a derivative that does not qualify as a hedge, changes in fair value are recognized concurrently in earnings.

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

### **Foreign Exchange Risk**

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

The foreign exchange forward contracts designated as free standing derivatives are used to hedge advances between subsidiaries and to partially mitigate the impact of foreign currency fluctuations. Foreign exchange average rate option contracts are also used to mitigate the impact of foreign currency rate fluctuations. The objective of these contracts is to neutralize the impact of foreign currency movements on the operating results of our subsidiaries. The fair value of forward and option contracts is based on third-party quotes. Our foreign currency derivative contracts are generally executed on a monthly basis.

We also purchase foreign currency forward contracts in order to hedge forecasted inventory transactions and intercompany management fees that are designated as cash-flow hedges and are subject to foreign currency exposures. We applied the hedge accounting rules as required by ASC 815 for these hedges. These contracts allow us to buy and sell certain currencies at specified

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contract rates. As of June 30, 2014 and December 31, 2013, the aggregate notional amounts of these contracts outstanding were approximately \$251.7 million and \$244.7 million, respectively. At June 30, 2014, the outstanding contracts were expected to mature over the next twelve months. Our derivative financial instruments are recorded on the consolidated balance sheet at fair value based on 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' (deficit) equity, and are recognized in cost of sales in the consolidated statement of income during the period which approximates the time the hedged inventory is sold. We also hedge forecasted intercompany management fees over specific months. Changes in the fair value of these forward contracts designated as cash flow hedges are recorded as a component of accumulated other comprehensive loss within shareholders' (deficit) equity, and are recognized in selling, general and administrative expenses in the consolidated statement of income in the period when the hedged item and underlying transaction affects earnings. As of June 30, 2014, we recorded assets at fair value of \$0.9 million and liabilities at fair value of \$4.6 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. As of December 31, 2013, we recorded assets at fair value of \$5.7 million and liabilities at fair value of \$4.4 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. During the three and six months ended June 30, 2014 and 2013, the ineffective portion relating to these hedges was immaterial and the hedges remained effective as of June 30, 2014 and December 31, 2013.

As of June 30, 2014 and December 31, 2013, the majority of our outstanding foreign currency forward contracts had maturity dates of less than twelve months with the majority of freestanding derivatives expiring within two and three months as of June 30, 2014 and December 31, 2013, respectively. There were no foreign currency option contracts outstanding as of June 30, 2014 and December 31, 2013.

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

<u>Foreign Currency</u>	<u>Average Contract Rate</u>	<u>Notional Amount (In millions)</u>	<u>Fair Value Gain (Loss) (In millions)</u>
<b>At June 30, 2014</b>			
Buy Chinese yuan sell Euro	8.59	\$ 7.9	\$ 0.1
Buy Euro sell Australian dollar	1.45	\$ 4.4	\$ —
Buy Euro sell Chilean peso	754.41	\$ 1.8	\$ —
Buy Euro sell Mexican peso	18.27	\$ 146.6	\$ (2.7)
Buy Euro sell Malaysian ringgit	4.39	\$ 3.0	\$ —
Buy Euro sell Philippine peso	59.95	\$ 1.0	\$ —
Buy Euro sell U.S. dollar	1.36	\$ 190.1	\$ 1.2
Buy British pound sell Euro	0.80	\$ 2.5	\$ —
Buy Malaysian ringgit sell U.S. dollar	3.21	\$ 5.4	\$ —
Buy Taiwan dollar sell U.S. dollar	30.10	\$ 14.6	\$ 0.1
Buy U.S. dollar sell Argentine peso	11.31	\$ 4.0	\$ (1.4)
Buy U.S. dollar sell Brazilian Real	2.41	\$ 11.4	\$ (0.5)
Buy U.S. dollar sell Colombian peso	1,884.59	\$ 9.2	\$ —
Buy U.S. dollar sell Euro	1.36	\$ 150.7	\$ (0.7)
Buy U.S. dollar sell South Korean won	1,049.74	\$ 16.5	\$ (0.5)
<b>Total forward contracts</b>		<u>\$ 569.1</u>	<u>\$ (4.4)</u>

The majority of our foreign subsidiaries designate their local currencies as their functional currencies. At June 30, 2014 and December 31, 2013, the total amount of our foreign subsidiary cash was \$649.7 million and \$567.4 million, respectively, of which \$14.5 million and \$6.8 million, respectively, was invested in U.S. dollars. At June 30, 2014 and December 31, 2013, the total amount of cash and cash equivalents held by our parent and its U.S. entities was \$123.8 million and \$405.6 million, respectively.

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

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### Interest Rate Risk

As of June 30, 2014, the aggregate annual maturities of the Credit Facility were expected to be \$43.8 million for the remainder of 2014, \$100.0 million for 2015, and \$750.0 million for 2016. The fair value of the Credit Facility approximated its carrying value of \$893.8 million as of June 30, 2014. The fair value of the Credit Facility approximated its carrying value of \$931.3 million as of December 31, 2013. The Credit Facility bears a variable interest rate, and on June 30, 2014 and December 31, 2013, the weighted average interest rate of the Credit Facility, including borrowings under the Term Loan, was 3.01% and 2.17%, respectively. As of June 30, 2014, the fair value of the liability component of our \$1.15 billion Convertible Notes was approximately \$911.3 million and the carrying value was \$944.2 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 \$8.9 million.

### Item 4. Controls And Procedures

*Evaluation of Disclosure Controls and Procedures.* Our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of June 30, 2014.

*Changes in Internal Control over Financial Reporting.* There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## FORWARD-LOOKING STATEMENTS

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

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

- our relationship with, and our ability to influence the actions of, our Members;
- improper action by our employees or Members in violation of applicable law;
- adverse publicity associated with our products or network marketing organization, including our ability to comfort the marketplace and regulators regarding our compliance with applicable laws;
- changing consumer preferences and demands;
- our reliance upon, or the loss or departure of any member of, our senior management team which could negatively impact our Member relations and operating results;
- the competitive nature of our business;
- regulatory matters governing our products, including potential governmental or regulatory actions concerning the safety or efficacy of our products and network marketing program, including the direct selling market in which we operate;
- legal challenges to our network marketing program;
- risks associated with operating internationally and the effect of economic factors, including foreign exchange, inflation, disruptions or conflicts with our third party importers, pricing and currency devaluation risks, especially in countries such as Venezuela;

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- uncertainties relating to the application of transfer pricing, duties, value added taxes, and other tax regulations, and changes thereto;
- uncertainties relating to interpretation and enforcement of legislation in China governing direct selling;
- uncertainties relating to the interpretation, enforcement or amendment of legislation in India governing direct selling;
- our inability to obtain the necessary licenses to expand our direct selling business in China;
- adverse changes in the Chinese economy, Chinese legal system or Chinese governmental policies;
- our dependence on increased penetration of existing markets;
- contractual limitations on our ability to expand our business;
- our reliance on our information technology infrastructure and outside manufacturers;
- the sufficiency of trademarks and other intellectual property rights;
- product concentration;
- changes in tax laws, treaties or regulations, or their interpretation;
- taxation relating to our Members;
- product liability claims;
- whether we will purchase any of our shares in the open markets or otherwise; and
- share price volatility related to, among other things, speculative trading and certain traders shorting our common shares.

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

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

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

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

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

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

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



Item 1A. **RISK FACTORS**

**Risks Related to Us and Our Business**

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

We distribute our products exclusively to and through approximately 3.9 million independent Members, including 0.2 million in China, and we depend upon them directly for substantially all of our sales. To increase our revenue, we must increase the number of, or the productivity of, our Members. Accordingly, our success depends in significant part upon our ability to recruit, retain and motivate a large base of Members. The loss of a significant number of Members for any reason could negatively impact sales of our products and could impair our ability to attract new Members. In our efforts to attract and retain Members, we compete with other network marketing organizations, including those in the weight management, dietary and nutritional supplement and personal care and cosmetic product industries. Our operating results could be harmed if our existing and new business opportunities and products do not generate sufficient interest to retain existing Members and attract new Members.

Our Member organization has a high turnover rate, which is a common characteristic found in the direct selling industry. In light of this fact, we have our sales leaders re-qualify annually in order to maintain a more accurate count of their numbers. For the latest twelve month re-qualification period ending January 2014, approximately 51.8% of our sales leaders, excluding China and temporarily Venezuela, re-qualified. Members who purchase our product for personal consumption or for short-term income goals may stay with us for several months to one year. Sales leaders who have committed time and effort to build a sales organization will generally stay for longer periods. Members have highly variable levels of training, skills and capabilities. The turnover rate of our Members, and our operating results, can be adversely impacted if we, and our senior Member leadership, do not provide the necessary mentoring, training and business support tools for new Members to become successful sales people.

We estimate that, of our approximately 3.9 million independent Members, we had approximately 571,000 sales leaders as of June 30, 2014. These sales leaders, together with their downline sales organizations, account for substantially all of our revenues. Our Members, including our sales leaders, may voluntarily terminate their Member agreements with us at any time. The loss of a group of leading sales leaders, together with their downline sales organizations, or the loss of a significant number of Members for any reason, could negatively impact sales of our products, impair our ability to attract new Members and harm our financial condition and operating results.

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

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

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

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

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

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



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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. For example, in May 2008 public allegations were made that certain of our products contain excessive amounts of lead thereby triggering disclosure and labeling requirements under California Proposition 65. Following an investigation, these allegations were publicly withdrawn by their initiator. While we have confidence in our products because they fall within FDA suggested guidelines as well as applicable state regulations for the amount of lead that consumers can safely ingest and do not believe they trigger disclosure or labeling requirements under California Proposition 65, negative publicity such as this can disrupt our business. Adverse publicity, whether or not accurate or resulting from consumers' use or misuse of our 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 similar constraints. Such laws, regulations and other constraints may exist at the federal, state or local levels in the United States and at all levels of government in foreign jurisdictions. There can be no assurance that we or our Members are in compliance with all of these regulations. Our failure or our Members' failure to comply with these regulations or new regulations could disrupt our Members' sale of our products, or lead to the imposition of significant penalties or claims and could negatively impact our business. In addition, the adoption of new regulations or changes in the interpretations of existing regulations may result in significant compliance costs or discontinuation of product sales and may negatively impact the marketing of our products, resulting in significant loss of sales revenues.

The FTC revised its Guides Concerning the Use of Endorsements and Testimonials in Advertising, or Guides, which became effective on December 1, 2009. Although the Guides are not binding, they explain how the FTC interprets Section 5 of the FTC Act's prohibition on unfair or deceptive acts or practices. Consequently, the FTC could bring a Section 5 enforcement action based on practices that are inconsistent with the Guides. Under the revised Guides, advertisements that feature a consumer and convey his or her atypical experience with a product or service are required to clearly disclose the results that consumers can generally expect. In contrast to the 1980 version of the Guides, which allowed advertisers to describe atypical results in a testimonial as long as they included a disclaimer such as "results not typical", the revised Guides no longer contain such a safe harbor. The revised Guides also add new examples to illustrate the long-standing principle that "material connections" between advertisers and endorsers (such as payments or free products), connections that consumers might not expect, must be disclosed. Herbalife has revised its marketing materials to be compliant with the revised Guides. However, it is possible that our use, and that of our Members, of testimonials in the advertising and promotion of our products, including but not limited to our weight management products and our income opportunity, will be significantly impacted and therefore might negatively impact our sales.

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Governmental regulations in countries where we plan to commence or expand operations may prevent or delay entry into those markets. In addition, our ability to sustain satisfactory levels of sales in our markets is dependent in significant part on our ability to introduce additional products into such markets. However, governmental regulations in our markets, both domestic and international, can delay or prevent the introduction, or require the reformulation or withdrawal, of certain of our products. Any such regulatory action, whether or not it results in a final determination adverse to us, could create negative publicity, with detrimental effects on the motivation and recruitment of Members and, consequently, on sales.

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

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

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

Our network marketing program is subject to a number of federal and state regulations administered by the FTC and various federal and state agencies in the United States as well as regulations on direct selling in foreign markets administered by foreign agencies. We are subject to the risk that, in one or more markets, our network marketing program could be found not to be in compliance with applicable law or regulations. Regulations applicable to network marketing organizations generally are directed at preventing fraudulent or deceptive schemes, often referred to as "pyramid" or "chain sales" schemes, by ensuring that product sales ultimately are made to consumers and that advancement within an organization is based on sales of the organization's products rather than investments in the organization or other non-retail sales-related criteria. The regulatory requirements concerning network marketing programs do not include "bright line" rules and are inherently fact-based and, thus, we are subject to the risk that these laws or regulations or the enforcement or interpretation of these laws and regulations by governmental agencies or courts can change. The ambiguity surrounding these laws can also affect the public perception of our company. Specifically, in late 2012, a hedge fund manager publicly raised allegations regarding the legality of our network marketing program and announced that his fund had taken a significant short position regarding our common shares, leading to intense public scrutiny and significant stock price volatility. The failure of our network marketing program to comply with current or newly adopted regulations could negatively impact our business in a particular market or in general and may adversely affect our share price.

We are also subject to the risk of private party challenges to the legality of our network marketing program. Some multi-level marketing programs of other companies have been successfully challenged in the past, while other challenges to multi-level marketing programs of other companies have been defeated. Adverse judicial determinations with respect to our network marketing program, or in proceedings not involving us directly but which challenge the legality of multi-level marketing systems, in any other market in which we operate, could negatively impact our business. Additionally, Herbalife has been named as a defendant in a purported class action lawsuit filed April 8, 2013 in the U.S. District Court for the Central District of California (*Bostick, et al., v. Herbalife International of America, Inc., et al*) challenging the legality of our network marketing program under various state and federal laws. On May 30, 2013, we filed a motion to dismiss the lawsuit on a variety of grounds. On October 11, 2013, after plaintiff indicated his intention to dismiss certain claims brought under federal law, the Court denied our motion to dismiss the remaining state claims. On July 7, 2014, the complaint was amended to add additional plaintiffs. As of June 30, 2014, a class has not been certified. Trial on these state claims has been set to commence on April 21, 2015. We believe the suit is without merit and plan to defend the suit vigorously.

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

Approximately 82% of our net sales for the year ended December 31, 2013, were generated outside the United States, exposing our business to risks associated with foreign operations. For example, a foreign government may impose trade or foreign exchange

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restrictions or increased tariffs, or otherwise limit or restrict our ability to import products into a country, any of which could negatively impact our operations. We are also exposed to risks associated with foreign currency fluctuations. For instance, purchases from suppliers are generally made in U.S. dollars while sales to Members are generally made in local currencies. Accordingly, strengthening of the U.S. dollar versus a foreign currency could have a negative impact on us. Although we engage in transactions to protect against risks associated with foreign currency fluctuations, we cannot be certain any hedging activity will effectively reduce our exchange rate exposure. Additionally we may be negatively impacted by conflicts with or disruptions caused or faced by our third party importers, as well as conflicts between such importers and local governments or regulating agencies. Our operations in some markets also may be adversely affected by political, economic and social instability in foreign countries. As we continue to focus on expanding our existing international operations, these and other risks associated with international operations may increase, which could harm our financial condition and operating results.

Currency restrictions enacted by the Venezuelan government have become more restrictive and have impacted the ability of our subsidiary in Venezuela, or Herbalife Venezuela, to obtain U.S. dollars in exchange for Venezuelan Bolívares, or Bolívares, at the official foreign exchange rate from the Venezuelan government and its foreign exchange commission, CADIVI. The application and approval processes have been intermittently delayed and the timing and ability to obtain U.S. dollars at the official exchange rates remains uncertain. In certain instances, we have made appropriate applications through CADIVI for approval to obtain U.S. dollars so that Herbalife Venezuela can pay for imported products and an annual dividend, at the official exchange rate. In recent instances we have been unsuccessful in obtaining U.S. dollars at the official rate and it remains uncertain whether our current pending applications and future anticipated applications will be approved. As an alternative exchange mechanism, in prior years, we have also participated in certain bond offerings from the Venezuelan government and from *Petróleos de Venezuela, S.A.* or PDVSA, a Venezuelan state-owned petroleum company, where we effectively purchased bonds with our Bolívares and then sold the bonds for U.S. dollars. In other instances, we have also used other alternative legal exchange mechanisms for currency exchanges, such as the legal parallel market mechanism which was discontinued in May 2010.

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

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

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

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

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

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In 2005, China published regulations governing direct selling and prohibiting pyramid promotional schemes, and a number of administrative methods and proclamations were issued in 2005 and in 2006. These regulations require us to use a business model different from that which we offer in other markets. To allow us to operate under these regulations, we have created and introduced a model specifically for China. In China, we have Company-operated retail stores that can directly serve customers and preferred customers. We also have sales representatives who are permitted by the terms of our direct selling licenses to sell away from fixed retail locations in the provinces of Jiangsu, Guangdong, Shandong, Zhejiang, Guizhou, Beijing, Fujian, Sichuan, Hubei, Shanxi, Shanghai, Jiangxi, Liaoning, Jilin, Henan, Chongqing, Hebi, Shaanxi, Tianjin, Heilongjiang, Hunan, Guangxi, Hainan, Anhui and Yunnan.

We have also engaged independent service providers that meet both the requirements to operate their own business under Chinese law as well as the conditions set forth by Herbalife to sell products and provide marketing, sales and support services to Herbalife customers. These features are not common to the business model we employ elsewhere in the world, and based on the direct selling licenses we have received and the terms of those which we hope to receive in the future to conduct a direct selling enterprise in China, our business model in China will continue to incorporate some or all of these features. The direct selling regulations require us to apply for various approvals to conduct a direct selling enterprise in China. The process for obtaining the necessary licenses to conduct a direct selling business is protracted and cumbersome and involves multiple layers of Chinese governmental authorities and numerous governmental employees at each layer. While direct selling licenses are centrally issued, such licenses are generally valid only in the jurisdictions within which related approvals have been obtained. Such approvals are generally awarded on local and provincial bases, and the approval process requires involvement with multiple ministries at each level. Our participation and conduct during the approval process is guided not only by distinct Chinese practices and customs, but is also subject to applicable laws of China and the other jurisdictions in which we operate our business, including the U.S., as well as our internal code of ethics. There is always a risk that in attempting to comply with local customs and practices in China during the application process or otherwise, we will fail to comply with requirements applicable to us in China itself or in other jurisdictions, and any such failure to comply with applicable requirements could prevent us from obtaining the direct selling licenses or related local or provincial approvals. Furthermore, we rely on certain key personnel in China to assist us during the approval process, and the loss of any such key personnel could delay or hinder our ability to obtain licenses or related approvals. For all of the above reasons, there can be no assurance that we will obtain additional direct-selling licenses, or obtain related approvals to expand into any or all of the localities or provinces in China that are important to our business. Our inability to obtain, retain, or renew any or all of the licenses or related approvals that are required for us to operate in China could negatively impact our business.

Additionally, although certain regulations have been published with respect to obtaining and operating under such approvals and otherwise conducting business in China, other regulations are pending and there continues to be uncertainty regarding the interpretation and enforcement of Chinese regulations. The regulatory environment in China is evolving, and officials in the Chinese government exercise broad discretion in deciding how to interpret and apply regulations. We cannot be certain that our business model will continue to be deemed by national or local Chinese regulatory authorities to be compliant with any such regulations. The Chinese government rigorously monitors the direct selling market in China, and in the past has taken serious action against companies that the government believed were engaging in activities they regarded to be in violation of applicable law, including shutting down their businesses and imposing substantial fines. As a result, there can be no guarantee that the Chinese government's current or future interpretation and application of the existing and new regulations will not negatively impact our business in China, result in regulatory investigations or lead to fines or penalties against us or our Chinese Members.

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

China enacted a labor contract law which took effect January 1, 2008 and on September 18, 2008 an implementing regulation took effect. On October 28, 2010 China enacted a social insurance law that came into effect on July 1, 2011. We have reviewed our employment contracts and contractual relations with employees in China, which include certain of our employed sales personnel, and have transferred those employed sales personnel into independent service providers and have made such other changes as we believe to be necessary or appropriate to bring these contracts and contractual relations into compliance with these laws and their implementing regulations. In addition, we continue to monitor the situation to determine how these laws and regulations will be implemented in practice. There is no guarantee that these laws will not adversely impact us, cause us to change our operating plan for China or otherwise have an adverse impact on our business operations in China.

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

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

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

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

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

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

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

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

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

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

The most important aspect of our information technology infrastructure is the system through which we record and track Member sales, volume points, royalty overrides, bonuses and other incentives. We have encountered, and may encounter in the future, errors in our software or our enterprise network, or inadequacies in the software and services supplied by our vendors, although to date none of these errors or inadequacies has had a meaningful adverse impact on our business. Any such errors or inadequacies that we



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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.***

The majority of our products are manufactured at third party contract manufacturers, with the exception of our products sold in China, which are manufactured in our Suzhou China facility, and certain of our top selling products which are produced in our manufacturing facility located in Lake Forest, California. It is the Company's intention to expand the capacity of its existing manufacturing facilities, and add additional facilities, to produce additional products for our North America and international markets. In December of 2012 we purchased a facility in Winston-Salem, North Carolina that has begun production and are in the process of refurbishing this facility to become our largest finished goods manufacturing facility. We cannot assure you that our outside contract manufacturers will continue to reliably supply products to us at the levels of quality, or the quantities, we require, and in compliance with applicable laws, including under the FDA's cGMP regulations and while efforts are being made to ensure a smooth transition we cannot assure you that the transition from our third party contract manufacturers to this new Herbalife facility will not result in possible inventory shortages. Additionally, while we are not presently aware of any current liquidity issues with our suppliers, we cannot assure you that they will not experience financial hardship as a result of the current global financial crisis.

For the portion of our product supply that is self-manufactured, we believe we have significantly lowered the product supply risk, as the risk factors of financial health, liquidity, capacity expansion, reliability and product quality are all within our control. However, a significant delay in completion of the Winston-Salem Facility, while unlikely, could hamper our ability to support the continued growth in net sales.

Our supply contracts generally have a three-year term. Except for force majeure events such as natural disasters and other acts of God, and non-performance by Herbalife, our manufacturers generally cannot unilaterally terminate these contracts. These contracts can generally be extended by us at the end of the relevant time period and we have exercised this right in the past. Globally we have approximately 50 suppliers of our products. For our major products, we typically have both primary and secondary suppliers. Our major suppliers include Fine Foods (Italy) for meal replacements, protein powders and nutritional supplements, Valentine Enterprises (U.S.) for meal replacements and protein powders, Nature's Bounty (U.S.) for meal replacements and nutritional supplements, and PharmaChem Labs (U.S.) for teas and *Niteworks*®. Additionally we use contract manufacturers in India, Brazil, Korea, Japan, Taiwan and Germany to support our global business. In the event any of our contract manufacturers were to become unable or unwilling to continue to provide us with products in required volumes and at suitable quality levels, we would be required to identify and obtain acceptable replacement manufacturing sources. There is no assurance that we would be able to obtain alternative manufacturing sources on a timely basis. An extended interruption in the supply of products would result in the loss of sales. In addition, any actual or perceived degradation of product quality as a result of reliance on contract manufacturers may have an adverse effect on sales or result in increased product returns and buybacks. Also, as we experience ingredient and product price pressure in the areas of soy, fructose, dairy products, gums, plastics, and transportation reflecting global economic trends, we believe that we have the ability to mitigate some of these cost increases through improved optimization of our supply chain coupled with select increases in the retail prices of our products.

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

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

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

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

***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.



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

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

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

We depend on the continued services of our Chairman and Chief Executive Officer, Michael O. Johnson, and our current senior management team as they work closely with the senior Member leadership to create an environment of inspiration, motivation and entrepreneurial business success. Although we have entered into employment agreements with certain members of our senior management team, and do not believe that any of them are planning to leave or retire in the near term, we cannot assure you that our senior managers will remain with us. The loss or departure of any member of our senior management team could adversely impact our Member relations and operating results. If any of these executives do not remain with us, our business could suffer. Also, the loss of key personnel, including our regional and country managers, could negatively impact our ability to implement our business strategy, and our continued success will also be dependent on our ability to retain existing, and attract additional, qualified personnel to meet our needs. We currently do not maintain “key person” life insurance with respect to our senior management team.

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

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

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

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

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

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

Holders of our Convertible Notes may convert their notes at their option under the following circumstances: (i) during any calendar quarter commencing after the calendar quarter ending March 31, 2014, if the last reported sale price of our common shares for at least 20 trading days (whether or not consecutive) in a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter exceeds 130% of the conversion price for the Convertible Notes on each applicable trading day; (ii) during the five business-day period immediately after any five consecutive trading day period, which we refer to as the measurement period, in which the trading price per \$1,000 principal amount of Convertible Notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of our common shares and the conversion rate for the Convertible Notes for each such day; or (iii) upon the occurrence of specified corporate events. On and after May 15, 2019, holders may convert their Convertible Notes at any time, regardless of the foregoing circumstances. The Convertible Notes are net-share settled. If one or more holders elect to convert their Convertible Notes when conversion is permitted, we could be required to make cash payments equal to the par amount of each Convertible Note, which could adversely affect our liquidity. In addition, even

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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 stockholders will experience immediate dilution of voting rights and our common share price may decline. Furthermore, the perception that such dilution could occur may cause the market price of our common shares to decline.

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

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

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

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

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

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The Mexican Tax Administration Service commenced audits of our Mexican subsidiaries for the period from January to September 2007 and on May 10, 2013, we received an assessment of approximately \$23 million, translated at the period ended spot rate, related to that period. On July 11, 2013 the Company filed an administrative appeal disputing the assessment. In addition, the Mexican Tax Administration Service has requested additional information in response to Company filings for VAT refunds.

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

The Mexican Tax Administration Service has requested information related to the Company's 2010 year. This information has been provided.

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

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

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

We believe that we are currently not a “controlled foreign corporation” for U.S. federal income tax purposes. However, this conclusion depends upon whether United States persons or entities who own 10% or more of the total combined voting power (10% shareholders”) own in the aggregate more than 50% of (i) the total combined voting power, or (ii) the total value of all our stock. In determining voting power, in addition to voting stock any special voting rights to appoint directors, whether by law, agreement or other arrangement, may also be taken into account. For purposes of applying the voting and value tests, certain constructive ownership rules apply, which attribute ownership among certain family members and certain entities and their owners. These rules may also attribute ownership of our stock to a person or entity that is entitled to acquire our stock pursuant to an option, such as the holders of our Convertible Notes due August 15, 2019. These constructive ownership rules are very complex and their application to specific circumstances is subject to uncertainty.

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

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

A change in applicable tax laws, treaties or regulations or their interpretation could result in a higher effective tax rate on our worldwide earnings and such change could be significant to our financial results. Tax legislative proposals intending to eliminate some perceived tax advantages of companies that have legal domiciles outside the U.S. but have certain U.S. connections have repeatedly been introduced in the U.S. Congress. If these proposals are enacted, the result would increase our effective tax rate and could have a material adverse effect on the Company's financial condition and results of operations.

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

Our Members are subject to taxation, and in some instances, legislation or governmental agencies impose an obligation on us to collect taxes, such as value added taxes and social contributions, and to maintain appropriate records. In addition, we are subject to the risk in some jurisdictions of being responsible for social security, withholding or other taxes with respect to payments to our Members. For example, in Brazil and Italy the Company received tax assessments from the authorities for withholding taxes, social contributions, and related items in connection with payments made to Members in those countries in prior periods. The Company has appealed the assessments. In the case of Italy the assessment is anticipated to be withdrawn. The Company believes it has meritorious defenses in other instances. In addition, in the event that local laws and regulations or the interpretation of local laws and regulations change to require us to treat our Members as employees, or that our Members are deemed by local regulatory authorities in one or more of the jurisdictions in which we operate to be our employees rather than independent contractors under existing laws and interpretations, we may be held responsible for social contributions, withholding and related taxes in those jurisdictions, plus any related assessments and penalties, which could harm our financial condition and operating results.

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

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

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

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

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

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

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

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

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

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

A shareholder can bring a suit personally where its individual rights have been, or are about to be, infringed. Where an action is brought to redress any loss or damage suffered by us, we would be the proper plaintiff, and a shareholder could not ordinarily maintain an action on our behalf, except where it was permitted by the courts of the Cayman Islands to proceed with a derivative action. Our Cayman Islands counsel, Maples and Calder, is not aware of any reported decisions in relation to a derivative action brought in a Cayman Islands court. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, a shareholder may be permitted to bring a claim derivatively on the Company's behalf, where:

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

### ***Provisions of our articles of association and Cayman Islands corporate law may impede a takeover or make it more difficult for shareholders to change the direction or management of the Company, which could reduce shareholders' opportunity to influence management of the Company.***

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

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

The Cayman Islands have provisions under the Companies Law (2013 Revision) (the "Companies Law") to facilitate mergers and consolidations between Cayman Islands companies and non-Cayman Islands companies. These provisions, contained within Part XVI of the Companies Law, are broadly similar to the merger provisions as provided for under Delaware Law.

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

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

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

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

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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.

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

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

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

- (a) None.
- (b) None.
- (c) On July 30, 2012, we announced that our board of directors authorized a new \$1 billion share repurchase program that will expire on June 30, 2017. On February 3, 2014, we announced that our board of directors authorized an increase in the existing share repurchase authorization to an available balance of \$1.5 billion. This share repurchase program allows us to repurchase our common shares, at such times and prices as determined by our management as market conditions warrant, and to the extent Herbalife Ltd.'s distributable reserves are available under Cayman Islands law. The Credit Facility permits us to repurchase our common shares as long as no default or event of default exists and the consolidated leverage ratio specified in the Credit Facility is not exceeded.

In conjunction with the issuance of the Convertible Notes during February 2014, we paid approximately \$685.8 million to enter into the Forward Transactions with the Forward Counterparties pursuant to which we purchased approximately 9.9 million common shares for settlement on or around the August 15, 2019 maturity date for the Convertible Notes, subject to the ability of each Forward Counterparty to elect to settle all or a portion of our Forward Transactions early. 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. As a result of the Forward Transactions, our total shareholders' (deficit) equity within our consolidated balance sheet was reduced by approximately \$685.8 million during the first quarter of 2014, with amounts of \$653.9 million and \$31.9 million being allocated between (accumulated deficit) retained earnings and additional paid-in-capital, respectively, within total shareholders' (deficit) equity.

On May 6, 2014, we entered into an agreement with Merrill Lynch International to repurchase \$266.0 million of our common shares pursuant to the Repurchase Agreement. Under the terms of the Repurchase Agreement, we paid \$266.0 million on May 7, 2014 and the agreement expired on June 30, 2014. We received an aggregate 4.3 million of our common shares under the Repurchase Agreement during May and June 2014. The total number of common shares repurchased under the Repurchase Agreement was determined generally upon a discounted volume-weighted average share price of our common shares over the course of the Repurchase Agreement.

The following is a summary of our repurchases of common shares during the three months ended June 30, 2014:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 — April 30	5,502,971	\$ 57.30	5,502,971	\$ 498,900,592
May 1 — May 31	1,850,000	\$ 62.11	1,850,000	\$ 383,992,821
June 1 — June 30	2,432,565	\$ 62.11	2,432,565	\$ 232,900,592
	<u>9,785,536</u>	\$ 59.41	<u>9,785,536</u>	\$ 232,900,592

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**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

(a) None.

(b) None.



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**Item 6. Exhibits**

(a) Exhibit Index:

**EXHIBIT INDEX**

<u>Exhibit Number</u>	<u>Description</u>	<u>Reference</u>
3.1	Form of Amended and Restated Memorandum and Articles of Association of Herbalife Ltd.	(q)
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	(s)
4.3	Form of Global Note for 2.00% Convertible Senior Note due 2019 (included as Exhibit A to exhibit 4.2 hereto)	(s)
10.1	Form of Indemnity Agreement between Herbalife International Inc. and certain officers and directors of Herbalife International, Inc.	(a)
10.2#	Herbalife International of America, Inc.'s Senior Executive Deferred Compensation Plan, effective January 1, 1996, as amended	(a)
10.3#	Herbalife International of America, Inc.'s Management Deferred Compensation Plan, effective January 1, 1996, as amended	(a)
10.4#	Master Trust Agreement between Herbalife International of America, Inc. and Imperial Trust Company, Inc., effective January 1, 1996	(a)
10.5#	Herbalife International Inc. 401K Profit Sharing Plan and Trust, as amended	(a)
10.6	Notice to Distributors regarding Amendment to Agreements of Distributorship, dated as of July 18, 2002 between Herbalife International, Inc. and each Herbalife Distributor	(a)
10.7#	WH Holdings (Cayman Islands) Ltd. Stock Incentive Plan, as restated, dated as of November 5, 2003	(a)
10.8#	Non-Statutory Stock Option Agreement, dated as of April 3, 2003 between WH Holdings (Cayman Islands) Ltd. and Michael O. Johnson	(a)
10.9#	Side Letter Agreement dated as of April 3, 2003 by and among WH Holdings (Cayman Islands) Ltd., Michael O. Johnson and the Shareholders listed therein	(a)
10.10#	Form of Non-Statutory Stock Option Agreement (Non-Executive Agreement)	(a)
10.11#	Form of Non-Statutory Stock Option Agreement (Executive Agreement)	(a)
10.12	Indemnity Agreement, dated as of February 9, 2004, among WH Capital Corporation and Brett R. Chapman	(a)
10.13#	First Amendment to Amended and Restated WH Holdings (Cayman Islands) Ltd. Stock Incentive Plan, dated November 5, 2003	(a)
10.14	Form of Indemnification Agreement between Herbalife Ltd. and the directors and certain officers of Herbalife Ltd.	(b)
10.15#	Herbalife Ltd. 2004 Stock Incentive Plan, effective December 1, 2004	(b)
10.16#	Amendment No. 1 to Herbalife Ltd. 2004 Stock Incentive Plan	(d)
10.17#	Form of 2004 Herbalife Ltd. 2004 Stock Incentive Plan Stock Option Agreement	(h)
10.18#	Form of 2004 Herbalife Ltd. 2004 Stock Incentive Plan Non-Employee Director Stock Option Agreement	(h)
10.19#	Amended and Restated Herbalife Ltd. 2005 Stock Incentive Plan	(e)
10.20#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement	(l)
10.21#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement	(l)

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<u>Exhibit Number</u>	<u>Description</u>	<u>Reference</u>
10.22#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Michael O. Johnson	(l)
10.23#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Michael O. Johnson	(l)
10.24#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Messrs. Richard P. Goudis and Brett R. Chapman	(l)
10.25#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Messrs. Richard P. Goudis and Brett R. Chapman	(l)
10.26#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Mr. Michael O. Johnson	(o)
10.27#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Mr. Michael O. Johnson	(o)
10.28#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Messrs. Brett R. Chapman and Richard Goudis	(o)
10.29#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Messrs. Brett R. Chapman and Richard Goudis	(o)
10.30#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement	(o)
10.31#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement	(o)
10.32#	Herbalife Ltd. Employee Stock Purchase Plan	(p)
10.33#	Employment Agreement dated as of March 27, 2008 between Michael O. Johnson and Herbalife International of America, Inc.	(p)
10.34#	Stock Unit Award Agreement by and between Herbalife Ltd. and Michael O. Johnson, dated March 27, 2008	(p)
10.35#	Stock Appreciation Right Award Agreement by and between Herbalife Ltd. and Michael O. Johnson, dated March 27, 2008	(p)
10.36#	Stock Appreciation Right Award Agreement by and between Herbalife Ltd. and Michael O. Johnson, dated March 27, 2008	(p)
10.37#	Amendment to Herbalife International Inc. 401K Profit Sharing Plan and Trust	*
10.38#	Form of Independent Directors Stock Appreciation Right Award Agreement	(f)
10.39#	Herbalife Ltd. Amended and Restated Independent Directors Deferred Compensation and Stock Unit Plan	(f)
10.40#	Amended and Restated Employment Agreement by and between Richard P. Goudis and Herbalife International of America, Inc., dated as of January 1, 2010	(g)
10.41#	First Amendment to the Amended and Restated Employment Agreement by and between Richard P. Goudis and Herbalife International of America, Inc., dated as of December 28, 2010	(j)
10.42#	Amended and Restated Employment Agreement by and between Brett Chapman and Herbalife International of America, Inc., dated as of June 1, 2010	(i)
10.43#	First Amendment to the Amended and Restated Employment Agreement by and between Brett R. Chapman and Herbalife International of America, Inc., dated as of December 26, 2010	(j)
10.44#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement	(h)
10.45#	Amended and Restated Non-Management Directors Compensation Plan	(h)
10.46#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Non-Employee Directors Stock Appreciation Right Award Agreement	(h)
10.47#	Severance Agreement by and between John DeSimone and Herbalife International of America, Inc., dated as of February 23, 2011	(k)

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<u>Exhibit Number</u>	<u>Description</u>	<u>Reference</u>
10.48#	Amended and Restated Severance Agreement, dated as of February 23, 2011, by Desmond Walsh and Herbalife International of America, Inc.	(k)
10.49	Credit Agreement, dated as of March 9, 2011, by and among Herbalife International, Inc. ("HII"), Herbalife Ltd., Herbalife International Luxembourg S.a.R.L., certain subsidiaries of HII as guarantors, the lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer	(l)
10.50	First Amendment, dated July 26, 2012, to Credit Agreement, dated as of March 9, 2011, by and among Herbalife International, Inc. ("HII"), Herbalife Ltd., Herbalife International Luxembourg S.a.R.L., certain subsidiaries of HII as guarantors, the lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer	(o)
10.51#	Amendment to Amended and Restated Herbalife Ltd. 2005 Stock Incentive Plan	(m)
10.52#	Stock Appreciation Right Award Agreement, dated August 4, 2011, by and between Herbalife Ltd. and Michael O. Johnson	(n)
10.53	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	(r)
10.54	Form of Forward Share Repurchase Confirmation	(s)
10.55	Form of Base Capped Call Confirmation	(s)
10.56	Form of Additional Capped Call Confirmation	(s)
10.57#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Performance Condition Stock Appreciation Right Award Agreement	(s)
10.58	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.	(t)
10.59#	Herbalife Ltd. 2014 Stock Incentive Plan.	(u)
10.60	Confirmation between Merrill Lynch International and Herbalife Ltd., dated May 6, 2014	*
31.1	Rule 13a-14(a) Certification of Chief Executive Officer	*
31.2	Rule 13a-14(a) Certification of Chief Financial Officer	*
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer	*
101.INS	XBRL Instance Document	*
101.SCH	XBRL Taxonomy Extension Schema Document	*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	*

\* Filed herewith.

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- # 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 February 17, 2005 as an Exhibit to the Company's registration statement on Form S-8 (File No. 333-122871) and is incorporated herein by reference.
- (e) Previously filed on April 30, 2010 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (f) Previously filed on May 3, 2010 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 and is incorporated by reference.
- (g) Previously filed on June 17, 2010 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (h) Previously filed on August 2, 2010 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 and is incorporated by reference.
- (i) Previously filed on August 3, 2010 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (j) Previously filed on December 29, 2010 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (k) Previously filed on March 1, 2011 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (l) Previously filed on May 2, 2011 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 and is incorporated by reference.
- (m) Previously filed on April 29, 2011 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (n) Previously filed on August 10, 2011 as an Exhibit to the Company's Current Report on Form 8-K, and is incorporated herein by reference.
- (o) 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.
- (p) 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.
- (q) Previously filed on October 28, 2013 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 and is incorporated herein by reference.
- (r) 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.
- (s) 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.
- (t) 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.
- (u) Previously filed on May 8, 2014 as an Exhibit to the Company's registration statement on Form S-8 (File No. 333-195798) 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: July 28, 2014

**Qualified Automatic Contribution Arrangement, Qualified Default Investment Alternative and Maximum Elective Deferral Amendment**

**Section 1. General Information and General Provisions**

- 1.1 **Plan Name: Herbalife International of America, Inc. Employees' 401(k) Profit Sharing Plan**(the "Plan").
- 1.2 **Plan Sponsor: Herbalife International of America, Inc.** (the "Sponsoring Employer").
- 1.3 **Enactment Date.** This Amendment is entered into as of January 1, 2009, by the Sponsoring Employer.
- 1.4 **Supersedure.** This Amendment supersedes any conflicting provisions of the Plan, any administrative policy regarding Elective Deferrals, and/or the Plan's funding policy. Furthermore, this Amendment supersedes any State (or Commonwealth) law that would directly or indirectly prohibit or restrict the inclusion of an Automatic Contribution Arrangement in the Plan, pursuant to ERISA §514(e)(1) and Department of Labor Regulation §2550.404c-5(f).
- 1.5 **Good Faith Compliance.** This document is an Amendment to the Plan, any administrative policy regarding Elective Deferrals, and/or the Plan's funding policy; is intended as good faith compliance with all current guidance with respect to Automatic Contribution Arrangements; and will incorporate any subsequent guidance with respect to Automatic Contribution Arrangements, even to the extent that such subsequent guidance would modify the terms of this Amendment.

**Section 2. Characteristic of Elective Deferrals**

- 2.1 **Characteristic of Elective Deferrals.** The Elective Deferrals that are withheld under the Automatic Contribution Arrangement will be treated as follows:
  - Entirely Pre-Tax.** All of the Elective Deferrals will be Pre-Tax Elective Deferrals.
  - Entirely Roth.** All of the Elective Deferrals will be Roth Elective Deferrals.
  - A Portion Pre-Tax and a Portion Roth.**                   % of the Elective Deferrals will be Pre-Tax Elective Deferrals;                   % of the Elective Deferrals will be Roth Elective Deferrals.

**Section 3. Eligible Participants**

- 3.1 **Eligible Participants.** The following classes of participants are Eligible Participants and will be subject to the Automatic Contribution Arrangement:
  - New Participants.** New participants who are eligible to make Elective Deferrals and who are entering the Elective Deferral component of the Plan.
  - Participants Who Did Not Return Election.** Participants in the Elective Deferral component of the Plan who have not returned an election form with respect to Elective Deferrals.
  - Participants Who Elected Zero Rate of Deferrals before November 12, 2008.** Participants in the Elective Deferral component of the Plan who have elected not to have Elective Deferrals made on their behalf **except for** (a) participants precluded from deferring due to financial hardship distribution rules and (b) participants who have been previously automatically enrolled that have affirmatively elected not to have Elective Deferrals made on their behalf.
  - Participants Who Elected Lower Rate of Deferrals.** Participants in the Elective Deferral component of the Plan whose contribution rate of their Elective Deferrals are less than the applicable Automatic Contribution Percentage or Qualified Percentage as of the Effective Date of the Automatic Contribution Arrangement.
  - Other** \_\_\_\_\_.

**Section 4. Duration/Expiration of Automatic Contribution Overriding Election**

- 4.1 **Duration/Expiration of Automatic Contribution Overriding Election.** An Eligible Participant's Automatic Contribution Overriding Election shall expire in accordance with the following provisions:

- (a)  **Election Does Not Expire.** The Automatic Contribution Overriding Election will not expire, but will remain in force until changed by the Eligible Participant. An Eligible Participant need not execute a subsequent Automatic Contribution Overriding Election in order to have the prior Automatic Contribution Overriding Election apply to the Automatic Contribution Percentage or Qualified Percentage of a subsequent Plan Year. Any subsequent change to the Automatic Contribution Overriding Election will be made in accordance with the terms and conditions of the Plan relating to the modification of Elective Deferrals.
- (b)  **Election Expires.** If a Eligible Participant's Automatic Contribution Overriding Election reduces the contribution rate of his or her Elective Deferrals to a level that is less than the Automatic Contribution Percentage or Qualified Percentage that is in effect as of the date selected below, then such Eligible Participant's Automatic Contribution Overriding Election will expire as of:
- The first day of each Plan Year.
  - Each anniversary date of an Eligible Participant's Entry Date into the Elective Deferral component of the Plan.
  - Other: \_\_\_\_\_.

**4.2 Eligible Participants Affected by Expiration of Automatic Contribution Overriding Election.** If Section 4.1(b) is checked, then Section 4.1(b) shall apply to the following Eligible Participants:

- Zero Contribution Rate.** Any Eligible Participant who has elected pursuant to his or her Automatic Contribution Overriding Election not to have Elective Deferrals made on their behalf and whose contribution rate of his or her Elective Deferrals is zero as of the expiration date of Section 4.1(b).
- Lower Contribution Rate.** Any Eligible Participant who has elected pursuant to his or her Automatic Contribution Overriding Election to have a contribution rate of his or her Elective Deferrals that is less than the applicable Automatic Contribution Percentage or Qualified Percentage as of the expiration date of Section 4.1(b).
- Other: \_\_\_\_\_.

**4.3 Reenrollment.** If Section 4.1(b) is checked, then to the extent that any Eligible Participant's Automatic Contribution Overriding Election expires in accordance with Section 4.1(b), any Eligible Participant as set forth in Section 4.2 will be reenrolled in the Automatic Contribution Arrangement at the Automatic Contribution Percentage or Qualified Percentage that applies to such Eligible Participant as of the expiration date of Section 4.1(b).

#### Section 5. Type of Automatic Contribution Arrangement

**5.1 Type of Automatic Contribution Arrangement.** The type of Automatic Contribution Arrangement which this Amendment reflects is as follows:

- (a)  **Qualified Automatic Contribution Arrangement.** The Automatic Contribution Arrangement is a Qualified Automatic Contribution Arrangement as described in PPA §902(a), which added Code §401(k)(13).
- (b)  **Eligible Automatic Contribution Arrangement.** The Automatic Contribution Arrangement is an Eligible Automatic Contribution Arrangement as described in PPA §902(d), which added Code §414(w).
- (c)  **Traditional Automatic Contribution Arrangement.** The Automatic Contribution Arrangement does not incorporate the provisions set forth in PPA §902.

#### Section 6. Qualified Automatic Contribution Arrangement

- 6.1**  **Not Applicable.** The Plan does not include a Qualified Automatic Contribution Arrangement.
- 6.2**  **Effective Date.** The Qualified Automatic Contribution Arrangement is effective January 1, 2009.
- 6.3** **Initial Qualified Percentage.** If Section 6.2 is checked, then an Eligible Participant will be treated as having elected to have the Employer make Elective Deferrals to the Plan in an amount equal to **3%** of Compensation as the Qualified Percentage in the first Applicable Plan Year.

**6.4 Qualified Percentage for Subsequent Applicable Plan Years.** If Section 6.2 is checked, then an Eligible Participant will be treated as having elected to have the Employer make Elective Deferrals to the Plan in the amounts equal to the following percentages of Compensation as the Qualified Percentages in subsequent Applicable Plan Years after the first Applicable Plan Year:

4% of Compensation as the Qualified Percentage in the second Applicable Plan Year.

5% of Compensation as the Qualified Percentage in the third Applicable Plan Year.

6% of Compensation as the Qualified Percentage in any subsequent Applicable Plan Year after the third Applicable Plan Year.

**6.5 Non-Elective Contribution or Matching Contribution Requirement.** If Section 6.2 is checked, then the Employer will make the following contribution:

(a)  **Non-Elective Contribution.** The Employer will make a non-elective contribution equal to at least 3% of Compensation. Such non-elective contribution will be made on behalf of:

Any participant in the Elective Deferral component of the Plan who is a non-highly compensated employee, regardless of whether such participant makes Elective Deferrals or after-tax employee contributions.

Any participant in the Elective Deferral component of the Plan, regardless of whether such participant makes Elective Deferrals or after-tax employee contributions.

Other: \_\_\_\_\_.

(b)  **Matching Contribution.**

(1) The Employer will make a matching contribution equal to either:

**Basic Matching Contribution.** The sum of (1) 100% of a participant's Elective Deferrals that do not exceed 1% of Compensation; plus (2) 50% of such participant's Elective Deferrals that exceed 1% of Compensation but do not exceed 6% of Compensation.

**Enhanced Matching Contribution.** The sum of (1) 100% of the participant's Elective Deferrals that do not exceed \_\_\_\_\_ % of Compensation; plus, if applicable, (2) \_\_\_\_\_ % of the participant's Elective Deferrals that exceed \_\_\_\_\_ % of Compensation but do not exceed \_\_\_\_\_ %.

(2) If Section 6.5(b) is checked, then such matching contribution will be made on behalf of:

Any participant in the Elective Deferral component of the Plan who is a non-highly compensated employee and who makes Elective Deferrals.

Any participant in the Elective Deferral component of the Plan who makes Elective Deferrals.

Other: \_\_\_\_\_.

(3) If Section 6.5(b) is checked, then the ratio of such matching contributions to Elective Deferrals of a participant who is a highly compensated employee must not exceed the ratio of such matching contributions to Elective Deferrals of any participant who is a non-highly compensated employee with Elective Deferrals at the same percentage of Compensation as any highly compensated employee. Furthermore, the ratio of a participant's matching contributions to the participant's Elective Deferrals may not increase as the amount of a participant's Elective Deferrals increases.

(c) **Plan to Which Contribution Will Be Made.** The non-elective contribution of Section 6.5(a) or the matching contribution of Section 6.5(b) will be made to:

This Plan.

The following plan, so long as the plan meets the requirements of Code §401(k)(12)(F) and the Treasury Regulations thereunder:  
\_\_\_\_\_.



- (d) **Compensation.** The term "Compensation" means, for purposes of the non-elective contribution of Section 6.5(a) or the matching contribution of Section 6.5(b), the following:
- (1) **Definition.** Compensation is defined as:
- Form W-2 compensation
  - Code §3401 compensation
  - Code §415 safe harbor compensation
- (2) **Non-taxable Amounts.** Non-taxable amounts under Code §125, §132(f)(4), §401(k), §402(h), §403(b), §457(b) and §414(h)(2) will:
- Be included as Compensation
  - Not be included as Compensation
- (3) **Compensation Measuring Period.** The Compensation measuring period is the:
- Plan Year
  - Fiscal year ending on or within the Plan Year
  - Calendar year ending on or within the Plan Year
- (4)  **Exclusions.** The following categories of remuneration will not be counted as Compensation:
- Compensation received prior to becoming a participant
  - Compensation received while an ineligible employee
  - All items in Treasury Regulation §1.414(s)-1(c)(3) (*i.e., expense allowances, fringe benefit, moving expenses, etc.*)
  - Post-severance compensation
  - Deemed 125 compensation
  - Bonuses
  - Overtime
  - Commissions
  - Other \_\_\_\_\_
- 
- (5) **Compensation must comply with Code §414(s).** Compensation for purposes of the non-elective contribution of Section 6.5(a) or the matching contribution of Section 6.5(b) must qualify as a nondiscriminatory definition of compensation under Code §414(s) and the Treasury Regulations thereunder.
- (e) **Contribution Subject to Withdrawal Restrictions.** The non-elective contribution of Section 6.5(a) or the matching contribution of Section 6.5(b) is subject to the withdrawal restrictions set forth in Code §401(k)(2)(B) and Treasury Regulation §1.401(k)-1(d).
- (f) **Contribution Must Not Be Used for Permitted Disparity Purposes.** The non-elective contribution of Section 6.5(a) or the matching contribution of Section 6.5(b) will be met without regard to Code §401(l), and, for purposes of Code §401(l), the non-elective contribution of Section 6.5(a) or the matching contribution of Section 6.5(b) will not be taken into account.

- 6.6 Vesting Schedule.** If Section 6.2 is checked, then a participant's sub-account that holds the non-elective contribution of Section 6.5(a) or the matching contribution of Section 6.5(b) will be subject to the following vesting schedule:
- (a)  **100% Full and Immediate Vesting.** A participant's sub-account will be 100% fully and immediately vested.
- (b)  **2-Year Cliff Vesting Schedule.**
- |                            |             |
|----------------------------|-------------|
| 1 Year of Vesting Service  | 0% Vested   |
| 2 Years of Vesting Service | 100% Vested |
- (c)  **Modified 2-Year Cliff Vesting Schedule.**
- |                            |             |
|----------------------------|-------------|
| 1 Year of Vesting Service  | % Vested    |
| 2 Years of Vesting Service | 100% Vested |
- 6.7 Usage of Forfeitures.** If Section 6.2 and either Section 6.6(b) or 6.6(c) are checked, then with respect to any forfeiture of the non-vested interest in a participant's sub-account that contains the non-elective contribution of Section 6.5(a) or the matching contribution of Section 6.5(b), the Administrator may elect to use all or any portion of the forfeitures to pay administrative expenses incurred by the Plan. Forfeitures that are not used to pay administrative expenses will be used first to restore previous forfeitures of participants' accounts as necessary and permitted pursuant to the provisions of the Plan. Forfeitures that are not used to pay administrative expenses and are not used to satisfy the provisions of the previous sentence will then be allocated/used:
- Not Applicable.** Section 6.6(a) is checked; the participant's sub-account that contains the non-elective contribution of Section 6.5(a) and/or the matching contribution of Section 6.5(b), as applicable, will be 100% fully and immediately vested, and forfeiture of such sub-account will not occur.
- Forfeitures Used to Reduce Any Employer Contributions.** Forfeitures will be used to reduce any Employer contributions.
- Forfeitures Added to Any Employer Contributions.** Forfeitures will be added to any Employer contributions and will be allocated pursuant to the terms of the Plan.
- Other:**
- 6.8 Exemption from ADP Test.** If Section 6.2 is checked, then notwithstanding anything in the Plan to the contrary, the Plan will be treated as meeting the ADP test as set forth in Code §401(k)(3)(A)(ii) in any Plan Year in which the Plan includes a Qualified Automatic Contribution Arrangement pursuant to PPA §902(a), which added Code §401(k)(13)(A).
- 6.9 Limited Exemption from ACP Test.** If Section 6.2 is checked, then notwithstanding anything in the Plan to the contrary, the Plan shall be treated as having satisfied the ACP test as set forth in Code §401(m)(2) only with respect to the matching contribution set forth in Section 6.5(b) in any Plan Year in which the Plan includes a Qualified Automatic Contribution Arrangement pursuant to PPA §902(b), which revised Code §401(m)(12).
- 6.10 Limited Exemption from Top Heavy.** If Section 6.2 is checked, then notwithstanding anything in the Plan to the contrary, in any Plan Year in which the Plan consists solely of: (a) Elective Deferrals under a Qualified Automatic Contribution Arrangement which meets the requirements of Code §401(k)(13) as set forth in Sections 6.3 and 6.4; and (b) Employer contributions consisting of either (1) non-elective contributions which meet the requirements of Code §401(k)(13) as set forth in Section 6.5(a), or (2) matching contributions which meet the requirements of Code §401(m)(12) as set for the in Section 6.5(b), then such Plan will not be treated as a top heavy Plan and will be exempt from the top heavy requirements of Code §416. Furthermore, if the Plan (but for the prior sentence) would be treated as a top heavy Plan because the Plan is a member of an aggregation group which is a top heavy group, then the contributions under the Plan may be taken into account in determining whether any other plan in the aggregation group meets the top heavy requirements of Code §416.

**Section 7. Elimination/Modification of Non-Safe Harbor Contribution Provisions**

- 7.1  **Not Applicable.** The Plan does not have or does not make any Employer contributions to a non-safe harbor matching contribution component or a non-safe harbor non-elective contribution component of the Plan.
- 7.2  **Not Applicable.** The Plan's existing non-safe harbor matching contribution component and/or non-safe harbor non-elective contribution component are being retained.
- 7.3  **Effective Date.** Notwithstanding the Effective Date of the Automatic Contribution Arrangement, the provisions set forth in this Section 7 are effective as of January 1, 2009.
- 7.4 **Type of Employer Contributions Being Eliminated.** If Section 7.3 is checked, then by executing this Amendment:
- Not Applicable.** No Employer contributions and related allocations will cease or will be eliminated.
  - Employer Contributions and Related Allocations.** The following Employer contributions (except for receivables) and related allocations will cease and will be eliminated as of the Effective Date set forth in Section 7.3:
    - Matching Contributions.** Non-safe harbor matching contributions.
    - Non-Elective Contributions.** Non-safe harbor non-elective contributions.
- 7.5 **Modification/Addition of Employer Contributions.** If Section 7.3 is checked, then by executing this Amendment, the following Employer contributions and related allocations are modified and/or added as of the Effective Date set forth in Section 7.3, in accordance with the following provisions:
- Not Applicable.** No Employer contributions and related allocations (other than the elimination of those Employer contributions and related allocations of Section 7.4) are being modified and/or added.
  - Modification/Addition.** 75% of pay is the maximum Employee Elective Deferral Contribution.

**Section 8. Default Investment**

- 8.1 **Default Investment.** If a participant or beneficiary has the opportunity to direct the investment of the assets in his or her account (but does not direct the investment of such assets), then such assets in his or her account will be invested as follows:
- (a)  **Not Applicable.** Participants and/or beneficiaries are not permitted to direct the investment of the assets in their accounts; the Plan's trustee or investment manager makes the investment decisions with respect to the Plan's assets.
  - (b)  **Qualified Default Investment Alternative.** The assets in his or her account will be invested in a Qualified Default Investment Alternative.
  - (c)  **Non-Qualified Default Investment Alternative.** The assets in his or her account will subject to the following provisions:
    - (1) **Type of Investment.** The assets in his or her account will be invested in:
      - A selected "default investment" which is expected to produce a favorable rate of return and which minimizes the overall risk of losing money.
      - Other: \_\_\_\_\_.
    - (2) **Transfer from the Non-Qualified Default Investment Alternative.** Transfers by participants from the non-qualified default investment alternative will be permitted on the following date(s) of the Plan Year:  
\_\_\_\_\_

- 8.2 Transfer from Qualified Default Investment Alternative.** If Section 8.1(b) is checked, then any participant or beneficiary on whose behalf assets are invested in a Qualified Default Investment Alternative may transfer, in whole or in part, such assets to any other investment alternative available under the Plan with a frequency consistent with that afforded to a participant or beneficiary who elected to invest in the Qualified Default Investment Alternative, but not less frequently than once within any 3-month period.
- (a) **No Fees during First 90 Days.** Any participant's or beneficiary's election to make such transfer during the 90 day period beginning on the date of the first elective deferral or first investment in a Qualified Default Investment Alternative will not be subject to any restrictions, fees or expenses (including surrender charges, liquidation or exchange fees, redemption fees and similar expenses charged in connection with the liquidation of, or transfer from, the investment), except as permitted in Department of Labor Regulation §2550.404c-5(c)(5)(ii)(B).
  - (b) **Limited Fees after First 90 Days.** Following the end of the 90-day period described in paragraph (a), any transfer from the Qualified Default Investment Alternative will not be subject to any restrictions, fees or expenses not otherwise applicable to a participant or beneficiary who elected to invest in that Qualified Default Investment Alternative.
- 8.3 Broad Range of Investment Alternatives.** If Section 8.1(b) is checked, then the Plan must offer a "broad range of investment alternatives" within the meaning of Department of Labor Regulation §2550.404c-1(b)(3).
- 8.4 Materials Must Be Provided.** If Section 8.1(b) is checked, then a fiduciary must provide to a participant or beneficiary the materials set forth in Department of Labor Regulation §2550.404c-1(b)(2)(i)(B)(1)(viii) and (ix) and Department of Labor Regulation §404c-1(b)(2)(i)(B)(2) relating to a participant's or beneficiary's investment in a Qualified Default Investment Alternative.

## Section 9. Notice Requirements

- 9.1 Content and Timing of Notice for Automatic Contribution Arrangement.** Within a reasonable period before the beginning of each Plan Year, Eligible Participants to whom the Automatic Contribution Arrangement applies for such Plan Year must receive a sufficiently accurate and comprehensive written notice of their rights and obligations under the Automatic Contribution Arrangement. Such notice will be written in a manner calculated to be understood by the average Eligible Participant to whom the Automatic Contribution Arrangement applies. The notice must explain (a) under the Automatic Contribution Arrangement, the Eligible Participant's right pursuant to a Automatic Contribution Overriding Election to elect either (1) not to have Elective Deferrals made on the Eligible Participant's behalf, or (2) to have Elective Deferrals made at a different percentage; and (b) how contributions made under the Automatic Contribution Arrangement will be invested in the absence of any investment election by the Eligible Participant (the default investment(s)). After receipt of the notice described in this paragraph, any Eligible Participant to whom the Automatic Contribution Arrangement relates must have a reasonable period of time before the first Elective Deferral is made to exercise the rights set forth within the notice including, but not limited to, executing an Automatic Contribution Overriding Election.
- 9.2 Content and Timing of Notice for Qualified Default Investment Alternative.** If Section 8.1(b) is checked, then the following provisions apply to the notice required by a Qualified Default Investment Alternative:
- (a) **Manner.** Such notice will be written in a manner calculated to be understood by the average Plan participant.
  - (b) **Content.** Such notice will contain the following:
    - (1) A description of the circumstances under which assets in the individual account of a participant or beneficiary may be invested on behalf of the participant or beneficiary in a Qualified Default Investment Alternative; and, if applicable, an explanation of the circumstances under which Elective Deferrals will be made on behalf of a participant, the percentage of such Elective Deferrals, and the right of the participant to elect not to have such Elective Deferrals made on the participant's behalf (or to elect to have such Elective Deferrals made at a different percentage);
    - (2) An explanation of the right of participants and beneficiaries to direct the investment of assets in their individual accounts;
    - (3) A description of the Qualified Default Investment Alternative, including a description of the investment objectives, risk and return characteristics (if applicable), and fees and expenses attendant to the Qualified Default Investment Alternative;

- (4) A description of the right of the participants and beneficiaries on whose behalf assets are invested in a Qualified Default Investment Alternative to direct the investment of those assets to any other investment alternative under the Plan, including a description of any applicable restrictions, fees or expenses in connection with such transfer; and
  - (5) An explanation of where the participants and beneficiaries can obtain investment information concerning the other investment alternatives available under the Plan.
- (c) **Timing.** The participant or beneficiary on whose behalf an investment in a Qualified Default Investment Alternative may be made must be furnished such notice during the following periods:
- (1) Either:
    - (A) At least 30 days in advance of the participant's Entry Date of the Elective Deferral component of the Plan (or such other component of the Plan in which a participant's account may be invested in a Qualified Default Investment Alternative), or at least 30 days in advance of the date of any first investment in a Qualified Default Investment Alternative on behalf of a participant or beneficiary; or
    - (B) If the Plan is an Eligible Automatic Contribution Arrangement and the participant has the opportunity to receive a Permissible Withdrawal, on or before the participant's Entry Date of the Elective Deferral component of the Plan; and
  - (2) Within a reasonable period of time of at least 30 days in advance of each subsequent Plan Year;

## Section 10. Definitions

- 10.1 Applicable Plan Year.** The term "Applicable Plan Year" means, for purposes of determining the Qualified Percentage that applies to a specific Eligible Participant, a specific Plan Year. The first Applicable Plan Year is the Plan Year that contains the date upon which an Eligible Participant could first have had Elective Deferrals withheld under the Qualified Automatic Contribution Arrangement, regardless of whether the Eligible Participant executes an Automatic Contribution Overriding Election. Subsequent Applicable Plan Years are based upon the number of Plan Years after the first Applicable Plan Year, regardless of whether the Eligible Participant executes an Automatic Contribution Overriding Election.
- 10.2 Automatic Contribution Arrangement.** The term "Automatic Contribution Arrangement" means any arrangement under which (a) a participant may elect to have the Employer make payments as Elective Deferrals under the Plan on his or her behalf, or to receive such payments directly in cash, and (b) an Eligible Participant is treated as having elected to have the Employer make Elective Deferrals to the Plan, in an amount equal to a uniform percentage of Compensation until such Eligible Participant executes an Automatic Contribution Overriding Election; such percentage may be set forth in either this Amendment or such other Plan documentation as permitted by law. An Automatic Contribution Arrangement includes a Qualified Automatic Contribution Arrangement, an Eligible Automatic Contribution Arrangement, or a Traditional Automatic Contribution Arrangement, as applicable.
- 10.3 Automatic Contribution Percentage.** The term "Automatic Contribution Percentage" means, with respect to an Eligible Automatic Contribution Arrangement or a Traditional Automatic Contribution Arrangement, as applicable, the percent of Compensation that an Eligible Participant is treated as having elected to have the Employer make as Elective Deferrals to the Plan, as set forth in this Amendment or such other Plan documentation as permitted by law.
- 10.4 Automatic Contribution Overriding Election.** The term "Automatic Contribution Overriding Election" means an affirmative election by an Eligible Participant to override the Automatic Contribution Percentage or Qualified Percentage that is applicable to such Eligible Participant. The Automatic Contribution Overriding Election will provide either (a) to not have Elective Deferrals made under the Automatic Contribution Arrangement, or (b) to have Elective Deferrals made at a percentage of Compensation different than the Automatic Contribution Percentage or Qualified Percentage, at the percentage of Compensation specified in the Automatic Contribution Overriding Election.
- 10.5 Compensation.** The term "Compensation" means, except for purposes of the non-elective contribution of Section 6.5(a) or the matching contribution of Section 6.5(b), compensation as defined in the Plan for the component or the purpose for which the compensation relates. However, if the Plan is a Qualified Automatic Contribution Arrangement, then the term "Compensation" means, for purposes of the non-elective contribution of Section 6.5(a) or the matching contribution of Section 6.5(b), compensation as defined in Section 6.5(d).

- 10.6 Effective Date of the Automatic Contribution Arrangement.** The term “Effective Date of the Automatic Contribution Arrangement” means the effective date set forth in Section 6.2.
- 10.7 Eligible Automatic Contribution Arrangement.** The term “Eligible Automatic Contribution Arrangement” means an Automatic Contribution Arrangement that meets all of the requirements of Code §414(w)(3) including, but limited to, a Qualified Default Investment Alternative and the applicable notice requirements.
- 10.8 Elective Deferral.** The term “Elective Deferral” means an Employer contribution as described in Code §402(g)(3).
- 10.9 Eligible Participant.** The term “Eligible Participant” means a participant in the Plan subject to the Automatic Contribution Arrangement.
- 10.10 Employer.** The term “Employer” shall mean the Sponsoring Employer as set forth in Section 1.2, and any other entity that adopts the Plan.
- 10.11 Entry Date.** The term “Entry Date” means the date or dates on which an employee who is eligible to participate in the Elective Deferral component of the Plan becomes a participant in such component of the Plan, or, if applicable, the date or dates on which an employee who is eligible to participate in another component of the Plan becomes a participant in such other component of the Plan.
- 10.12 Excess Aggregate Contributions.** The term “Excess Aggregate Contributions” means amounts as described in Code §4979(d).
- 10.13 Excess Contributions.** The term “Excess Contributions” means amounts as described in Code §4979(c).
- 10.14 Permissible Withdrawal.** The term “Permissible Withdrawal” means any withdrawal from an Eligible Automatic Contribution Arrangement which meets the following requirements:
- (a) **Employee’s Election and Timing.** The distribution is made pursuant to an election by an Eligible Participant, and such election is made no later than 90 days after the date of the first Elective Deferral with respect to the Eligible Participant under the Eligible Automatic Contribution Arrangement;
  - (b) **Only Elective Deferrals and Earnings.** The distribution consists of only Elective Deferrals (and earnings attributable thereto);
  - (c) **Amount of Distribution.** The amount of the distribution is equal to the amount of Elective Deferrals made with respect to the first payroll period to which the Eligible Automatic Contribution Arrangement applies to the Eligible Participant and any succeeding payroll period beginning before the effective date of the election pursuant to paragraph (a) (and earnings attributable thereto).
- 10.15 Plan Year.** The term “Plan Year” means computation period as set forth in the Plan document.
- 10.16 PPA.** The term “PPA” means the Pension Protection Act of 2006.
- 10.17 Pre-Tax Elective Deferral.** The term “Pre-Tax Elective Deferral” means an Elective Deferral that is not includible in the participant’s gross income at the time that the Elective Deferral is deferred.
- 10.18 Qualified Automatic Contribution Arrangement.** The term “Qualified Automatic Contribution Arrangement” means an Automatic Contribution Arrangement that meets all of the requirements set forth in Code §401(k)(13)(B) including, but not limited to, the applicable Qualified Percentage for the Applicable Plan Year, the required Employer contributions of the non-elective contributions of Section 6.5(a) or the matching contributions of Section 6.5(b), and the applicable notice requirements.
- 10.19 Qualified Default Investment Alternative.** The term “Qualified Default Investment Alternative” means an investment alternative available to participants and beneficiaries, subject to the following rules:
- (a) **No Employer Securities.** The Qualified Default Investment Alternative does not hold or permit the acquisition of Employer securities, except as permitted by Department of Labor Regulation §2550.404c-5(e)(1)(ii);

- (b) **Transfer Permitted.** The Qualified Default Investment Alternative permits a participant or beneficiary to transfer, in whole or in part, his or her investment from the Qualified Default Investment Alternative to any other investment alternative available under the Plan, pursuant to the rules of Department of Labor Regulation §2550.404c-5(c)(5);
- (c) **Management.** The Qualified Default Investment Alternative is:
- (1) Managed by: (A) an investment manager, within the meaning of ERISA §3(38); (B) a Plan trustee that meets the requirements of ERISA §3(38) (A), (B) and (C); or (C) the Sponsor Employer who is a named fiduciary within the meaning of ERISA §402(a)(2);
  - (2) An investment company registered under the Investment Company Act of 1940; or
  - (3) An investment product or fund described in Department of Labor Regulation §2550.404c-5(e)(4)(iv) or (v); and
- (d) **Types of Permitted Investments.** The Qualified Default Investment Alternative is one of the following:
- (1) An investment fund product or model portfolio that applies generally accepted investment theories, is diversified so as to minimize the risk of large losses and that is designed to provide varying degrees of long-term appreciation and capital preservation through a mix of equity and fixed income exposures based on the participant's age, target retirement date (such as normal retirement age under the Plan) or life expectancy, but is not required to take into account risk tolerances, investments or other preferences of an individual participant or beneficiary.
  - (2) An investment fund product or model portfolio that applies generally accepted investment theories, is diversified so as to minimize the risk of large losses and that is designed to provide long-term appreciation and capital preservation through a mix of equity and fixed income exposures consistent with a target level of risk appropriate for participants of the Plan as a whole, but is not required to take into account the age, risk tolerances, investments or other preferences of an individual participant or beneficiary.
  - (3) An investment management service with respect to which a fiduciary, within the meaning of Department of Labor Regulation §2550.404c-5(e)(3)(i), applying generally accepted investment theories, allocates the assets of a participant's individual account to achieve varying degrees of long-term appreciation and capital preservation through a mix of equity and fixed income exposures, offered through investment alternatives available under the plan, based on the participant's age, target retirement date (such as normal retirement age under the Plan) or life expectancy, but is not required to take into account risk tolerances, investments or other preferences of an individual participant.
  - (4) An investment product or fund designed to preserve principal and provide a reasonable rate of return, whether or not such return is guaranteed, consistent with liquidity. Such investment product shall: (A) Seek to maintain, over the term of the investment, the dollar value that is equal to the amount invested in the product; and (B) Be offered by a State or federally regulated financial institution. Such investment product or fund described in this paragraph shall constitute a Qualified Default Investment Alternative for not more than 120 days after the date of the participant's first Elective Deferral as determined under Code §414(w)(2)(B) or other first investment.
  - (5) An investment product or fund designed to guarantee principal and a rate of return generally consistent with that earned on intermediate investment grade bonds, while providing liquidity for withdrawals by participants and beneficiaries, including transfers to other investment alternatives. Such investment product must meet the following requirements: (A) There are no fees or surrender charges imposed in connection with withdrawals initiated by a participant or beneficiary; and (B) Principal and rates of return are guaranteed by a State or federally regulated financial institution. Such investment product or fund described in this paragraph will constitute a Qualified Default Investment Alternative solely for purposes of assets invested in such product or fund before December 24, 2007.

An investment fund product or model portfolio that meets the requirements of this paragraph (d) may be offered through variable annuity or similar contracts, common or collective trust funds, or pooled investment funds without regard to whether such contracts or funds provide annuity purchase rights, investment guarantees, death benefit guarantees, or other features ancillary to the investment fund product or model portfolio.

- 10.20 Qualified Percentage.** The term "Qualified Percentage" means the uniform percentage of Compensation that an Eligible Participant is treated as having elected to have the Employer make to the Plan as Elective Deferrals under a Qualified Automatic Contribution Arrangement. Under no circumstances can the Qualified Percentage exceed 10%.

- 10.21 Roth Elective Deferral.** The term “Roth Elective Deferral” means a participant’s Elective Deferral that is includible in the participant’s gross income at the time that the Elective Deferral is deferred.
- 10.22 Safe Harbor 401(k) and/or 401(m) Plan.** The term “Safe Harbor 401(k) and/or 401(m) Plan” means a 401(k) plan which meets all of the requirements of Code §401(k)(12) and/or a 401(m) plan which meets all of the requirements of Code §401(m)(11) for a Plan Year.
- 10.23 Traditional Automatic Contribution Arrangement.** The term “Traditional Automatic Contribution Arrangement” means an Automatic Contribution Arrangement that is neither a Qualified Automatic Contribution Arrangement nor an Eligible Automatic Contribution Arrangement.
- 10.24 Year of Vesting Service.** The term “Year of Vesting Service” means either (a) if used for vesting purposes, a year of service (as defined in the Plan); (b) if used for vesting purposes, a whole year (or 1-year) period of service (as defined in the Plan); or (c) any other one year period that is used for vesting purposes in the Plan.

**Section 11. Signature Provisions**

**11.1 Signature of the Authorized Representative of the Sponsoring Employer:**

**By** \_\_\_\_\_ **Date** \_\_\_\_\_  
**Print Name** \_\_\_\_\_ **Title** \_\_\_\_\_





May 6, 2014

To: Herbalife Ltd.  
990 West 190th Street  
Torrance, CA 90502  
Attn: Richard Caloca

From: Merrill Lynch International,  
Acting through its agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated  
BofA Merrill Lynch Financial Centre  
2 King Edward Street  
London EC1A 1HQ

**Re: Issuer Forward Repurchase Transaction  
(BofAML Reference Number: 148304270)**

Ladies and Gentlemen:

The purpose of this communication (this “**Confirmation**”) is to confirm the terms and conditions of the Transaction entered into between Merrill Lynch International (“**Merrill Lynch**”), acting through its agent Merrill Lynch, Pierce, Fenner and Smith Incorporated (“**Agent**”) and Herbalife Ltd. (“**Counterparty**”) on the Trade Date specified below (the “**Transaction**”). The terms of the Transaction shall be set forth in this Confirmation. This Confirmation shall constitute a “Confirmation” as referred to in the ISDA Master Agreement specified below.

1. This Confirmation is subject to, and incorporates, the definitions and provisions of the 2006 ISDA Definitions (including the Annex thereto) (the “**2006 Definitions**”) and the definitions and provisions of the 2002 ISDA Equity Derivatives Definitions (the “**Equity Definitions**”, and together with the 2006 Definitions, the “**Definitions**”), in each case as published by the International Swaps and Derivatives Association, Inc. (“**ISDA**”). In the event of any inconsistency between the 2006 Definitions and the Equity Definitions, the Equity Definitions will govern.

This Confirmation evidences a complete and binding agreement between Merrill Lynch and Counterparty as to the terms of the Transaction to which this Confirmation relates. This Confirmation shall be subject to an agreement (the “**Agreement**”) in the form of the 2002 ISDA Master Agreement (the “**ISDA Form**”) as if Merrill Lynch and Counterparty had executed an agreement in such form (without any Schedule but with the elections set forth in this Confirmation). The Transaction shall be the only Transaction under the Agreement.

All provisions contained in, or incorporated by reference to, the Agreement will govern this Confirmation except as expressly modified herein. In the event of any inconsistency between this Confirmation and either the Definitions or the Agreement, this Confirmation shall govern. The Transaction is a Share Forward Transaction within the meaning set forth in the Equity Definitions.

2. The terms of the particular Transaction to which this Confirmation relates are as follows:

General Terms:

Trade Date:	May 6, 2014
Seller:	Merrill Lynch
Buyer:	Counterparty
Shares:	The common shares of Counterparty, par value USD 0.001 per share (Ticker Symbol: “HLF”)
Prepayment:	Applicable

Prepayment Amount:	As provided in Annex A to this Confirmation.
Prepayment Date:	The first Exchange Business Day following the Trade Date
Exchange:	New York Stock Exchange
Related Exchange(s):	All Exchanges
Calculation Agent:	Merrill Lynch. Following any determination, calculation or adjustment by the Calculation Agent hereunder, the Calculation Agent will, upon request, provide to Counterparty promptly following such request a report (in a commonly used file format for the storage and manipulation of financial data without disclosing Merrill Lynch's proprietary models or other information that is proprietary or confidential) displaying in reasonable detail the basis for such determination or calculation, as the case may be.
<b>Valuation Terms:</b>	
Averaging Dates:	Each of the consecutive Exchange Business Days commencing on, and including, the Exchange Business Day immediately following the Trade Date and ending on, and including, the Final Averaging Date; <i>provided</i> that, June 2, 2014 shall not be included as an Averaging Date for purposes of calculating the Number of Shares to be Delivered under the Transaction.
Final Averaging Date:	<p>The Scheduled Final Averaging Date; <i>provided</i> that Merrill Lynch shall have the right, in its absolute discretion, at any time to accelerate the Final Averaging Date (an "<b>Acceleration</b>"), in whole or in part, to any date that is on or after the Scheduled Earliest Acceleration Date by written notice to Counterparty no later than 9:00 P.M., New York City time, on the Exchange Business Day immediately following the accelerated Final Averaging Date that would otherwise be included as an Averaging Date; <i>provided, however</i>, that Merrill Lynch may only elect to declare an Acceleration in part if the portion of the Transaction subject to the Acceleration is in an amount of at least USD 50,000,000 or such lesser amount that is the entirety of the remaining Prepayment Amount.</p> <p>In the case of any Acceleration of the Final Averaging Date in part (a "<b>Partial Acceleration</b>"), Merrill Lynch shall specify in its written notice to Counterparty accelerating the Final Averaging Date the corresponding percentage of the Prepayment Amount that is subject to valuation on the related Valuation Date, and Calculation Agent shall adjust the terms of the Transaction as it deems appropriate, in a commercially reasonable manner, in order to take into account the occurrence of such Partial Acceleration (including cumulative adjustments to take into account all Partial Accelerations that occur during the term of the Transaction).</p>
Scheduled Final Averaging Date:	As provided in Annex A to this Confirmation.
Scheduled Earliest Acceleration Date:	As provided in Annex A to this Confirmation.
Valuation Date:	The Final Averaging Date.
Averaging Date Disruption:	Modified Postponement, <i>provided</i> that notwithstanding anything to the contrary in the Equity Definitions, if a Market Disruption Event occurs on any Averaging Date, the Calculation

Agent may, if appropriate in light of market conditions, regulatory considerations or otherwise, take any or all of the following actions: (i) if the Calculation Agent determines that such Averaging Date is a Disrupted Date in full, postpone the Scheduled Final Averaging Date in accordance with Modified Postponement (as modified herein), in which case the VWAP Price for any such Disrupted Day shall not be included in the calculation of the Settlement Price and/or (ii) determine that such Averaging Date is a Disrupted Day only in part, in which case the Calculation Agent shall (x) determine the VWAP Price for such Disrupted Day based on Rule 10b-18 eligible transactions in the Shares on such Disrupted Day taking into account the nature and duration of such Market Disruption Event and (y) determine the Settlement Price based on an appropriately weighted average instead of the arithmetic average described under "Settlement Price" below. In either case, the Calculation Agent shall notify Counterparty in writing of (A) the circumstances giving rise to such Disrupted Day and (B) any such weighting, extension or suspension as soon as reasonably practicable after the occurrence of such Disrupted Day. Any Exchange Business Day on which, as of the date hereof, the Exchange is scheduled to close prior to its normal close of trading shall be deemed not to be an Exchange Business Day; if a closure of the Exchange prior to its normal close of trading on any Exchange Business Day is scheduled following the date hereof, then such Exchange Business Day shall be deemed to be a Disrupted Day in full. Section 6.6(a) of the Equity Definitions is hereby amended by replacing the word "shall" in the fifth line thereof with the word "may," and by deleting clause (i) thereof, and Section 6.7(c)(iii)(A) of the Equity Definitions is hereby amended by replacing the word "shall" in the sixth and eighth line thereof with the word "may."

Market Disruption Events:

Section 6.3(a) of the Equity Definitions is hereby amended (A) by deleting the words "during the one hour period that ends at the relevant Valuation Time, Latest Exercise Time, Knock-in Valuation Time or Knock-out Valuation Time, as the case may be" in clause (ii) thereof, and (B) by replacing the words "or (iii) an Early Closure." therein with "(iii) an Early Closure, or (iv) a Regulatory Disruption."

Section 6.3(d) of the Equity Definitions is hereby amended by deleting the remainder of the provision following the term "Scheduled Closing Time" in the fourth line thereof.

Regulatory Disruption:

Any event that Merrill Lynch, in its commercially reasonable discretion based on the advice of legal counsel, determines makes it appropriate with regard to any legal, regulatory or self-regulatory requirements or related policies and procedures (provided that such requirements, policies or procedures relate to legal or regulatory issues and are generally applicable in similar situations and applied to the Transaction in a non-discriminatory manner) for Merrill Lynch to refrain from or decrease any market activity in connection with the Transaction. Merrill Lynch shall notify Counterparty as soon as reasonably practicable that a Regulatory Disruption has occurred and the Averaging Dates affected by it.

Settlement Terms:

Interim Share Delivery:	On each Interim Share Delivery Date, Merrill Lynch shall deliver to Counterparty the Interim Shares for such Interim Share Delivery Date in accordance with Section 9.4 of the Equity Definitions, with the Interim Share Delivery Date deemed to be a "Settlement Date" for purposes of such Section 9.4, so long as no Event of Default, Potential Event of Default or Termination Event with respect to which Counterparty is the Defaulting Party or Affected Party, as the case may be, has occurred and is continuing.
Interim Share Delivery Dates:	As provided in Annex A to this Confirmation.
Interim Shares:	For any Interim Share Delivery Date, a number of Shares determined by Merrill Lynch in its sole discretion based on relevant market indicia, including the volume and liquidity of the Shares and such other market factors as Merrill Lynch deems relevant, to be a number of Shares that is intended to result in a positive Number of Shares to be Delivered.
Settlement Date:	The date that falls one Settlement Cycle following the Valuation Date, provided that if the Valuation Date is on or after June 26 <sup>th</sup> , 2014, the Settlement Date shall be the later of (x) June 30, 2014 and (y) the Clearance System Business Day following the Valuation Date.
Settlement:	On the Settlement Date, Merrill Lynch shall deliver to Counterparty the Number of Shares to be Delivered.
Number of Shares to be Delivered:	A number of Shares equal to the greater of (A)(a) the Prepayment Amount <i>divided by</i> (b) (i) the Settlement Price minus (ii) the Discount; provided that the Number of Shares to be Delivered as so determined shall be reduced by the aggregate number of Shares delivered on each Interim Share Delivery Date; and (B) zero.
Settlement Price:	The arithmetic average of the VWAP Prices for all Averaging Dates.
VWAP Price:	For any Averaging Date, the Rule 10b-18 dollar volume weighted average price per Share for such day based on transactions executed during such day, as reported on Bloomberg Screen "HLF.N <Equity> AQR SEC" (or any successor thereto) or, in the event such price is not so reported on such day for any reason or is manifestly incorrect, as reasonably determined by the Calculation Agent using a volume weighted method.
Discount:	As provided in Annex A to this Confirmation.
Excess Dividend Amount:	For the avoidance of doubt, all references to the Excess Dividend Amount in Section 9.2(a)(iii) of the Equity Definitions shall be deleted.
Other Applicable Provisions:	To the extent either party is obligated to deliver Shares hereunder, the provisions of the last sentence of Section 9.2 and Sections 9.8, 9.9, 9.10, 9.11 (except that the Representation and Agreement contained in Section 9.11 of the Equity Definitions shall be modified by excluding any representations therein to the extent relating to restrictions, obligations, limitations or requirements under applicable securities laws arising as a result of the fact that Counterparty is the Issuer of the Shares) and 9.12 of the Equity Definitions will be applicable as if "Physical Settlement" applied to the Transaction.

Dividends:	
Dividend:	Any dividend or distribution on the Shares other than any dividend or distribution of the type described in Sections 11.2(e)(i), 11.2(e)(ii)(A) or 11.2(e)(ii)(B) of the Equity Definitions.
Share Adjustments:	
Method of Adjustment:	<p>Calculation Agent Adjustment; <i>provided</i> that neither (i) the declaration or payment of Dividends nor (ii) any issuance of Shares in connection with any equity transactions or Compensatory Plan purchases contemplated by Section 6(e)(i),(ii) or (iii) hereto shall be a Potential Adjustment Event.</p> <p>It shall constitute an additional Potential Adjustment Event if the Scheduled Final Averaging Date is postponed pursuant to “Averaging Date Disruption” above, in which case the Calculation Agent may, in its commercially reasonable discretion, adjust any relevant terms of the Transaction as the Calculation Agent determines appropriate to account for the economic effect on the Transaction of such postponement.</p>
Extraordinary Events:	
Consequences of Merger Events:	
(a) Share-for-Share:	Modified Calculation Agent Adjustment
(b) Share-for-Other:	Cancellation and Payment
(c) Share-for-Combined:	Cancellation and Payment
Tender Offer:	Applicable
Consequences of Tender Offers:	
(a) Share-for-Share:	Modified Calculation Agent Adjustment
(b) Share-for-Other:	Modified Calculation Agent Adjustment
(c) Share-for-Combined:	Modified Calculation Agent Adjustment
Composition of Combined Consideration:	Not Applicable
Consequences of Announcement Events:	Modified Calculation Agent Adjustment as set forth in Section 12.3(d) of the Equity Definitions; <i>provided</i> that references to “Tender Offer” shall be replaced by references to “Announcement Event” and references to “Tender Offer Date” shall be replaced by references to “Announcement Date”; <i>provided however</i> , that the Calculation Agent shall not make such adjustments to the terms of the Transaction that would result in the Number of Shares to be Delivered being less than zero. An Announcement Event shall be an “Extraordinary Event” for purposes of the Equity Definitions, to which Article 12 of the Equity Definitions is applicable.
Announcement Event:	The occurrence of an Announcement Date in respect of a potential Acquisition Transaction (as defined in Section 9 below).

Announcement Date:	The date of the first public announcement in relation to an Acquisition Transaction, or any publicly announced change or amendment to the announcement giving rise to an Announcement Date.
Provisions applicable to Merger Events and Tender Offers:	The consequences set forth opposite “Consequences of Merger Events” and “Consequences of Tender Offers” above shall apply regardless of whether a particular Merger Event or Tender Offer relates to an Announcement Date for which an adjustment has been made pursuant to Consequences of Announcement Events, without duplication of any such adjustment.
New Shares:	In the definition of New Shares in Section 12.1(i) of the Equity Definitions, the text in clause (i) thereof shall be deleted in its entirety (including the word “and” following such clause (i)) and replaced with “publicly quoted, traded or listed on any of the New York Stock Exchange, The NASDAQ Global Select Market or The NASDAQ Global Market (or their respective successors)”.
Nationalization, Insolvency or Delisting:	Cancellation and Payment (Calculation Agent Determination); <i>provided</i> that in addition to the provisions of Section 12.6(a)(iii) of the Equity Definitions, it shall also constitute a Delisting if the Exchange is located in the United States and the Shares are not immediately re-listed, re-traded or re-quoted on any of the New York Stock Exchange, The NASDAQ Global Market or The NASDAQ Global Select Market (or their respective successors); if the Shares are immediately re-listed, re-traded or re-quoted on any such exchange or quotation system, such exchange or quotation system shall thereafter be deemed to be the Exchange.
Additional Disruption Events:	
Change in Law:	Applicable; <i>provided</i> that clause (Y) of Section 12.9(a)(ii) of the Equity Definitions shall not be applicable.
Failure to Deliver:	Applicable
Insolvency Filing:	Applicable
Hedging Disruption:	Applicable
Increased Cost of Hedging:	Applicable
Hedging Party:	For all applicable Potential Adjustment Events and Extraordinary Events, Merrill Lynch
Determining Party:	For all Extraordinary Events, Merrill Lynch, <i>provided</i> that Determining Party shall provide Counterparty with a written explanation describing in reasonable detail any determination made by it (including any quotations, market data or information from internal sources used in making such determinations, but without disclosing Merrill Lynch’s proprietary models).
Non-Reliance:	Applicable
Agreements and Acknowledgments Regarding Hedging Activities:	Applicable
Additional Acknowledgments:	Applicable

3. Account Details:

- (a) Account for payments to Counterparty: To be provided separately upon request
- (b) Account for payments to Merrill Lynch:
- Bank of America, N.A., New York, NY  
SWIFT: BOFAUS3N  
ABA: 026-009-593  
Acct: 6550-4-60511  
FAO: Merrill Lynch International Equity Derivatives, London  
(SWIFT: MLILGB2A)

4. Offices:

- (a) The Office of Counterparty for the Transaction is: Counterparty is not a Multibranch Party
- (b) The Office of Merrill Lynch for the Transaction is: London

5. Notices: For purposes of this Confirmation:

- (a) Address for notices or communications to Counterparty:

Herbalife Ltd.  
990 West 190<sup>th</sup> Street, Suite 650  
Torrance, CA 90502  
Attn: Richard Caloca

With a copy to:  
Herbalife Ltd.  
800 Olympic Blvd  
Suite 406  
Los Angeles, CA 90015  
Attn: Jim Berklas

- (b) Address for notices or communications to Merrill Lynch:

Merrill Lynch International  
BofA Merrill Lynch Financial Centre 2  
King Edward Street  
London EC1A 1HQ

With a copy to its Agent:  
Merrill Lynch, Pierce, Fenner & Smith Incorporated  
One Bryant Park  
New York, NY 10036  
Attn: Peter Tucker  
Telephone: 646-855-5821  
Facsimile: 646-822-5633

6. Additional Provisions Relating to Transactions in the Shares

(a) Counterparty acknowledges and agrees that Merrill Lynch may, during the period from the date hereof to the Valuation Date or, if later, the Scheduled Earliest Acceleration Date without regard to any adjustment thereof pursuant to "Special Provisions regarding Transaction Announcements" below (the "**Relevant Period**"), purchase Shares in connection with the Transaction, which Shares may be delivered to Counterparty. Such purchases will be conducted independently of Counterparty. The timing of such purchases by Merrill Lynch, the number of Shares purchased by Merrill Lynch on any day, the price paid per Share pursuant to such purchases and the manner in which such purchases are made, including without limitation whether such purchases are made on any securities exchange or privately, shall be within the absolute discretion of Merrill Lynch. It is the intent of the parties that the Transaction comply with the requirements of Rule 10b5-1(c)(1)(i)(B) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), and the parties agree that this Confirmation shall be interpreted to comply with the requirements of Rule 10b5-1(c), and Counterparty shall not take any action that results in the Transaction not so complying with such requirements. Without limiting the generality of the preceding sentence, Counterparty

acknowledges and agrees that (A) Counterparty does not have, and shall not attempt to exercise, any influence over how, when or whether Merrill Lynch effects any purchases of Shares in connection with the Transaction, (B) during the period beginning on (but excluding) the date of this Confirmation and ending on (and including) the last day of the Relevant Period, neither Counterparty nor its officers or employees shall, directly or indirectly, communicate any information regarding Counterparty or the Shares to any employee of Merrill Lynch or its Affiliates responsible for trading the Shares in connection with the transactions contemplated hereby, (C) Counterparty is entering into the Transaction in good faith and not as part of a plan or scheme to evade compliance with federal securities laws including, without limitation, Rule 10b-5 promulgated under the Exchange Act and (D) Counterparty will not alter or deviate from this Confirmation or enter into or alter a corresponding hedging transaction with respect to the Shares. Counterparty also acknowledges and agrees that any amendment, modification, waiver or termination of this Confirmation must be effected in accordance with the requirements for the amendment or termination of a "plan" as defined in Rule 10b5-1(c) under the Exchange Act. Without limiting the generality of the foregoing, any such amendment, modification, waiver or termination shall be made in good faith and not as part of a plan or scheme to evade the prohibitions of Rule 10b-5 under the Exchange Act, and no such amendment, modification or waiver shall be made at any time at which Counterparty or any officer or director of Counterparty is aware of any material nonpublic information regarding Counterparty or the Shares.

(b) Counterparty agrees that neither Counterparty nor any of its Affiliates or agents shall take any action that would cause Regulation M to be applicable to any purchases of Shares, or any security for which the Shares are a reference security (as defined in Regulation M), by Counterparty or any of its affiliated purchasers (as defined in Regulation M) during the Relevant Period unless Counterparty has provided written notice to Merrill Lynch of the same not later than the Exchange Business Day immediately preceding the first day of the relevant "restricted period" under Regulation M. Counterparty acknowledges that any such notice may result in a Regulatory Disruption and may cause the Relevant Period to be suspended. Accordingly, Counterparty acknowledges that its actions in relation to any such notice or transaction must comply with the standards set forth in Section 6(a) above.

(c) Counterparty shall, at least one day prior to the first day of the Relevant Period, notify Merrill Lynch of the total number of Shares purchased in Rule 10b-18 purchases of blocks pursuant to the once-a-week block exception contained in Rule 10b-18(b)(4) by or for Counterparty or any of its affiliated purchasers during each of the four calendar weeks preceding the first day of the Relevant Period and during the calendar week in which the first day of the Relevant Period occurs ("Rule 10b-18 purchase", "blocks" and "affiliated purchaser" each being used as defined in Rule 10b-18).

(d) During the Relevant Period, Counterparty shall (i) notify Merrill Lynch prior to the opening of trading in the Shares on any day on which Counterparty makes, or expects to be made, any public announcement (as defined in Rule 165(f) under the Securities Act of 1933, as amended (the "**Securities Act**") of any merger, acquisition, or similar transaction involving a recapitalization relating to Counterparty (other than any such transaction in which the consideration consists solely of cash and there is no valuation period), (ii) promptly notify Merrill Lynch following any such announcement that such announcement has been made, and (iii) promptly deliver to Merrill Lynch following the making of any such announcement a certificate indicating (A) Counterparty's average daily Rule 10b-18 purchases (as defined in Rule 10b-18) during the three full calendar months preceding the date of the announcement of such transaction and (B) Counterparty's block purchases (as defined in Rule 10b-18) effected pursuant to paragraph (b)(4) of Rule 10b-18 during the three full calendar months preceding the date of the announcement of such transaction. In addition, Counterparty shall promptly notify Merrill Lynch of the earlier to occur of the completion of such transaction and the completion of the vote by target shareholders. Counterparty acknowledges that any such public announcement may result in a Regulatory Disruption and may cause the Relevant Period to be suspended. Accordingly, Counterparty acknowledges that its actions in relation to any such announcement or transaction must comply with the standards set forth in Section 6(a) above.

(e) Without the prior written consent of Merrill Lynch, Counterparty shall not, and shall cause its Affiliates and affiliated purchasers (each as defined in Rule 10b-18) not to, directly or indirectly (including, without limitation, by means of a cash-settled or other derivative instrument) purchase, offer to purchase, place any bid or limit order that would effect a purchase of, or commence any tender offer relating to, any Shares (or an equivalent interest, including a unit of beneficial interest in a trust or limited partnership or a depository share) or any security convertible into or exchangeable for Shares during the Relevant Period, except through Merrill Lynch or an affiliate thereof; provided that this Section 6(e) shall not (i) limit Counterparty's ability, pursuant to its employee incentive plans, to re-acquire Shares in connection with the related equity transactions; (ii) limit Counterparty's ability to withhold Shares to cover exercise price and/or tax liabilities associated with such equity transactions; or (iii) limit



Counterparty's ability to grant Shares and options to "affiliated purchasers" (as defined in Rule 10b-18) or the ability of such affiliated purchasers to acquire such Shares or options, in connection with the Counterparty's compensation policies for directors, officers and employees or any agreements with respect to the compensation of directors, officers or employees of any entities that are acquisition targets of Counterparty, and in connection with any such purchase Counterparty will be deemed to represent to Merrill Lynch that such purchase does not constitute a "Rule 10b-18 Purchase" (as defined in Rule 10b-18) (any such incentive or compensatory plan, program or policy of Counterparty, a "**Compensatory Plan**"); *provided however* that, any such equity transactions or Compensatory Plan purchases contemplated by this Section 6(e)(i),(ii) or (iii) shall not result in a net reduction of the Counterparty's Shares outstanding. For the avoidance of doubt, any purchases made in connection with the forward share repurchase and capped call transactions described in the Counterparty's Annual Report on Form 10-K filed on February 18, 2014, the forms of confirmation of which are filed as exhibits thereto, are not restricted by this Section 6(e).

7. Representations, Warranties and Agreements.

(a) In addition to the representations, warranties and agreements in the Agreement and those contained elsewhere herein, Counterparty represents and warrants to and for the benefit of, and agrees with, Merrill Lynch as follows:

(i) As of the Trade Date, and as of the date of any election by Counterparty of the Share Termination Alternative under (and as defined in) Section 10(a) below, (A) none of Counterparty and its officers and directors is aware of any material nonpublic information regarding Counterparty or the Shares and (B) all reports and other documents filed by Counterparty with the Securities and Exchange Commission pursuant to the Exchange Act when considered as a whole (with the more recent such reports and documents deemed to amend inconsistent statements contained in any earlier such reports and documents), do not contain any untrue statement of a material fact or any omission of a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances in which they were made, not misleading.

(ii) Without limiting the generality of Section 13.1 of the Equity Definitions, Counterparty acknowledges that Merrill Lynch is not making any representations or warranties or taking any position or expressing any view with respect to the treatment of the Transaction under any accounting standards including ASC Topic 260, *Earnings Per Share*, ASC Topic 815, *Derivatives and Hedging*, or ASC Topic 480, *Distinguishing Liabilities from Equity* and ASC 815-40, *Derivatives and Hedging – Contracts in Entity's Own Equity* (or any successor issue statements) or under FASB's Liabilities & Equity Project.

(iii) Without limiting the generality of Section 3(a)(iii) of the Agreement, the Transaction will not violate Rule 13e-1 or Rule 13e-4 under the Exchange Act.

(iv) On or prior to the Trade Date, Counterparty shall deliver to Merrill Lynch a resolution of Counterparty's board of directors authorizing Share repurchases to be effected through open market purchases, unsolicited or solicited privately negotiated transactions and such other certificate or certificates as Merrill Lynch shall reasonably request. Counterparty has agreed to prepare a press release announcing this Transaction.

(v) Counterparty is not entering into this Confirmation to create actual or apparent trading activity in the Shares (or any security convertible into or exchangeable for Shares) in violation of the Exchange Act or to raise or depress or otherwise manipulate the price of the Shares (or any security convertible into or exchangeable for Shares) in violation of the Exchange Act or otherwise in violation of the Exchange Act, and will not engage in any other securities or derivative transaction to such ends.

(vi) Counterparty is not, and after giving effect to the transactions contemplated hereby will not be, required to register as an "investment company" as such term is defined in the Investment Company Act of 1940, as amended.

(vii) On the Trade Date, the Prepayment Date, each Interim Share Delivery Date and the Settlement Date, Counterparty is not, or will not be, "insolvent" (as such term is defined under Section 101(32) of the U.S. Bankruptcy Code (Title 11 of the United States Code) (the "**Bankruptcy Code**")) and Counterparty would be able to purchase the Shares hereunder in compliance with the corporate laws of the jurisdiction of its incorporation.

(viii) No California, local or Cayman Islands law, rule, regulation or regulatory order applicable to the Shares would give rise to any reporting, consent, registration or other requirement (including without limitation a requirement to obtain prior approval from any person or entity) as a result of Merrill Lynch or its affiliates owning or holding (however defined) Shares in connection with hedging its obligations pursuant to the Transaction.

(ix) Counterparty understands no obligations of Merrill Lynch to it hereunder will be entitled to the benefit of deposit insurance and that such obligations will not be guaranteed by any affiliate of Merrill Lynch or any governmental agency.

(b) Each of Merrill Lynch and Counterparty agrees and represents that it is an “eligible contract participant” as defined in Section 1a(18) of the U.S. Commodity Exchange Act, as amended.

(c) Counterparty acknowledges that the offer and sale of the Transaction to it is intended to be exempt from registration under the Securities Act, by virtue of Section 4(2) thereof. Accordingly, Counterparty represents and warrants to Merrill Lynch that (i) it has the financial ability to bear the economic risk of its investment in the Transaction and is able to bear a total loss of its investment, (ii) it is an “accredited investor” as that term is defined in Regulation D as promulgated under the Securities Act, (iii) it is entering into the Transaction for its own account and without a view to the distribution or resale thereof, and (iv) the assignment, transfer or other disposition of the Transaction has not been and will not be registered under the Securities Act and is restricted under this Confirmation, the Securities Act and state securities laws.

(d) Counterparty agrees and acknowledges that each of Merrill Lynch and Agent is a “financial institution,” “swap participant” and “financial participant” within the meaning of Sections 101(22), 101(53C) and 101(22A) of the Bankruptcy Code. The parties hereto further agree and acknowledge that it is the intent of the parties that (A) this Confirmation is (i) a “securities contract,” as such term is defined in Section 741(7) of the Bankruptcy Code, with respect to which each payment and delivery hereunder or in connection herewith is a “termination value,” “payment amount” or “other transfer obligation” within the meaning of Section 362 of the Bankruptcy Code and a “settlement payment,” within the meaning of Section 546 of the Bankruptcy Code and (ii) a “swap agreement,” as such term is defined in Section 101(53B) of the Bankruptcy Code, with respect to which each payment and delivery hereunder or in connection herewith is a “termination value,” “payment amount” or “other transfer obligation” within the meaning of Section 362 of the Bankruptcy Code and a “transfer,” as such term is defined in Section 101(54) of the Bankruptcy Code and a “payment or other transfer of property” within the meaning of Sections 362 and 546 of the Bankruptcy Code, and (B) Merrill Lynch and Agent are entitled to the protections afforded by, among other sections, Sections 362(b)(6), 362(b)(17), 362(o), 546(e), 546(g), 548(d)(2), 555, 560 and 561 of the Bankruptcy Code.

8. Agreements and Acknowledgements Regarding Hedging.

Counterparty acknowledges and agrees that:

(a) During the Relevant Period, Merrill Lynch and its Affiliates may buy or sell Shares or other securities or buy or sell options or futures contracts or enter into swaps or other derivative securities in order to adjust its hedge position with respect to the Transaction;

(b) Merrill Lynch and its Affiliates also may be active in the market for Shares other than in connection with hedging activities in relation to the Transaction;

(c) Merrill Lynch shall make its own determination as to whether, when or in what manner any hedging or market activities in Counterparty’s securities shall be conducted and shall do so in a manner that it deems appropriate to hedge its price and market risk with respect to the Settlement Price and/or the VWAP Price as long as it complies with the requirements of Rule 10b5-1 of the Exchange Act; and

(d) Any market activities of Merrill Lynch and its Affiliates with respect to Shares may affect the market price and volatility of Shares, as well as the Settlement Price and/or the VWAP Price, each in a manner that may be adverse to Counterparty.

9. Special Provisions regarding Transaction Announcements

(a) If a Transaction Announcement occurs on or prior to the Settlement Date, then Calculation Agent shall make such adjustment to the Settlement Price and the Discount (including reducing the Discount to zero, but not including making such amount a negative number) as the Calculation Agent determines appropriate to account for the economic effect on the Transaction of the Transaction Announcement. If a Transaction Announcement occurs after the Trade Date but prior to the Scheduled Earliest Acceleration Date, the Scheduled Earliest Acceleration Date shall be adjusted to be the date of such Transaction Announcement.

(b) **“Transaction Announcement”** means (i) the announcement of an Acquisition Transaction, (ii) an announcement that Counterparty, its board of directors or any of its subsidiaries has entered into an agreement, a letter of intent or an understanding to enter into an Acquisition Transaction, (iii) the announcement of an intention to solicit or enter into, or to explore strategic alternatives or other similar undertaking that may include, an Acquisition Transaction, or (iv) any other announcement that the Calculation Agent determines is reasonably likely to result in an Acquisition Transaction. For the avoidance of doubt, announcements as used in clause (iv) of this definition of Transaction Announcement refer to any public announcement whether made by the Issuer or a third party.

**“Acquisition Transaction”** means (i) any Merger Event (and for purposes of this definition the definition of Merger Event shall be read with the references therein to “100%” being replaced by “25%” and to “50%” by “75%” and as if the clause beginning immediately following the definition of Reverse Merger therein to the end of such definition were deleted) or Tender Offer, or any other transaction involving the merger of Counterparty with or into any third party, (ii) the sale or transfer of all or substantially all of the assets of Counterparty, (iii) a recapitalization, reclassification, binding share exchange or other similar transaction, (iv) any acquisition by Counterparty or any of its subsidiaries where the aggregate consideration transferable by Counterparty or its subsidiaries that exceeds 25% of the market capitalization of Counterparty, (v) any lease, exchange, transfer, disposition (including by way of spin-off or distribution) of assets (including any capital stock or other ownership interests in subsidiaries) or other similar event by Counterparty or any of its subsidiaries where the aggregate consideration transferable or receivable by or to Counterparty or its subsidiaries exceeds 25% of the market capitalization of Counterparty and (vi) any transaction in which Counterparty or its board of directors has a legal obligation to make a recommendation to its shareholders in respect of such transaction (whether pursuant to Rule 14e-2 under the Exchange Act or otherwise).

10. Other Provisions.

(a) *Alternative Calculations and Payment on Early Termination and on Certain Extraordinary Events.* If Merrill Lynch would owe Counterparty any amount pursuant to Sections 12.2, 12.3, 12.6, 12.7 or 12.9 of the Equity Definitions or pursuant to Section 6(d)(ii) of the Agreement (a **“Payment Obligation”**), Counterparty shall have the right, in its sole discretion, to require Merrill Lynch to satisfy any such Payment Obligation, in whole or in part, by the Share Termination Alternative (as defined below) by giving irrevocable telephonic notice to Merrill Lynch, confirmed in writing within one Scheduled Trading Day, no later than 9:30 A.M. New York City time on the Merger Date, Tender Offer Date, Announcement Date, Early Termination Date or date of cancellation or termination in respect of an Extraordinary Event, as applicable (**“Notice of Share Termination”**); *provided* that if Counterparty does not elect to require Merrill Lynch to satisfy such Payment Obligation by the Share Termination Alternative in whole, Merrill Lynch shall have the right, in its sole discretion, to elect to satisfy any portion of such Payment Obligation that Counterparty has not so elected by the Share Termination Alternative, notwithstanding Counterparty’s failure to elect or election to the contrary; and *provided further* that Counterparty shall not have the right to so elect (but, for the avoidance of doubt, Merrill Lynch shall have the right to so elect) in the event of (i) an Insolvency, a Nationalization, a Merger Event or a Tender Offer, in each case, in which the consideration or proceeds to be paid to holders of Shares consists solely of cash or (ii) an Event of Default in which Counterparty is the Defaulting Party or a Termination Event in which Counterparty is the Affected Party, which Event of Default or Termination Event resulted from an event or events within Counterparty’s control. Upon such Notice of Share Termination, the following provisions shall apply on the Scheduled Trading Day immediately following the Merger Date, Tender Offer Date, Announcement Date, Early Termination Date or date of cancellation or termination in respect of an Extraordinary Event, as applicable, with respect to the Payment Obligation or such portion of the Payment Obligation for which the Share Termination Alternative has been elected (the **“Applicable Portion”**):

Share Termination Alternative:                   Applicable and means that Merrill Lynch shall deliver to Counterparty the Share Termination Delivery Property on the date on which such Payment Obligation would otherwise be due pursuant to Section 12.7 or 12.9 of the Equity Definitions

or Section 6(d)(ii) of the Agreement, as applicable, or such later date as the Calculation Agent may reasonably determine (the “**Share Termination Payment Date**”), in satisfaction of the Payment Obligation or the Applicable Portion, as the case may be.

Share Termination Delivery Property:	A number of Share Termination Delivery Units, as calculated by the Calculation Agent, equal to the Payment Obligation (or the Applicable Portion, as the case may be) divided by the Share Termination Unit Price. The Calculation Agent shall adjust the Share Termination Delivery Property by replacing any fractional portion of a security therein with an amount of cash equal to the value of such fractional security based on the values used to calculate the Share Termination Unit Price.
Share Termination Unit Price:	The value of property contained in one Share Termination Delivery Unit on the date such Share Termination Delivery Units are to be delivered as Share Termination Delivery Property, as determined by the Calculation Agent in its discretion by commercially reasonable means and notified by the Calculation Agent to the parties at the time of notification of the Payment Obligation.
Share Termination Delivery Unit:	In the case of a Termination Event, Event of Default, Delisting or Additional Disruption Event, one Share or, in the case of an Insolvency, Nationalization, Merger Event or Tender Offer, one Share or a unit consisting of the number or amount of each type of property received by a holder of one Share (without consideration of any requirement to pay cash or other consideration in lieu of fractional amounts of any securities) in such Insolvency, Nationalization, Merger Event or Tender Offer. If such Insolvency, Nationalization, Merger Event or Tender Offer involves a choice of consideration to be received by holders, such holder shall be deemed to have elected to receive the maximum possible amount of cash.
Failure to Deliver:	Applicable
Other applicable provisions:	If Share Termination Alternative is applicable, the provisions of Sections 9.8, 9.9, 9.10, 9.11 (except that the Representation and Agreement contained in Section 9.11 of the Equity Definitions shall be modified by excluding any representations therein relating to restrictions, obligations, limitations or requirements under applicable securities laws arising as a result of the fact that Counterparty is the issuer of the Shares or any portion of the Share Termination Delivery Units) and 9.12 of the Equity Definitions will be applicable as if “Physical Settlement” applied to the Transaction, except that all references to “Shares” shall be read as references to “Share Termination Delivery Units”.

(b) *Equity Rights.* Merrill Lynch acknowledges and agrees that this Confirmation is not intended to convey to it rights with respect to the Transaction that are senior to the claims of common stockholders in the event of Counterparty’s bankruptcy. For the avoidance of doubt, the parties agree that the preceding sentence shall not apply at any time other than during Counterparty’s bankruptcy to any claim arising as a result of a breach by Counterparty of any of its obligations under this Confirmation or the Agreement. For the avoidance of doubt, the parties acknowledge that this Confirmation is not secured by any collateral that would otherwise secure the obligations of Counterparty herein under or pursuant to any other agreement.

(c) *Reserved.*

(d) *Staggered Settlement.* Merrill Lynch may, by notice to Counterparty on or prior to the Settlement Date (a “**Nominal Settlement Date**”), elect to deliver the Shares deliverable on such Nominal Settlement Date on two or more dates (each, a “**Staggered Settlement Date**”) or at two or more times on the Nominal Settlement Date as follows: (i) in such notice, Merrill Lynch will specify to Counterparty the related Staggered Settlement Dates (each of which will be on or prior to such Nominal Settlement Date) or delivery times and how it will allocate the Shares it is

required to deliver under “Settlement Terms” above among the Staggered Settlement Dates or delivery times; and (ii) the aggregate number of Shares that Merrill Lynch will deliver to Counterparty hereunder on all such Staggered Settlement Dates and delivery times will equal the number of Shares that Merrill Lynch would otherwise be required to deliver on such Nominal Settlement Date.

(e) *Adjustments.* For the avoidance of doubt, whenever the Calculation Agent is called upon to make an adjustment pursuant to the terms of this Confirmation or the Definitions to take into account the effect of an event, the Calculation Agent shall make such adjustment by reference to the effect of such event on the Hedging Party, assuming that the Hedging Party maintains a commercially reasonable hedge position.

(f) *Transfer and Assignment.* Merrill Lynch may transfer or assign without any consent of the Counterparty its rights and obligations hereunder and under the Agreement, in whole or in part, to (i) any of its affiliates or (ii) any entities sponsored or organized by, or on behalf of or for the benefit of, Merrill Lynch; *provided, however,* that in each case the obligations of any such transferee or assignee hereunder and under the Agreement shall be guaranteed by Bank of America Corporation, or such transferee or assignee shall have a credit rating at least equivalent to that of Merrill Lynch, and that Counterparty will not, as a result of any such transfer or assignment, be required under the Agreement or this Confirmation to (x) pay to the transferee or assignee an amount greater than the amount that it would have been required to pay to Merrill Lynch in the absence of such transfer or assignment or (y) receive from the transferee or assignee an amount less than the amount that Counterparty would have received from Merrill Lynch in the absence of such transfer or assignment, in each case based on the circumstances in effect on the date of such transfer. At any time at which any Excess Ownership Position or a Hedging Disruption exists, if Merrill Lynch, in its commercially reasonable discretion, is unable to effect a transfer or assignment to a third party in accordance with the requirements set forth above after using its commercially reasonable efforts on pricing terms and within a time period reasonably acceptable to Merrill Lynch such that an Excess Ownership Position or a Hedging Disruption, as the case may be, no longer exists, Merrill Lynch may designate any Scheduled Trading Day as an Early Termination Date with respect to a portion (the “**Terminated Portion**”) of the Transaction, such that such Excess Ownership Position or Hedging Disruption, as the case may be, no longer exists. In the event that Merrill Lynch so designates an Early Termination Date with respect to a portion of the Transaction, a payment or delivery shall be made pursuant to Section 6 of the Agreement and Section 10(a) of this Confirmation as if (i) an Early Termination Date had been designated in respect of a Transaction having terms identical to the Terminated Portion of the Transaction, (ii) Counterparty shall be the sole Affected Party with respect to such partial termination and (iii) such portion of the Transaction shall be the only Terminated Transaction. “**Excess Ownership Position**” means any of the following: (i) the Equity Percentage exceeds 9.0%, (ii) Merrill Lynch or any “affiliate” or “associate” of Merrill Lynch would own in excess of 13% of the outstanding Shares or (iii) Merrill Lynch, Merrill Lynch Group (as defined below) or any person whose ownership position would be aggregated with that of Merrill Lynch or Merrill Lynch Group (Merrill Lynch, Merrill Lynch Group or any such person, a “**Merrill Lynch Person**”) under any federal, state or local laws, regulations or regulatory orders applicable to ownership of Shares (“**Applicable Laws**”), owns, beneficially owns, constructively owns, controls, holds the power to vote or otherwise meets a relevant definition of ownership in excess of a number of Shares equal to (x) the number of Shares that would give rise to reporting or registration obligations or other requirements (including obtaining prior approval by a state or federal regulator) of a Merrill Lynch Person under Applicable Laws and with respect to which such requirements have not been met or the relevant approval has not been received or that would give rise to any consequences under the constitutive documents of Counterparty or any contract or agreement to which Counterparty is a party, in each case *minus* (y) 1% of the number of Shares outstanding on the date of determination. The “**Equity Percentage**” as of any day is the fraction, expressed as a percentage, (A) the numerator of which is the number of Shares that Merrill Lynch and any of its affiliates or any other person subject to aggregation with Merrill Lynch, for purposes of the “beneficial ownership” test under Section 13 of the Exchange Act, or any “group” (within the meaning of Section 13 of the Exchange Act) of which Merrill Lynch is or may be deemed to be a part (Merrill Lynch and any such affiliates, persons and groups, collectively, “**Merrill Lynch Group**”) beneficially owns (within the meaning of Section 13 of the Exchange Act), without duplication, on such day (or, to the extent that, as a result of a change in law, regulation or interpretation after the date hereof, the equivalent calculation under Section 16 of the Exchange Act and the rules and regulations thereunder results in a higher number, such number) and (B) the denominator of which is the number of Shares outstanding on such day.

(g) *Disposition of Hedge Shares.* Counterparty hereby agrees that if, in the good faith reasonable judgment of Merrill Lynch and Counterparty, any Shares (the “**Hedge Shares**”) acquired by Merrill Lynch for the purpose of hedging its obligations pursuant to the Transaction cannot be sold in the public market by Merrill Lynch without registration under the Securities Act, Counterparty shall, at its election: (i) in order to allow Merrill Lynch to sell the Hedge Shares in a registered offering, make available to Merrill Lynch an effective registration statement

under the Securities Act to cover the resale of such Hedge Shares and (A) enter into an agreement, in form and substance satisfactory to Merrill Lynch, substantially in the form of an underwriting agreement for a registered offering, (B) provide accountant's "comfort" letters in customary form for registered offerings of equity securities, (C) provide disclosure opinions of nationally recognized outside counsel to Counterparty reasonably acceptable to Merrill Lynch, (D) provide other customary opinions, certificates and closing documents customary in form for registered offerings of equity securities and (E) afford Merrill Lynch a reasonable opportunity to conduct a "due diligence" investigation with respect to Counterparty customary in scope for underwritten offerings of equity securities; *provided* that, Merrill Lynch shall notify Counterparty of its judgment referred to above in this Section 10(g) on or prior to the Settlement Date; *provided further* that, if Merrill Lynch, in its sole reasonable discretion, is not satisfied with access to due diligence materials, the results of its due diligence investigation, or the procedures and documentation for the registered offering referred to above, then clause (ii) or clause (iii) of this Section 10(g) shall apply at the election of Counterparty; (ii) in order to allow Merrill Lynch to sell the Hedge Shares in a private placement, enter into a private placement agreement substantially similar to private placement purchase agreements customary for private placements of equity securities, in form and substance satisfactory to Merrill Lynch, including customary representations, covenants, blue sky and other governmental filings and/or registrations, indemnities to Merrill Lynch, due diligence rights (for Merrill Lynch or any designated buyer of the Hedge Shares from Merrill Lynch), opinions and certificates and such other documentation as is customary for private placements agreements, all reasonably acceptable to Merrill Lynch (in which case, the Calculation Agent shall make any adjustments to the terms of the Transaction that are necessary, in its reasonable judgment, to compensate Merrill Lynch for any discount from the public market price of the Shares incurred on the sale of Hedge Shares in a private placement); or (iii) purchase the Hedge Shares from Merrill Lynch at the Volume Weighted Average Price on such Exchange Business Days, and in the amounts, requested by Merrill Lynch. "**Volume Weighted Average Price**" means, on any Exchange Business Day, the per Share volume-weighted average price as displayed under the heading "Bloomberg VWAP" on Bloomberg Screen HLF.N <Equity> VAP (or any successor thereto) in respect of the period from 9:30 a.m. to 4:00 p.m. (New York City time) on such Exchange Business Day (or if such volume-weighted average price is unavailable or is manifestly incorrect, the market value of one Share on such Exchange Business Day, as determined by the Calculation Agent using a volume-weighted method).

(h) *Additional Termination Event*. It shall constitute an Additional Termination Event with respect to which the Transaction is the sole Affected Transaction and Counterparty is the sole Affected Party and Merrill Lynch shall be the party entitled to designate an Early Termination Date pursuant to Section 6(b) of the Agreement if At any time during the Relevant Period, the price per Share on the Exchange, as determined by the Calculation Agent, is at or below the Threshold Price (as provided in Annex A to this Confirmation).

(i) *Amendments to Equity Definitions*. The following amendments shall be made to the Equity Definitions:

(i) Section 11.2(a) of the Equity Definitions is hereby amended by deleting the words "a diluting or concentrative effect on the theoretical value of the relevant Shares" and replacing them with the words "an economic effect on the relevant Transaction";

(ii) The first sentence of Section 11.2(c) of the Equity Definitions, prior to clause (A) thereof, is hereby amended to read as follows: "(c) If 'Calculation Agent Adjustment' is specified as the Method of Adjustment in the related Confirmation of a Share Option Transaction or Share Forward Transaction, then following the announcement or occurrence of any Potential Adjustment Event, the Calculation Agent will determine whether such Potential Adjustment Event has a material economic effect on the Transaction and, if so, will (i) make appropriate adjustment(s), if any, to any one or more of:" *and* the portion of such sentence immediately preceding clause (ii) thereof is hereby amended by deleting the words "diluting or concentrative" and the words "*provided* that no adjustments will be made to account solely for changes in volatility, expected dividends, stock loan rate or liquidity relative to the relevant Shares)" and replacing such latter phrase with the words "(and, for the avoidance of doubt, adjustments may be made to account solely for changes in volatility, stock loan rate or liquidity relative to the relevant Shares)";

(iii) Section 11.2(e)(vii) of the Equity Definitions is hereby amended by deleting the words "diluting or concentrative effect on the theoretical value of the relevant Shares" and replacing them with the words "economic effect on the relevant Transaction"; and

(iv) Section 12.6(a)(ii) of the Equity Definitions is hereby amended by (1) deleting from the fourth line thereof the word “or” after the word “official” and inserting a comma therefor, and (2) deleting the semi-colon at the end of subsection (B) thereof and inserting the following words therefor “or (C) at Merrill Lynch’s option, the occurrence of any of the events specified in Section 5(a)(vii) (1) through (9) of the ISDA Master Agreement with respect to that issuer”.

(j) *No Netting and Set-off.* Each party waives any and all rights it may have to set off obligations arising under the Agreement and the Transaction against other obligations between the parties, whether arising under any other agreement, applicable law or otherwise.

(k) *Disclosure.* Effective from the date of commencement of discussions concerning the Transaction, Counterparty and each of its employees, representatives, or other agents may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the Transaction and all materials of any kind (including opinions or other tax analyses) that are provided to Counterparty relating to such tax treatment and tax structure.

(l) *Designation by Merrill Lynch.* Notwithstanding any other provision in this Confirmation to the contrary requiring or allowing Merrill Lynch to purchase, sell, receive or deliver any Shares or other securities to or from Counterparty, Merrill Lynch (the “**Designator**”) may designate any of its Affiliates (the “**Designee**”) to deliver or take delivery, as the case may be, and otherwise perform its obligations to deliver, if any, or take delivery of, as the case may be, any such Shares or other securities in respect of the Transaction, and the Designee may assume such obligations, if any. Such designation shall not relieve the Designator of any of its obligations, if any, hereunder. Notwithstanding the previous sentence, if the Designee shall have performed the obligations, if any, of the Designator hereunder, then the Designator shall be discharged of its obligations, if any, to Counterparty to the extent of such performance.

(m) *Termination Currency.* The Termination Currency shall be USD.

(n) *Matters Relating to Agent.* In connection with the Transaction confirmed hereby, the Agent, a broker-dealer registered under the Exchange Act, will be responsible for: (a) effecting the Transaction (though the Agent shall not be responsible for negotiating the terms of the Transaction), (b) issuing all required confirmations and statements to Counterparty relating to the Transaction, (c) as between Merrill Lynch and the Agent, extending or arranging for the extension of any credit to Counterparty in connection with the Transaction, (d) maintaining required books and records relating to the Transaction, (e) complying, to the extent applicable, with Rule 15c3-1 under the Exchange Act and (f) unless otherwise permitted under applicable law or applicable interpretations thereof, receiving, delivering and safeguarding funds and securities in compliance with Rule 15c3-3 under the Exchange Act.

The Agent is acting hereunder solely in its capacity as agent (and not as principal or guarantor) in connection with the Transaction entered into between Counterparty and Merrill Lynch, pursuant to instructions received from Counterparty and Merrill Lynch, and shall have no responsibility or liability to Counterparty or Merrill Lynch arising from any failure by either of them to pay or perform any obligation hereunder. Each of Counterparty and Merrill Lynch acknowledges the foregoing and agrees that it will proceed solely against the other to collect or recover any funds or securities owing to it in connection with or arising from the Transaction. The Agent shall not be deemed to have endorsed or guaranteed the Transaction confirmed hereby and shall have no responsibility or liability to either Counterparty or Merrill Lynch except for gross negligence or willful misconduct in the performance of its duties as agent.

Merrill Lynch is regulated by the Financial Services Authority and is a member of the London Stock Exchange, the Irish Stock Exchange, Virt-x and ISMA. Merrill Lynch has entered into the Transaction as principal. The time of the Transaction shall be notified to Counterparty upon request.

(o) *Waiver of Trial by Jury.* **EACH OF COUNTERPARTY AND MERRILL LYNCH HEREBY IRREVOCABLY WAIVES (ON ITS OWN BEHALF AND, TO THE EXTENT PERMITTED BY APPLICABLE LAW, ON BEHALF OF ITS STOCKHOLDERS) ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THE TRANSACTION OR THE ACTIONS OF MERRILL LYNCH OR ITS AFFILIATES IN THE NEGOTIATION, PERFORMANCE OR ENFORCEMENT HEREOF.**

(p) *Governing Law; Jurisdiction.* **THIS CONFIRMATION AND ANY CLAIM, CONTROVERSY OR DISPUTE ARISING UNDER OR RELATED TO THIS CONFIRMATION SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK. THE PARTIES HERETO IRREVOCABLY SUBMIT TO THE EXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK AND THE UNITED STATES COURT FOR THE SOUTHERN DISTRICT OF NEW YORK IN CONNECTION WITH ALL MATTERS RELATING HERETO AND WAIVE ANY OBJECTION TO THE LAYING OF VENUE IN, AND ANY CLAIM OF INCONVENIENT FORUM WITH RESPECT TO, THESE COURTS.**

(q) *Wall Street Transparency and Accountability Act of 2010.* The parties hereby agree that none of (i) Section 739 of the Wall Street Transparency and Accountability Act of 2010 (the "WSTAA"), (ii) any similar legal certainty provision included in any legislation enacted, or rule or regulation promulgated, on or after the Trade Date, (iii) the enactment of the WSTAA or any regulation under the WSTAA, (iv) any requirement under the WSTAA or (v) any amendment made by the WSTAA shall limit or otherwise impair either party's right to terminate, renegotiate, modify, amend or supplement this Confirmation or the Agreement, as applicable, arising from a termination event, force majeure, illegality, increased cost, regulatory change or similar event under this Confirmation, the Equity Definitions or the Agreement (including, but not limited to, any right arising from any Change in Law, Hedging Disruption, Increased Cost of Hedging or Illegality).

(r) *Tax Matters*

- (i) *Withholding Tax imposed on payments to non-US counterparties under the United States Foreign Account Tax Compliance Act* "Tax" and "Indemnifiable Tax", each as defined in Section 14 of the Agreement, shall not include any U.S. federal withholding tax imposed or collected pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code (a "**FATCA Withholding Tax**"). For the avoidance of doubt, a FATCA Withholding Tax is a Tax the deduction or withholding of which is required by applicable law for the purposes of Section 2(d) of the Agreement.
- (ii) *HIRE Act.* "Tax" and "Indemnifiable Tax", each as defined in Section 14 of the Agreement, shall not include any tax imposed on payments treated as dividends from sources within the United States under Section 871(m) of the Code or any regulations issued thereunder.
- (iii) *Tax documentation.* Counterparty shall provide to Merrill Lynch a valid U.S. Internal Revenue Service Form W-9, or if applicable, Form W-8 or W-8 BEN, or any successor(s) thereto, (i) on or before the date of execution of this Confirmation and (ii) promptly upon learning that any such tax form previously provided by Counterparty has become obsolete or incorrect. Additionally, Counterparty shall, promptly upon request by Merrill Lynch, provide such other tax forms and documents reasonably requested by Merrill Lynch.



Please confirm your agreement to be bound by the terms stated herein by executing the copy of this Confirmation enclosed for that purpose and returning it to us by mail or facsimile transmission to the address for Notices indicated above.

Yours sincerely,

MERRILL LYNCH INTERNATIONAL

By: \_\_\_\_\_  
Name:  
Title:

MERRILL LYNCH, PIERCE, FENNER & SMITH  
INCORPORATED, solely in its capacity as Agent

By: \_\_\_\_\_  
Name:  
Title:

Confirmed as of the date first above written:

HERBALIFE LTD.

By: \_\_\_\_\_  
Name: John DeSimone  
Title: Chief Financial Officer

Prepayment Amount:	USD 266,000,000
Scheduled Final Averaging Date:	June 27, 2014 (or if such date is not an Exchange Business Day, the next following Exchange Business Day).
Scheduled Earliest Acceleration Date:	May 16, 2014 (or if such date is not an Exchange Business Day, the next following Exchange Business Day).
Discount:	An amount in USD equal to the product of (i) the "official closing price" of the Shares on the Trade Date and (ii) 2.26%.
Threshold Price:	USD 38.00
Interim Share Delivery Dates:	Each of the Clearance System Business Days specified below (or if such date is not a Clearance System Business Day, the next following Clearance System Business Day), occurring prior to the Settlement Date or earlier date of termination or cancellation of the Transaction, plus any other Clearance System Business Day determined by Merrill Lynch in its sole discretion to be an Interim Share Delivery Date based on any relevant legal, regulatory or self-regulatory requirements or related policies and procedures.
	May 12, 2014
	May 19, 2014
	May 27, 2014
	June 2, 2014
	June 9, 2014
	June 16, 2014
	June 23, 2014
	June 30, 2014

**Section 302 Certification**

I, Michael O. Johnson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Herbalife Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ MICHAEL O. JOHNSON  
Michael O. Johnson  
*Chief Executive Officer*

Dated: July 28, 2014

**Section 302 Certification**

I, John G. DeSimone, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Herbalife Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ JOHN G. DESIMONE  
John G. DeSimone  
*Chief Financial Officer*

Dated: July 28, 2014

**CERTIFICATION**  
**Pursuant to 18 U.S.C. Section 1350**  
**Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Herbalife Ltd., or the Company, on Form 10-Q for the fiscal quarter ended June 30, 2014 as filed with the U.S. Securities and Exchange Commission on the date hereof, or the Report, and pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of the Company certifies that:

- the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ MICHAEL O. JOHNSON

Michael O. Johnson

*Chief Executive Officer*

Dated: July 28, 2014

By: /s/ JOHN G. DESIMONE

John G. DeSimone

*Chief Financial Officer*

Dated: July 28, 2014

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.