HERBALIFE LTD.
Form 10-Q
July 28, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **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

HERBALIFE LTD.

(Exact name of registrant as specified in its charter)

Cayman Islands	**98-0377871**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

P.O. Box 309GT

Ugland House, South Church Street

Grand Cayman, Cayman Islands

(Address of principal executive offices) (Zip code)

(213) 745-0500

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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 x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

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)	
ASSETS		
CURRENT ASSETS:		
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	1,494,789	1,643,120
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	$ 2,435,684	$ 2,473,701
LIABILITIES AND SHAREHOLDERS (DEFICIT) EQUITY		
CURRENT LIABILITIES:		
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	942,366	922,178

NON-CURRENT LIABILITIES:		
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	2,839,752	1,922,255
CONTINGENCIES		
SHAREHOLDERS (DEFICIT) EQUITY:		
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	(404,068)	551,446
Total liabilities and shareholders (deficit) equity	$ 2,435,684	$ 2,473,701

See the accompanying notes to unaudited condensed consolidated financial statements.

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HERBALIFE LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	(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	$ 119,532	$ 143,162	$ 194,160	$ 262,035
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.

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HERBALIFE LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	(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	$ 119,360	$ 140,590	$ 191,297	$ 249,447

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	Six Months Ended June 30, 2013
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
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
NET CASH PROVIDED BY OPERATING ACTIVITIES	347,583	351,453
CASH FLOWS FROM INVESTING ACTIVITIES		
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)	
NET CASH USED IN INVESTING ACTIVITIES	(113,059)	(56,015)
CASH FLOWS FROM FINANCING ACTIVITIES		
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
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(336,433)	248,414
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(97,548)	(27,683)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(199,457)	516,169
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	972,974	333,534
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 773,517	$ 849,703
CASH PAID DURING THE PERIOD		
Interest paid	$ 14,417	$ 12,004
Income taxes paid	$ 109,337	$ 117,120
NON CASH ACTIVITIES		
Accrued capital expenditures	$ 13,090	$ 8,040

See the accompanying notes to unaudited condensed consolidated financial statements.

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HERBALIFE LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization

Herbalife Ltd., a Cayman Islands exempt limited liability company, or Herbalife, was incorporated on April 4, 2002. Herbalife Ltd. (and together with its subsidiaries, the Company) is a global nutrition company that sells weight management products, nutritional supplements, energy, sports & fitness products and personal care products. As of 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)	
Contractual Maturity		
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	$ 8,453	$ 8,800

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	$ 343.4	$ 351.2

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	$ 1,744.2	$ 850.0

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.

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 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 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)			
Net Sales:				
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	$ 1,306.2	$ 1,219.2	$ 2,568.8	$ 2,342.9
Contribution Margin(1)(2):				
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	$ 658.2	$ 592.5	$ 1,288.0	$ 1,126.0
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	$ 119.5	$ 143.2	$ 194.2	$ 262.0

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	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	(In millions)			
Net sales by product line:				
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	$ 1,306.2	$ 1,219.2	$ 2,568.8	$ 2,342.9
Net sales by geographic region:				
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	$ 1,306.2	$ 1,219.2	$ 2,568.8	$ 2,342.9

(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)	12,842	$ 37.07	5.4 years	$ 369.1
Exercisable at June 30, 2014(2)	8,311	$ 25.61	4.0 years	$ 327.4

(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.

Incentive Plan and Independent Directors Stock Units	**Shares (In thousands)**	**Weighted Average Grant Date Fair Value**
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	37.6	$ 64.89

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)			
Derivatives designated as hedging instruments:				
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 June 30, 2014	June 30, 2013	For the Six Months Ended June 30, 2014	June 30, 2013
		(In millions)			
Derivatives designated as hedging instruments:					
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)
Derivatives not designated as hedging instruments:					
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 June 30, 2014	June 30, 2013	For the Six Months Ended June 30, 2014	June 30, 2013
		(In millions)			
Derivatives designated as hedging instruments:					
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	$ (404,068)

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 Three Months Ended June 30, 2014			
	Foreign Currency Translation Adjustments	**Unrealized Gain (Loss) on Derivatives**	**Unrealized Gain (Loss) on Available-For-Sale Investments**	**Total**
	(In millions)			
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			
	Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on Derivatives	Unrealized Gain (Loss) on Available-For-Sale Investments	Total
	(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

	Derivative Balance Sheet Location	Significant Other Observable Inputs (Level 2) Fair Value at June 30, 2014	Significant Other Observable Inputs (Level 2) Fair Value at December 31, 2013
		(in millions)	
ASSETS:			
Derivatives designated as cash flow hedging instruments:			
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	Prepaid expenses and other current assets	$ 0.9	$ 5.7

Derivatives not designated as cash flow hedging instruments:			
Foreign exchange currency contracts	Prepaid expenses and other current assets	$ 1.5	$ 2.3
		$ 2.4	$ 8.0
LIABILITIES:			
Derivatives designated as cash flow hedging instruments:			
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	Accrued expenses	$ 4.6	$ 4.4
Derivatives not designated as hedging instruments:			
Foreign exchange currency contracts	Accrued expenses	$ 2.2	$ 0.7
		$ 6.8	$ 5.1

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

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

	Offsetting of Derivative Assets		
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheet (In millions)	Net Amounts of Assets Presented in the Balance Sheet
June 30, 2014			
Foreign exchange currency contracts	$ 2.4	$ (2.2)	$ 0.2
Total	$ 2.4	$ (2.2)	$ 0.2
December 31, 2013			
Foreign exchange currency contracts	$ 8.0	$ (3.0)	$ 5.0
Total	$ 8.0	$ (3.0)	$ 5.0

	Offsetting of Derivative Liabilities		
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheet (In millions)	Net Amounts of Liabilities Presented in the Balance Sheet
June 30, 2014			
Foreign exchange currency contracts	$ 6.8	$ (2.2)	$ 4.6
Total	$ 6.8	$ (2.2)	$ 4.6
December 31, 2013			
Foreign exchange currency contracts	$ 5.1	$ (3.0)	$ 2.1
Total	$ 5.1	$ (3.0)	$ 2.1

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

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	1,430.9	1,364.5	4.9%	2,810.8	2,628.5	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)	340,644	311,503	9.4%	335,273	304,210	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	456.1	436.1

The statistics below further highlight the calculation for retention.

Sales Leaders Retention (Excluding China)	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	216.5	196.8
Retention rate	51.8%	51.8%

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

	Number of Sales Leaders		Sales Leaders Retention Rate	
	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)	126,229	134,714	39.9%	40.1%
Total Sales Leaders	456,051	436,058	51.8%	51.8%
China	30,037	30,304		
Worldwide Total Sales Leaders	486,088	466,362		

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

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
Operations:				
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
	(In millions)										
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	$ 2,068.0	$ (866.7)	$ 1,201.3	$ 104.9	$ 1,306.2	$ 1,892.6	$ (837.6)	$ 1,055.0	$ 164.2	$ 1,219.2	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	$ 4,076.5	$ (1,719.1)	$ 2,357.4	$ 211.4	$ 2,568.8	$ 3,641.7	$ (1,635.1)	$ 2,006.6	$ 336.3	$ 2,342.9	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.

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 Extravaganzas 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

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,										
	2014					2013					
	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	% Change 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	$ 2,068.0	$ (866.7)	$ 1,201.3	$ 104.9	$ 1,306.2	$ 1,892.6	$ (837.6)	$ 1,055.0	$ 164.2	$ 1,219.2	7.1%

	Six Months Ended June 30,										
	2014					2013					
	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	% Change 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	116.2	3.1	119.3	6.0	125.3	104.2	5.5	109.7	9.6	119.3	5.0%

nd Other(1)											
Total	$ 4,076.5	$ (1,719.1)	$ 2,357.4	$ 211.4	$ 2,568.8	$ 3,641.7	$ (1,635.1)	$ 2,006.6	$ 336.3	$ 2,342.9	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	$ 21.4	$ 5.5	$ 36.4	$ 10.9

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.

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