

HERBALIFE LTD.  
Form 10-K/A  
December 16, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Form 10-K/A**  
**Amendment No. 1**

**FOR ANNUAL AND TRANSITION REPORTS**  
**PURSUANT TO SECTIONS 13 OR 15(d) OF THE**  
**SECURITIES EXCHANGE ACT OF 1934**

**(Mark One)**

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

**For the fiscal year ended December 31, 2012**

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

**For the transition period from            to**

**Commission file number: 1-32381**

**HERBALIFE LTD.**

(Exact Name of Registrant as Specified in Its Charter)

**Cayman Islands**  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

**P.O. Box 309GT**

**Ugland House, South Church Street**

**Grand Cayman, Cayman Islands**  
(Address of Principal Executive Offices)

(Zip Code)

**(213) 745-0500**

(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Common Shares, par value \$0.001 per share	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act:**

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229,405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

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

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

There were 101,010,427 common shares outstanding as of December 11, 2013. The aggregate market value of the Registrant's common shares held by non-affiliates was approximately \$4,046 million as of June 30, 2012, based upon the last reported sales price on the New York Stock Exchange on that date of \$48.33.

**DOCUMENTS INCORPORATED BY REFERENCE**

None.

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**EXPLANATORY NOTE**

On February 19, 2013, Herbalife Ltd., or the Company, filed its Annual Report on Form 10-K for the fiscal year ended December 31, 2012, or the Original 10-K. Subsequent to the filing of the Original 10-K, as previously disclosed, on April 8, 2013, KPMG LLP, or KPMG, notified the Company that KPMG resigned, effective immediately, as the Company's independent registered public accounting firm. KPMG stated it had concluded it was no longer independent because of the then-alleged insider trading in the Company's securities by one of KPMG's former partners who, until April 5, 2013, was the KPMG engagement partner on the Company's audit. KPMG advised the Company it resigned as the Company's independent accountant solely due to the impairment of KPMG's independence resulting from its now former partner's unlawful activities and not for any reason related to the Company's financial statements, its accounting practices, the integrity of the Company's management or for any other reason.

As a result of the then-alleged insider trading activity by its now former partner and KPMG's resulting resignation on April 8, 2013, KPMG notified the Company its independence had been impaired and had no option but to withdraw its audit reports on the Company's financial statements for the fiscal years ended December 31, 2010, 2011 and 2012 and the effectiveness of internal control over financial reporting as of December 31, 2010, 2011 and 2012 and that such reports should no longer be relied upon as a result of KPMG's lack of independence created by the circumstances described above. The Original 10-K included a report of KPMG that has now been withdrawn.

On May 21, 2013, the Audit Committee of the Company's Board of Directors engaged PricewaterhouseCoopers LLP, or PwC, to serve as the Company's new independent registered public accounting firm to audit the Company's financial statements for its fiscal year ending December 31, 2013 and to re-audit the Company's financial statements for the fiscal years ended December 31, 2010, 2011 and 2012, including the audit of the Company's internal control over financial reporting as of December 31, 2012 required by Section 404 of the Sarbanes-Oxley Act of 2002. PwC has also been engaged to review the Company's interim financial information for the three months ended March 31, 2013 and 2012, the three and six months ended June 30, 2013 and 2012, and for the subsequent interim periods.

As previously disclosed, as part of the engagement process, the Company and PwC identified certain non-audit services that PwC or another firm in its global network of firms had performed for the Company that are not permitted under the auditor independence rules of the Securities and Exchange Commission, or the SEC. The Audit Committee and PwC discussed these non-audit services and concluded that the provision of these non-audit services would not affect PwC's objectivity or its impartiality and would not impair its ability to serve as the Company's independent registered public accounting firm. In reaching this conclusion, the Audit Committee and PwC noted that all of these services, with one exception described below with respect to the Company's U.S. payroll department, were provided to entities that were immaterial to the Company's consolidated financial statements in each of the prior years. PwC also noted that none of the professionals who provided such services would serve on the re-audit or future audits of the Company's financial statements. In selecting PwC, the Audit Committee determined that PwC was well qualified to serve as the Company's auditor because of its experience with large global companies, including large accelerated filers and other multinational issuers and a number of companies in the network marketing industry, and PwC's extensive resources and qualifications, including the strength of its national office and its thought leadership regarding complex accounting issues. In considering the appointment of a new auditor, the Company identified firms that it believed were qualified to serve as auditor for a company of the size and complexity of Herbalife. In each case the Company, in communication with the relevant audit firm, identified independence issues which arose in the three-year period for which KPMG withdrew its previously issued reports.

The services that PwC or another firm in PwC's global network of firms previously performed for certain of the Company's subsidiaries are set forth below. Unless specifically noted below, the services were performed by a firm in PwC's global network of firms rather than by PwC.

<i>Country</i>	<i>Type of Service</i>
Bulgaria	- Routine corporate and administrative legal advisory and financial statement filing services in 2013, 2012, 2011 and 2010.
Colombia	- Payroll and administrative services in 2013 and 2012.
Ghana	- Payroll services in 2013, 2012 and 2011, and executive recruitment services in 2011.
India	- Secondment services in 2012, 2011 and 2010, and tax services pursuant to a contingent fee arrangement in 2013, 2012 and 2011.
Israel	- Financial reporting, secondment and bookkeeping services in 2012 and 2011.

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- Macedonia - Routine corporate and administrative legal advisory services in 2013, 2012 and 2011.
- Romania - Routine corporate and administrative legal advisory services in 2013 and 2012.
- Russia - Routine corporate and administrative legal advisory services in 2013, 2012, 2011 and 2010.
- Slovakia - Routine corporate and administrative legal advisory services in 2013 and 2012.
- United States - Seconded two PwC staff members who served in the U.S. payroll department for the Company for a few months in 2010.

The assets and revenues of the Company's non-U.S. subsidiaries in the countries noted above represented in the aggregate less than 5% and 8.5% of the Company's total consolidated assets and revenues, respectively, in each year from 2010 through 2013; none of these non-U.S. subsidiaries individually represented more than 2.5% or 3.6% of the Company's total consolidated assets or revenues, respectively, in any of these years. The fees paid to PwC and firms in PwC's global network of firms for the services described above were approximately \$55,000 in 2013, \$250,000 in 2012, \$192,000 in 2011 and \$330,000 in 2010. PwC and the other firms in the global network of firms ceased providing these services to the Company's subsidiaries upon being engaged as the Company's auditor in May 2013. As an additional measure in relation to this matter, the Audit Committee engaged a separate independent registered public accounting firm to issue an audit report with respect to certain of the Company's 2010 payroll accounts that were the subject of the services previously provided by PwC to the Company's U.S. payroll department.

This Amendment No. 1 on Form 10-K/A to the Original 10-K, or the Amendment, is being filed to include PwC's audit report on the Company's financial statements for the fiscal years ended December 31, 2010, 2011 and 2012 and the effectiveness of the Company's internal control over financial reporting as of December 31, 2012, and to make certain revisions to the Company's financial statements and notes thereto for such periods in respect of the prior period income tax errors, or the Prior Period Errors, discussed in greater detail in Note 2, *Basis of Presentation* under the heading *Revision of Prior Period Financial Statements* in this Amendment. In addition, due to the Company filing this Amendment, the Company as required has revised Note 13, *Fair Value Measurements*, relating to the retrospective adoption of Accounting Standards Update, or ASU, 2011-11 and ASU 2013-01, which were effective for the Company's fiscal year beginning January 1, 2013. See Note 2, *Basis of Presentation* under the heading *New Accounting Pronouncements* in this Amendment for additional information. In addition, Note 14, *Subsequent Events*, and Part II, Item 7, have also been updated to disclose the Company's subsequent engagement of legal and advisory firms to assist in connection with a hedge fund manager's publicly raised allegations. As a result, the Company's consolidated financial statements and notes thereto incorporated by reference into Part II, Item 8 of the Original 10-K are hereby updated and superseded to reflect the foregoing. In addition, Part II, Items 6, 7 and 9A of the Original 10-K are amended and restated herein in their entirety to address the Prior Period Errors. Item 14 of Part III of the Form 10-K is also updated hereby to disclose the aggregate fees billed by PwC for the re-audit of the Company's financial statements described above. In connection with the filing of this Amendment and pursuant to SEC Exchange Act Rule 12b-15, the Company is filing as exhibits to this Amendment new certifications of the Company's principal executive officer and principal financial officer under Part IV, Item 15 hereof in respect of the periods covered by the Amendment. In addition, the Company is filing as exhibit 101 to this Amendment the amended and restated financial statements and related notes formatted in XBRL (eXtensible Business Reporting Language) under Part IV, Item 15 hereof to reflect the revisions to the Company's financial statements described above.

Other than those changes outlined above, there are no changes to the Original 10-K and this Amendment does not change the other disclosures contained in the Original 10-K. In addition, except as specifically described above, this Amendment does not reflect events occurring after the filing of the Original 10-K, nor does it modify or update disclosures therein in any way other than as required to reflect the revisions described above. Among other things, forward-looking statements made in the Original 10-K have not been revised to reflect events that occurred or facts that became known to the Company after the filing of the Original 10-K, and such forward looking statements should

be read in their historical context.



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**FORWARD-LOOKING STATEMENTS**

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

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

any collateral impact resulting from the ongoing worldwide financial environment, including the availability of liquidity to us, our customers and our suppliers or the willingness of our customers to purchase products in a difficult economic environment;

our relationship with, and our ability to influence the actions of, our distributors;

improper action by our employees or distributors in violation of applicable law;

adverse publicity associated with our products or network marketing organization, including our ability to comfort the marketplace and regulators regarding our compliance with applicable laws;

changing consumer preferences and demands;

our reliance upon, or the loss or departure of any member of, our senior management team which could negatively impact our distributor relations and operating results;

the competitive nature of our business;

regulatory matters governing our products, including potential governmental or regulatory actions concerning the safety or efficacy of our products and network marketing program, including the direct

selling market in which we operate;

legal challenges to our network marketing program;

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

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

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

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

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

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

our dependence on increased penetration of existing markets;

contractual limitations on our ability to expand our business;

our reliance on our information technology infrastructure and outside manufacturers;

the sufficiency of trademarks and other intellectual property rights;

product concentration;

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

taxation relating to our distributors;

product liability claims;

whether we will purchase any of our shares in the open markets or otherwise; and

share price volatility related to, among other things, speculative trading and certain traders shorting our common shares.

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

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

**The Company**

Unless otherwise noted, the terms we, our, us, Company and Herbalife refer to Herbalife Ltd. and its subsidiaries. Herbalife Ltd. is a holding company, with substantially all of its assets consisting of the capital stock of its direct and indirectly-owned subsidiaries.

**PART II****Item 6. SELECTED FINANCIAL DATA**

The following table sets forth certain of our historical financial data. We have derived the selected historical consolidated financial data for the years ended December 31, 2012, 2011, 2010, 2009, and 2008 from our audited financial statements and the related notes. Not all periods shown below are discussed in this Amendment. The selected consolidated historical financial data set forth below are not necessarily indicative of the results of future operations and should be read in conjunction with the discussion under Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations", and the historical consolidated financial statements and accompanying notes included elsewhere in this document.

	<b>Year Ended December 31,</b>				
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands except per share data)</b>				
<b>Income Statement Data:</b>					
Net sales	\$ 4,072,330	\$ 3,454,537	\$ 2,734,226	\$ 2,324,577	\$ 2,359,213
Cost of sales	812,583	680,084	558,811	493,134	458,396
Gross profit	3,259,747	2,774,453	2,175,415	1,831,443	1,900,817
Royalty overrides	1,338,633	1,137,560	900,248	761,501	796,718
Selling, general and administrative expenses(1)	1,259,667	1,074,623	887,655	773,911	771,847
Operating income(1)	661,447	562,270	387,512	296,031	332,252
Interest expense, net	10,541	2,491	7,417	5,103	13,222
Income before income taxes	650,906	559,779	380,095	290,928	319,030

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Income taxes	186,944	144,820	87,212	89,036	97,625
Net income	\$ 463,962	\$ 414,959	\$ 292,883	\$ 201,892	\$ 221,405
Earnings per share					
Basic	\$ 4.13	\$ 3.53	\$ 2.46	\$ 1.65	\$ 1.74
Diluted	\$ 3.94	\$ 3.32	\$ 2.32	\$ 1.60	\$ 1.68
Weighted average shares outstanding					
Basic	112,359	117,540	119,004	122,442	127,570
Diluted	117,856	124,846	126,495	126,194	131,538
<b>Other Financial Data:</b>					
Retail sales(2)	\$ 6,404,334	\$ 5,427,844	\$ 4,306,262	\$ 3,690,061	\$ 3,811,159
Net cash provided by (used in):					
Operating activities	567,784	510,540	387,875	285,056	272,988
Investing activities	(125,000)	(92,086)	(69,136)	(71,322)	(84,964)
Financing activities	(371,241)	(339,008)	(261,953)	(213,327)	(205,067)
Depreciation and amortization	74,384	71,853	68,621	62,437	48,732
Capital expenditures(3)	122,797	90,855	68,125	60,128	106,813

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	As of December 31,				
	2012	2011	2010	2009	2008
	(In thousands except per share data)				
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 333,534	\$ 258,775	\$ 190,550	\$ 150,801	\$ 150,847
Receivables, net	116,139	89,660	85,612	76,958	70,002
Inventories	339,411	247,696	182,467	145,962	134,392
Total working capital	221,685	206,128	118,720	82,463	77,643
Total assets	1,724,143	1,463,075	1,241,110	1,152,830	1,131,448
Total debt	487,607	203,621	178,166	250,333	351,631
Shareholders' equity(4)	395,483	548,144	473,996	351,218	235,092
Cash dividends per common share	1.20	0.73	0.45	0.40	0.40

- (1) The years ended December 31, 2009 and 2008 include severance and related expenses associated with restructuring activities of approximately \$1.3 million and \$6.7 million, respectively.
- (2) Retail sales represent the gross sales amount reflected on our invoices to our distributors and are based on suggested retail prices. We do not receive the full retail sales amount. Product sales represent the actual product purchase price paid to us by our distributors, after giving effect to all discounts provided to our distributors referred to as distributor allowances, which total approximately 50% of suggested retail sales prices. Distributor allowances as a percentage of sales may vary by country depending upon regulatory restrictions that limit or otherwise restrict distributor allowances. Net sales represents product sales and shipping & handling revenues. Retail sales data is discussed in greater detail in Item 7 *Management's Discussion and Analysis of Financial Condition and Results of Operations*. Our use of retail sales reflects the fundamental role of retail sales in our systems, internal controls and operations, including the basis upon which the distributors are being paid. In addition, information in daily and monthly reports reviewed by our management includes retail sales data.

The following represents the reconciliation of retail sales to net sales for each of the periods set forth above:

	Year Ended December 31,				
	2012	2011	2010	2009	2008
	(In thousands)				
Retail sales	\$ 6,404,334	\$ 5,427,844	\$ 4,306,262	\$ 3,690,061	\$ 3,811,159
Distributor allowance	(2,927,408)	(2,483,122)	(1,968,769)	(1,696,444)	(1,778,866)
Product sales	3,476,926	2,944,722	2,337,493	1,993,617	2,032,293
Shipping & handling revenues	595,404	509,815	396,733	330,960	326,920
Net sales	\$ 4,072,330	\$ 3,454,537	\$ 2,734,226	\$ 2,324,577	\$ 2,359,213

- (3) Includes acquisition of property, plant and equipment from capitalized leases and other long-term debt of \$1.3 million, \$0.4 million, \$0, \$0.4 million, and \$18.2 million, for the years ended December 31, 2012, 2011, 2010, 2009, and 2008, respectively.
- (4)

During the years ended December 31, 2012, 2011, 2010, 2009, and 2008, we paid an aggregate \$135.1 million, \$85.5 million, \$53.7 million, \$48.7 million, and \$50.7 million in dividends, respectively, and repurchased \$527.8 million, \$298.8 million, \$150.1 million, \$73.2 million, and \$137.0 million of our common shares through open market purchases, respectively.

***Revision of Prior Period Financial Statements***

Certain selected financial data disclosed above as of and for the years ended December 31, 2012, 2011, 2010, 2009, and 2008 have been revised due to the Prior Period Errors. See Note 2, *Basis of Presentation*, to the Consolidated Financial Statements for information on the Prior Period Errors and the related revisions. The effects of the Prior Period Errors in the selected financial data presented above are as follows:

	Year Ended December 31, 2012		Year Ended December 31, 2011		Year Ended December 31, 2010	
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted
<b>(In thousands, except per share amount)</b>						
<b>Income Statement Data:</b>						
Income taxes	\$ 173,716	\$ 186,944	\$ 147,201	\$ 144,820	\$ 80,880	\$ 87,212
Net income	\$ 477,190	\$ 463,962	\$ 412,578	\$ 414,959	\$ 299,215	\$ 292,883
Basic earnings per share	\$ 4.25	\$ 4.13	\$ 3.51	\$ 3.53	\$ 2.51	\$ 2.46

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	Year Ended December 31, 2012		Year Ended December 31, 2011		Year Ended December 31, 2010	
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted
(In thousands, except per share amount)						
Diluted earnings per share	\$ 4.05	\$ 3.94	\$ 3.30	\$ 3.32	\$ 2.37	\$ 2.32
<b>Other Financial Data:</b>						
Operating activities	\$ 567,784	\$ 567,784	\$ 509,331	\$ 510,540	\$ 389,084	\$ 387,875
Financing activities	\$ (371,241)	\$ (371,241)	\$ (337,799)	\$ (339,008)	\$ (263,162)	\$ (261,953)

	Year Ended December 31, 2009		Year Ended December 31, 2008		
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted	
(In thousands, except per share amount)					
<b>Income Statement Data:</b>					
Income taxes		\$ 87,582	\$ 89,036	\$ 97,840	\$ 97,625
Net income		\$ 203,346	\$ 201,892	\$ 221,190	\$ 221,405
Basic earnings per share		\$ 1.66	\$ 1.65	\$ 1.73	\$ 1.74
Diluted earnings per share		\$ 1.61	\$ 1.60	\$ 1.68	\$ 1.68
<b>Other Financial Data:</b>					
Operating activities		\$ 285,056	\$ 285,056	\$ 272,988	\$ 272,988
Financing activities		\$ (213,327)	\$ (213,327)	\$ (205,067)	\$ (205,067)

	As of December 31, 2012		As of December 31, 2011		As of December 31, 2010	
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted
(In thousands)						
<b>Balance Sheet Data:</b>						
Total working capital	\$ 246,957	\$ 221,685	\$ 220,130	\$ 206,128	\$ 124,770	\$ 118,720
Total assets	\$ 1,703,944	\$ 1,724,143	\$ 1,446,209	\$ 1,463,075	\$ 1,232,220	\$ 1,241,110
Shareholders equity	\$ 420,755	\$ 395,483	\$ 560,188	\$ 548,144	\$ 487,212	\$ 473,996

	As of December 31, 2009		As of December 31, 2008		
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted	
(In thousands)					
<b>Balance Sheet Data:</b>					
Total working capital		\$ 83,536	\$ 82,463	\$ 82,869	\$ 77,643
Total assets		\$ 1,146,050	\$ 1,152,830	\$ 1,121,318	\$ 1,131,448
Shareholders equity		\$ 359,311	\$ 351,218	\$ 241,731	\$ 235,092



**Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*You should read the following discussion and analysis in conjunction with Item 6 Selected Financial Data and our consolidated financial statements and related notes, each included elsewhere in this Amendment.*

We are a leading global nutrition company that sells weight management products, nutritional supplements, energy, sports & fitness products and personal care products utilizing network marketing distribution. As of December 31, 2012, we sold our products to and through a network of 3.2 million distributors, which include approximately 0.2 million China sales representatives, sales officers, and independent service providers, many of whom are simply discount customers. In China, we currently sell our products through retail stores, sales representatives, sales officers and independent service providers. We pursue our mission of "changing people's lives" by providing high quality, science-based products to distributors and their customers who seek a healthy lifestyle and we also offer a financially rewarding business opportunity to those distributors 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 33-year operating history. As of December 31, 2012, we sold our products in 88 countries.

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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 distributors' 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 nutrition and wellness-related products along with the global increase in under employment and unemployment which can affect the recruitment and retention of distributors 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 distributors, improving distributor 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, 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 then 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 distributor 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 expensive products.

	<b>For the Year Ended December 31,</b>					
	<b>2012</b>	<b>2011</b>	<b>% Change</b>	<b>2011</b>	<b>2010</b>	<b>% Change</b>
	<b>(Volume points in millions)</b>					
North America	1,157.8	987.1	17.3%	987.1	888.5	11.1%
Mexico	815.4	704.5	15.7%	704.5	563.0	25.1%
South & Central America	740.4	569.9	29.9%	569.9	427.4	33.3%
EMEA	602.5	545.0	10.6%	545.0	486.6	12.0%
Asia Pacific (excluding China)	1,197.8	961.6	24.6%	961.6	723.6	32.9%
China	206.5	153.8	34.3%	153.8	144.2	6.7%
Worldwide	4,720.4	3,921.9	20.4%	3,921.9	3,233.3	21.3%

#### **Average Active Sales Leaders by Geographic Region**

With the continued expansion of daily consumption DMOs in our different markets, 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 their non-sales leaders downline, 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 the current momentum in a region as well as the potential for changes in the annual retention levels and future sales growth rate through utilization of daily consumption DMOs.

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	For the Year Ended December 31,			For the Year Ended December 31,		
	2012	2011	% Change	2011	2010	% Change
North America	66,054	56,741	16.4%	56,741	49,305	15.1%
Mexico	57,651	47,697	20.9%	47,697	38,084	25.2%
South & Central America	44,980	34,938	28.7%	34,938	28,821	21.2%
EMEA	44,098	38,607	14.2%	38,607	33,531	15.1%
Asia Pacific (excluding China)	63,255	48,195	31.2%	48,195	35,899	34.3%
China	11,683	8,814	32.6%	8,814	6,848	28.7%
Worldwide(1)	277,803	227,308	22.2%	227,308	185,774	22.4%

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

**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 distributors 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).

Sales Leaders Statistics (Excluding China)	2012	2011	2010
	(In thousands)		
January 1 total sales leaders	501.3	434.2	431.3
January & February new sales leaders	34.8	28.9	21.2
Demoted sales leaders (did not re-qualify)	(151.3)	(144.8)	(165.9)
Other sales leaders (resigned, etc)	(0.8)	(0.8)	(1.1)
End of February total sales leaders	384.0	317.5	285.5

The distributor statistics below further highlight the calculation for retention.

Sales Leaders Retention (Excluding China)	2012	2011	2010
	(In thousands)		
Sales leaders needed to re-qualify	314.9	283.2	290.9
Demoted sales leaders (did not re-qualify)	(151.3)	(144.8)	(165.9)
Total re-qualified	163.6	138.4	125.0
Retention rate	52.0%	48.9%	43.0%

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

	Number of Sales Leaders			Sales Leaders Retention Rate		
	2012	2011	2010	2012	2011	2010
North America	79,150	72,152	64,668	51.1%	48.6%	43.3%
Mexico	67,959	54,526	47,068	59.2%	57.9%	50.4%
South & Central America	65,653	50,288	51,060	55.7%	47.3%	34.1%
EMEA	55,121	49,696	47,080	61.5%	58.6%	51.9%
Asia Pacific (excluding China)	116,158	90,822	75,635	40.2%	38.4%	38.6%
Total Sales leaders	384,041	317,484	285,511	52.0%	48.9%	43.0%
China	26,262	30,543	27,415			
Worldwide Total Sales Leaders	410,303	348,027	312,926			

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. Since sales leaders purchase most of our products for resale to other distributors and consumers, comparisons of sales leader totals on a year-to-year basis are indicators of our recruitment and retention efforts in different geographic regions.

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We provide distributors with products, support materials, training, special events and a competitive compensation program. If a distributor wants to pursue the Herbalife business opportunity, the distributor is responsible for growing his or her business and personally pays for the sales activities related to attracting new customers and recruiting distributors by hosting events such as Herbalife Opportunity Meetings or Success Training Seminars; by advertising Herbalife's products; by purchasing and using promotional materials such as t-shirts, buttons and caps; by utilizing and paying for direct mail and print material such as brochures, flyers, catalogs, business cards, posters and banners and telephone book listings; by purchasing inventory for sale or use as samples; and by training, mentoring and following up (in person or via the phone or internet) with 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 distributors and is the gross sales amount reflected on our invoices. This is not the price paid to us by our distributors. Our distributors 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 are a fixed percentage of approximately 50% of suggested retail sales prices. 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 distributor's level of discount is determined by qualification based on volume of purchases. In cases where a distributor has qualified for less than the maximum discount, the remaining discount is received by their sponsoring distributors. Therefore, product sales are recognized net of product returns and distributor allowances.

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

We do not have visibility to all of the sales from our independent distributors 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 distributors for their own personal consumption and (b) prices charged by our distributors 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, including its role as the basis upon which distributor discounts, royalties and bonuses are awarded. 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* disclosure. 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 more 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. dollars 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 related to product shipments, duties and tariffs, freight expenses relating to shipment of products to distributors and importers and similar expenses.

While all distributors can potentially profit from their activities by reselling our products for amounts greater than the prices they pay us, distributors that develop, retain, and manage other distributors 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 which total approximately 15% and 7%, respectively, of the retail sales of weight management, targeted nutrition, energy, sports & fitness, Outer Nutrition and promotional products;

the Mark Hughes bonus payable to some of our most senior distributors in the aggregate amount of up to 1% of retail sales of weight management, targeted nutrition, energy, sports & fitness, Outer Nutrition products and promotional products; and

other discretionary incentive cash bonuses to qualifying distributors.

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Royalty overrides are generally earned based on retail sales and provide potential earnings to distributors of up to 23% of retail sales or approximately 33% of our net sales. Royalty overrides are compensation to distributors for the development, retention and improved productivity of their sales organizations and are paid to several levels of distributors 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 sales employees in China, prior to the transfer into independent service providers, were compensated with wages, bonuses and benefits and 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 sales employees and independent service providers are included in selling, general and administrative expenses.

Because of local country regulatory constraints, we may be required to modify our distributor 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.

Royalty overrides together with distributor allowances of up to 50% of suggested retail sales prices represent the potential earnings to our distributors of up to approximately 73% of retail sales.

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, distributor 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 distributors 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 transaction losses on intercompany transactions. Throughout the last five years, foreign currency exchange rates have fluctuated 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 Item 7A *Quantitative and Qualitative Disclosures about Market Risk* in the Original 10-K.

## **Results of Operations**

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

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



	<b>Year Ended December 31, 2012</b>	<b>Year Ended December 31, 2011</b>	<b>Year Ended December 31, 2010</b>
<b>Operations:</b>			
Net sales	100.0%	100.0%	100.0%
Cost of sales	19.9	19.7	20.4
Gross profit	80.1	80.3	79.6
Royalty overrides(1)	32.9	32.9	32.9
Selling, general and administrative expenses(1)	30.9	31.1	32.5
Operating income	16.3	16.3	14.2
Interest expense	0.4	0.3	0.4
Interest income	0.1	0.2	0.1
Income before income taxes	16.0	16.2	13.9
Income taxes	4.6	4.2	3.2
Net income	11.4	12.0	10.7

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

Changes in net sales are directly associated with the recruiting and retention of our distributor force, retailing of our products, the quality and completeness of our product offerings that the distributor 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 distributors with a competitive and

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broad product line, encourage strong teamwork and distributor leadership and offer leading edge business tools and technology services to make doing business with Herbalife simple. Management uses the distributor marketing program coupled with educational and motivational tools and promotions to incentivize distributors to increase recruiting, retention and retailing, which in turn affect net sales. Such tools include Company sponsored sales events such as Extravaganzas, Leadership Development Weekends and World Team Schools where large groups of distributors gather, thus allowing them to network with other distributors, learn recruiting, retention and retailing techniques from our leading distributors 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 distributors and 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 distributors to increase recruiting, retention and retailing activities. These promotions have prizes ranging from qualifying for events to product prizes and vacations. The costs of these promotions are included in selling, general and administrative expenses.

The factors described above have helped distributors 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 year ended December 31, 2012 as compared to the same period in 2011 and during the year ended December 31, 2011 as compared to the same period in 2010, 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 recruiting and retention of distributors and retailing of our products. The correct business foundation includes strong country management that works closely with the distributor leadership, actively engaged and unified distributor leadership, a broad product line that appeals to local consumer needs, a favorable regulatory environment, a scalable and stable technology platform and an attractive distributor 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 distributor sales organization that will work toward increasing the recruitment and retention of distributors.

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 distributors, country management or regional and corporate management. While we support a number of different DMOs, one of the more popular DMOs is the daily consumption DMO. Under our traditional DMO, a distributor 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 distributor interacts with its customers on a more frequent basis which enables the distributor 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 distributor 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.

## **Financial Results for the year ended December 31, 2012 compared to the year ended**

### **December 31, 2011**

Net sales for the year ended December 31, 2012 increased 17.9% to \$4,072.3 million as compared to \$3,454.5 million in 2011. In local currency, net sales for the year ended December 31, 2012 increased 22.6% as compared to the same period in 2011. The increase in net sales was primarily due to the continued successful adoption and operation of daily consumption DMOs; increased distributor engagement and an increase in average active sales leaders; branding activities and increased distributor recruiting.

Net income for the year ended December 31, 2012 increased 11.8% to \$464.0 million, or \$3.94 per diluted share, compared to \$415.0 million, or \$3.32 per diluted share, for the same period in 2011. The increase was primarily due to higher contribution margin driven by net sales growth discussed above, partially offset by higher selling, general and administrative expenses to support the growth of our business, higher interest expense and higher income taxes.

Net income for the year ended December 31, 2011 included a \$0.9 million pre-tax (\$0.7 million post-tax) additional interest expense from the write-off of unamortized deferred financing costs resulting from the debt refinancing arrangement in March 2011. See Note 4, *Long Term Debt*, to the Consolidated Financial Statements for further information on our debt refinancing.

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The following chart reconciles retail sales to net sales:

**Sales by Geographic Region**

	Year Ended December 31,					Year Ended December 31,					Change in Net Sales
	2012		2011			2012		2011			
	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	
	(Dollars in millions)										
North America	\$ 1,334.2	\$ (635.8)	\$ 698.4	\$ 142.8	\$ 841.2	\$ 1,111.4	\$ (530.5)	\$ 580.9	\$ 117.7	\$ 698.6	20.4%
Mexico	802.1	(391.7)	410.4	85.7	496.1	706.0	(344.4)	361.6	75.3	436.9	13.6%
South & Central America	1,134.2	(544.5)	589.7	99.1	688.8	904.9	(430.8)	474.1	80.3	554.4	24.2%
EMEA	1,018.3	(492.7)	525.6	102.2	627.8	991.0	(476.4)	514.6	100.6	615.2	2.0%
Asia Pacific	1,780.6	(806.2)	974.4	165.5	1,139.9	1,469.4	(666.7)	802.7	135.9	938.6	21.4%
Africa	334.9	(56.5)	278.4	0.1	278.5	245.1	(34.3)	210.8		210.8	32.1%
Worldwide	\$ 6,404.3	\$ (2,927.4)	\$ 3,476.9	\$ 595.4	\$ 4,072.3	\$ 5,427.8	\$ (2,483.1)	\$ 2,944.7	\$ 509.8	\$ 3,454.5	17.9%

**North America**

The North America region reported net sales of \$841.2 million for the year ended December 31, 2012. Net sales increased \$142.6 million, or 20.4%, for the year ended December 31, 2012, as compared to the same period in 2011. In local currency, net sales increased 20.5% for the year ended December 31, 2012, as compared to the same period in 2011. The overall increase in net sales in the region was a result of net sales growth in the U.S. of \$140.0 million, or 20.7%, for the year ended December 31, 2012, as compared to the same period in 2011.

In the U.S. we continue to see the success of our distributors converting their business focus toward daily consumption DMOs, especially the Nutrition Club.

Average active sales leaders in the region increased 16.4% for the year ended December 31, 2012, as compared to the same period in 2011.

In January 2012, the region hosted a U.S. Latin market Future President's Team Retreat with over 900 attendees. The region also hosted Latin market Leadership Development Weekends in February with approximately 9,400 attendees. In March 2012, we hosted our annual global Herbalife Summit event in Los Angeles, California where President Team members from around the world met and shared best practices, conducted leadership training and management awarded distributors \$52.3 million of Mark Hughes bonus payments related to 2011 performance. In April 2012, the region hosted General Market Leadership Development Weekends with approximately 5,000 attendees and Latin Market Leadership Development Weekends in June 2012 with approximately 13,000 attendees. In July 2012, the

region hosted a series of Leadership Development Weekends with approximately 5,800 attendees. During the fourth quarter the region hosted two regional extravaganzas (one Latin Market and one General Market) with a total of approximately 20,800 attendees. The region also hosted two Future President Team Retreats (one Latin Market and one General Market) with a total of over 1,600 attendees.

### ***Mexico***

The Mexico region reported net sales of \$496.1 million for the year ended December 31, 2012. Net sales for the year ended December 31, 2012 increased \$59.2 million, or 13.6%, as compared to the same period in 2011. In local currency, net sales for the year ended December 31, 2012 increased 20.4% as compared to the same period in 2011. The fluctuation of foreign currency rates had an unfavorable impact of \$30.1 million on net sales for the year ended December 31, 2012.

The growth in net sales is primarily the result of increased distributor engagement as well as the continued success of the Nutrition Club DMO. One of the recent growth drivers in Mexico has been the ongoing transition from home clubs to commercial clubs by many distributors, which are able to generate higher volumes of sales through the servicing of more customers and longer operating hours.

Average active sales leaders in Mexico increased 20.9% for the year ended December 31, 2012, as compared to the same period in 2011.

In January 2012, the region hosted a Future President's Team Retreat and Future Millionaire's Team Retreat in Cancun, Mexico with approximately 600 and 1,525 attendees, respectively. In May 2012, the region hosted Leadership Weekends in two cities with a total of approximately 15,000 attendees. In September 2012, the region hosted Extravaganzas in Mexico City and Guadalajara with approximately 21,200 and 12,200 attendees, respectively.

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

The South and Central America region reported net sales of \$688.8 million for the year ended December 31, 2012. Net sales increased \$134.4 million, or 24.2%, for the year ended December 31, 2012, as compared to the same period in 2011. In local currency, net sales increased 33.4% for the year ended December 31, 2012, as compared to the same period in 2011. The fluctuation of foreign currency rates had a \$50.9 million unfavorable impact on net sales for the year ended December 31, 2012. The increase in net sales for

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the year ended December 31, 2012, as compared to the same period in 2011, was due to an increase in net sales in almost every country in the region led by Brazil, Venezuela and Peru. This growth was primarily driven by the adoption and expansion of daily consumption DMOs throughout the region.

In Brazil, the region's largest market, net sales increased \$9.2 million, or 3.0%, for the year ended December 31, 2012, as compared to the same period in 2011. In local currency, net sales increased 19.8% for the year ended December 31, 2012, as compared to the same period in 2011. The fluctuation of foreign currency rates had a \$51.4 million unfavorable impact on net sales in Brazil for the year ended December 31, 2012. The increase in net sales was primarily the result of the successful adoption of Nutrition Clubs and other daily consumption DMOs.

Venezuela, the region's second largest market, experienced a net sales increase of \$76.8 million, or 117.7%, for the year ended December 31, 2012, as compared to the same period in 2011. In local currency, net sales increased 117.7% for the year ended December 31, 2012, as compared to the same period in 2011. The sales growth was primarily due to increased distributor engagement and growth in the Nutrition Club DMO. We also had price increases of 9.5% in January 2012 and of 15.0% in December 2012 which contributed to the increase in sales. There was no exchange rate impact to sales for the year ended December 31, 2012 as compared to the same period in 2011 as the 5.3 Venezuelan Bolivars to U.S. dollar exchange rate for which we remeasure sales in Venezuela did not change during the comparative period. See *Liquidity and Capital Resources – Working Capital and Operating Activities* below for further discussion of currency exchange rate issues in Venezuela.

Average active sales leaders in the region increased 28.7% for the year ended December 31, 2012, as compared to the same period in 2011.

In February 2012, the region hosted two Extravaganzas in Panama City, Panama and Santiago, Chile with 8,700 and 9,000 attendees, respectively. In May 2012, the region held three Extravaganzas in Brazil with a total of approximately 13,000 attendees. During the fourth quarter Brazil held a World Team School with over 4,700 attendees.

***EMEA***

The EMEA region reported net sales of \$627.8 million for the year ended December 31, 2012. Net sales increased \$12.6 million, or 2.0%, for the year ended December 31, 2012, as compared to the same period in 2011. In local currency, net sales increased 9.6% for the year ended December 31, 2012, as compared to the same period in 2011. The fluctuation of foreign currency rates had an unfavorable impact on net sales of \$46.2 million for the year ended December 31, 2012. The increase in net sales for the year ended December 31, 2012 was primarily driven by increases in Russia and the United Kingdom, partially offset by a decrease in Italy.

Net sales in Russia, our largest market in the region, increased \$27.9 million, or 38.0%, for the year ended December 31, 2012, as compared to the same period in 2011. In local currency, net sales increased 45.5% for the year ended December 31, 2012, as compared to the same period in 2011. The fluctuation of foreign currency rates had a \$5.5 million unfavorable impact on net sales in Russia for the year ended December 31, 2012. 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, our second largest market in the region, decreased \$20.8 million, or 17.5%, for the year ended December 31, 2012, as compared to the same period in 2011. In local currency, net sales decreased 10.6% for the year ended December 31, 2012, as compared to the same period in 2011. The fluctuation of foreign currency rates had an \$8.2 million unfavorable impact on net sales in Italy for the year ended December 31, 2012. The decline in Italy is

driven by a decrease in distributor activity. While we believe it is too early to know for certain, indicators suggest that the market may be beginning to embrace daily consumption DMOs which generally cause short to medium term declines in the business.

Net sales in Spain, our third largest market in the region, increased \$1.4 million, or 2.7%, for the year ended December 31, 2012, as compared to the same period in 2011. In local currency, net sales in Spain increased 11.6% for the year ended December 31, 2012, as compared to the same period in 2011. The fluctuation of foreign currency rates had a \$4.6 million unfavorable impact on net sales in Spain for the year ended December 31, 2012. The increase in Spain was mainly due to the positive effect of increased distributor activity which was aided by our sponsorship of FC Barcelona.

Average active sales leaders in the region increased 14.2% for the year ended December 31, 2012, as compared to the same period in 2011.

In September 2012, the region hosted three Extravaganzas in Spain, Ukraine, and Turkey with a total of over 23,200 total attendees.

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***Asia Pacific***

The Asia Pacific region, which excludes China, reported net sales of \$1,139.9 million for the year ended December 31, 2012. Net sales increased \$201.3 million, or 21.4%, for the year ended December 31, 2012, as compared to the same period in 2011. In local currency, net sales increased 26.0% for the year ended December 31, 2012, as compared to the same period in 2011. The fluctuation of foreign currency rates had an unfavorable impact of \$42.5 million on net sales for the year ended December 31, 2012. The increase in net sales for the year ended December 31, 2012 reflected growth in almost all the countries in the region led by South Korea, Indonesia, Malaysia and India.

Net sales in South Korea, our largest market in the region, increased \$77.8 million, or 22.7%, for the year ended December 31, 2012, as compared to the same period in 2011. In local currency, net sales increased 25.2% for the year ended December 31, 2012, as compared to the same period in 2011. The fluctuation of foreign currency rates had an unfavorable impact on net sales of \$8.7 million for the year ended December 31, 2012. The increase in net sales was primarily driven by the successful adoption and operation of the Nutrition Club and other daily consumption DMOs along with the Mega and Premium Herbalife Opportunity Meetings.

Net sales in Taiwan, our second largest market in the region, decreased \$1.7 million, or 1.1%, for the year ended December 31, 2012, as compared to the same period in 2011. In local currency, net sales decreased 0.4% for the year ended December 31, 2012, as compared to the same period in 2011. The fluctuation of foreign currency rates had an unfavorable impact on net sales of \$1.1 million for the year ended December 31, 2012. The modest decline in net sales reflects the formation of a stable platform for future growth following strategic actions taken to address certain distributor business training practices around nutrition clubs, resulting in the closure of a significant number of clubs.

Net sales in India, our third largest market in the region, increased \$26.8 million, or 22.9%, for the year ended December 31, 2012, as compared to the same period in 2011. In local currency, net sales increased 40.7% for the year ended December 31, 2012, as compared to the same period in 2011. The fluctuation of foreign currency rates had an unfavorable impact on net sales of \$20.8 million for the year ended December 31, 2012. The increase in net sales for the year ended December 31, 2012 was primarily driven by increased product access and the successful adoption of the daily consumption DMOs, especially the Nutrition Club.

Net sales in Malaysia, our fourth largest market in the region, increased \$34.2 million, or 40.6%, for the year ended December 31, 2012, as compared to the same period in 2011. In local currency, net sales increased 42.1% for the year ended December 31, 2012, as compared to the same period in 2011. The fluctuation of foreign currency rates had an unfavorable impact on net sales of \$1.3 million for the year ended December 31, 2012. The increase in net sales was primarily driven by the continued success of the Road Show DMO and Mega Herbalife Opportunity Meetings which generated positive distributor momentum. Also contributing to growth for the period was increased distributor activity including increased activity in Nutrition Clubs.

Net sales in Indonesia, our fifth largest market in the region, increased \$42.1 million, or 83.7%, for the year ended December 31, 2012, as compared to the same period in 2011. In local currency, net sales increased 96.7% for the year ended December 31, 2012, as compared to the same period in 2011. The fluctuation of foreign currency rates had an unfavorable impact on net sales of \$6.5 million for the year ended December 31, 2012. The primary catalyst driving the sales increase in Indonesia was the growth in Nutrition Clubs.

Average active sales leaders in the region increased 31.2% for the year ended December 31, 2012, as compared to the same period in 2011.



During the first quarter the region hosted a series of Spectaculars in eight countries with a total of approximately 43,000 attendees. In May 2012, the region hosted two regional extravaganzas, in South Korea and Singapore, with approximately 19,800 and 24,800 attendees, respectively. In September 2012, the region hosted an Asia Pacific University training in Macau with 11,300 attendees and a World Team School in India with 3,500 attendees.

### *China*

Net sales in China were \$278.5 million for the year ended December 31, 2012. Net sales increased \$67.7 million, or 32.1%, for the year ended December 31, 2012, as compared to the same period in 2011. In local currency, net sales increased 29.1% for the year ended December 31, 2012, as compared to the same period in 2011. The fluctuation of foreign currency rates had a favorable impact of \$6.4 million on net sales for the year ended December 31, 2012.

The current focus in China is to expand the Nutrition Club DMO to enhance the emphasis on daily consumption DMOs. We believe that the Nutrition Club concept continues to gain traction. While we believe the Nutrition Club DMO has potential to expand throughout China, this process will most likely build gradually over the next few years.

Average active sales leaders in China increased 32.6% for the year ended December 31, 2012, as compared to the same period in 2011. We believe that the increase in distributor engagement as reflected in the average active sales leader numbers is indicative of the market transitioning to daily consumption DMOs.

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As of December 31, 2012, we were operating 67 retail stores in 29 provinces in China. During May 2012, we received direct selling licenses for 8 additional provinces in China, bringing the total provinces covered by our direct selling licenses to 24 out of the 29 provinces in which we operated as of December 31, 2012. We continue to seek additional provincial licenses.

In April 2012, the region hosted its annual China Extraordinary Tour (Honors) with approximately 12,800 attendees. During the fourth quarter China held an Anniversary Rally in Xiamen with approximately 13,400 attendees.

**Sales by Product Category**

	Year Ended December 31,										% Change in Net Sales
	2012					2011					
	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	
	(Dollars in millions)										
Weight Management	\$ 4,118.8	\$ (1,946.8)	\$ 2,172.0	\$ 382.9	\$ 2,554.9	\$ 3,479.4	\$ (1,647.5)	\$ 1,831.9	\$ 326.8	\$ 2,158.7	18.4
Targeted Nutrition	1,523.1	(719.9)	803.2	141.6	944.8	1,272.7	(602.6)	670.1	119.5	789.6	19.7
Energy, Sports and Fitness	337.5	(159.5)	178.0	31.4	209.4	273.6	(129.5)	144.1	25.7	169.8	23.3
Outer Nutrition	235.9	(111.5)	124.4	21.9	146.3	238.1	(112.7)	125.4	22.4	147.8	(1.0)
Literature, Promotional and Other(1)	189.0	10.3	199.3	17.6	216.9	164.0	9.2	173.2	15.4	188.6	15.0
Total	\$ 6,404.3	\$ (2,927.4)	\$ 3,476.9	\$ 595.4	\$ 4,072.3	\$ 5,427.8	\$ (2,483.1)	\$ 2,944.7	\$ 509.8	\$ 3,454.5	17.9

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

Net sales for all product categories increased for the year ended December 31, 2012 as compared to the same period in 2011, except for a slight decrease in Outer Nutrition. The growth factors described in the above discussions of the individual geographic regions apply generally to all product categories.

**Gross Profit**

Gross profit was \$3,259.7 million for the year ended December 31, 2012, as compared to \$2,774.4 million for the same period in 2011. As a percentage of net sales, gross profit for the year ended December 31, 2012 decreased to 80.1%, as compared to 80.3% for the same period in 2011, or an unfavorable net decrease of 20 basis points. The net 20 basis point decrease for the year ended December 31, 2012, as compared to the same period in 2011, was primarily due to the unfavorable impact of foreign currency fluctuations, country mix and other costs partially offset by the

benefit from our net source savings initiatives and favorable changes in inventory write-downs.

### **Royalty Overrides**

Royalty overrides were \$1,338.6 million for the year ended December 31, 2012, as compared to \$1,137.6 million for the same period in 2011. Royalty overrides as a percentage of net sales was 32.9% for both the years ended December 31, 2012 and 2011. 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 sales employees and 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 distributors under our worldwide marketing plan. We anticipate fluctuations in royalty overrides as a percentage of net sales reflecting the growth prospect of our China business relative to that of our worldwide business.

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

Selling, general and administrative expenses were \$1,259.7 million for the year ended December 31, 2012, as compared to \$1,074.6 million for the same period in 2011. Selling, general and administrative expenses as a percentage of net sales were 30.9% for the year ended December 31, 2012, as compared to 31.1% for the same period in 2011.

The increase in selling, general and administrative expenses for the year ended December 31, 2012 included \$59.7 million in higher salaries, bonuses and benefits, excluding China sales employees, \$20.2 million in higher professional fees, excluding China independent service providers, higher variable expenses related to sales growth including \$24.7 million in higher distributor promotion and event costs, \$3.9 million in higher advertising expenses, \$26.7 million in higher expenses related to China sales employees and independent service providers, \$10.9 million in higher non-income tax expenses such as value added tax and sales tax and \$5.2 million in higher foreign exchange loss.

**Table of Contents****Net Interest Expense**

Net interest expense is as follows:

<b>Net Interest Expense</b>	<b>Year Ended December 31, 2012</b>	<b>Year Ended December 31, 2011</b>
	<b>(Dollars in millions)</b>	
Interest expense	\$ 16.7	\$ 9.9
Interest income	(6.2)	(7.4)
<b>Net Interest Expense</b>	<b>\$ 10.5</b>	<b>\$ 2.5</b>

The increase in net interest expense for the year ended December 31, 2012, as compared to the same period in 2011, was primarily due to higher outstanding balances on the Credit Facility, and lower interest received related to non-income tax refunds.

**Income Taxes**

Income taxes were \$186.9 million for the year ended December 31, 2012, as compared to \$144.8 million for the same period in 2011. As a percentage of pre-tax income, the effective income tax rate was 28.7% for the year ended December 31, 2012, as compared to 25.9% for the same period in 2011. The increase in the effective tax rate for the year ended December 31, 2012, as compared to the same period in 2011, was primarily due to lower net benefits from discrete events, changes in the geographic mix of the Company's income, and increased accruals for tax contingencies. See Note 12, *Income Taxes*, to the Consolidated Financial Statements for additional discussion.

**Financial Results for the year ended December 31, 2011 compared to the year ended****December 31, 2010**

Net sales for the year ended December 31, 2011 increased 26.3% to \$3,454.5 million as compared to \$2,734.2 million in 2010. In local currency, net sales for the year ended December 31, 2011 increased 22.8% as compared to the same period in 2010. The increase in net sales was primarily due to the continued successful adoption and operation of daily consumption DMOs; increased distributor engagement as reflected by record 2011 sales leader retention and an increase in average active sales leaders; branding activities and increased distributor recruiting.

Net income for the year ended December 31, 2011 increased 41.7% to \$415.0 million, or \$3.32 per diluted share, compared to \$292.9 million, or \$2.32 per diluted share, for the same period in 2010. The increase was primarily due to higher contribution margin driven by net sales growth discussed above, partially offset by higher selling, general and administrative expenses to support the growth of our business and higher income taxes. In addition, net income for the year ended December 31, 2010 was also negatively impacted by matters related to Venezuela, as described below.

Net income for the year ended December 31, 2011 included a \$0.9 million pre-tax (\$0.7 million post-tax) additional interest expense from the write-off of unamortized deferred financing costs resulting from the debt refinancing arrangement in March 2011. See Note 4, *Long Term Debt*, to the Consolidated Financial Statements for further information on our debt refinancing.

Net income for the year ended December 31, 2010 included a \$15.1 million unfavorable impact related to the remeasurement of monetary assets and liabilities resulting from Venezuela being designated as a highly inflationary economy beginning January 1, 2010; a \$12.7 million unfavorable impact related to incremental U.S. dollar costs of 2009 imports into Venezuela which were recorded at the unfavorable parallel market exchange rate and were not devalued based on 2010 exchange rates, but rather recorded to cost of sales at their historical dollar costs as products were sold in the first quarter of 2010; a \$5.8 million favorable impact resulting from receipt of U.S. dollars approved by the Venezuelan government's foreign exchange commission, CADIVI, at the official exchange rate relating to 2009 product importations which were previously registered with CADIVI; a \$14.5 million one-time favorable impact to income taxes related to Venezuela becoming a highly inflationary economy; a \$4.0 million pre-tax (\$2.6 million post-tax) foreign exchange gain in Herbalife Venezuela as a result of remeasuring its Bolivar denominated monetary assets and liabilities as of June 30, 2010 at the SITME rate of 5.3 Bolivars per U.S. dollar as opposed to the last parallel market rate of 8.3 Bolivars per U.S. dollar. See *Liquidity and Capital Resources - Working Capital and Operating Activities* below for further discussion of currency exchange rate issues in Venezuela. Net income for the year ended December 31, 2010 also included a \$3.2 million tax benefit from an international income tax audit settlement.

**Table of Contents****Net Sales**

The following chart reconciles retail sales to net sales:

**Sales by Geographic Region**

	Year Ended December 31,					Year Ended December 31,					Change in Net Sales
	2011		2010			2011		2010			
	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	
	(Dollars in millions)										
North America	\$ 1,111.4	\$ (530.5)	\$ 580.9	\$ 117.7	\$ 698.6	\$ 977.3	\$ (465.9)	\$ 511.4	\$ 102.7	\$ 614.1	13.8%
Mexico	706.0	(344.4)	361.6	75.3	436.9	539.8	(263.4)	276.4	57.6	334.0	30.8%
South & Central America	904.9	(430.8)	474.1	80.3	554.4	637.8	(303.4)	334.4	56.0	390.4	42.0%
EMEA	991.0	(476.4)	514.6	100.6	615.2	854.5	(413.6)	440.9	86.9	527.8	16.6%
Asia Pacific	1,469.4	(666.7)	802.7	135.9	938.6	1,088.5	(498.5)	590.0	93.5	683.5	37.3%
China	245.1	(34.3)	210.8		210.8	208.4	(24.0)	184.4		184.4	14.3%
Worldwide	\$ 5,427.8	\$ (2,483.1)	\$ 2,944.7	\$ 509.8	\$ 3,454.5	\$ 4,306.3	\$ (1,968.8)	\$ 2,337.5	\$ 396.7	\$ 2,734.2	26.3%

**North America**

The North America region reported net sales of \$698.6 million for the year ended December 31, 2011. Net sales increased \$84.5 million, or 13.8%, for the year ended December 31, 2011, as compared to the same period in 2010. In local currency, net sales increased 13.6% for the year ended December 31, 2011, as compared to the same period in 2010. The overall increase in net sales in the region was a result of net sales growth in the U.S. of \$81.5 million, or 13.7%, for the year ended December 31, 2011, as compared to the same period in 2010.

In the U.S. we continued to see the success of our distributors converting their business focus toward a daily consumption DMO, especially the Nutrition Club DMO, and its extension into Commercial Clubs, along with the continued development of the Weight Loss Challenge DMO. The success of these DMOs has resulted in higher levels of distributor engagement and momentum.

Average active sales leaders in the region increased 15.1% for the year ended December 31, 2011, as compared to the same period in 2010. Average active sales leaders in the U.S. increased 15.2% for the year ended December 31, 2011, as compared to the same period in 2010.

During the fourth quarter of 2011, the region hosted three regional Extravaganzas with approximately 21,600 attendees. The region also hosted a Future President Team Retreat with 370 attendees.

**Mexico**

The Mexico region reported net sales of \$436.9 million for the year ended December 31, 2011. Net sales for the year ended December 31, 2011 increased \$102.9 million, or 30.8%, as compared to the same period in 2010. In local currency, net sales for the year ended December 31, 2011 increased 28.6% as compared to the same period in 2010. The fluctuation of foreign currency rates had a favorable impact of \$7.4 million on net sales for the year ended December 31, 2011.

The growth in net sales was primarily the result of increased distributor engagement as well as the continued success of the Nutrition Club DMO. In addition, since the beginning of 2010 we have significantly expanded our distribution network and product access throughout the country.

Average active sales leaders in Mexico increased 25.2% for the year ended December 31, 2011, as compared to the same period in 2010.

In September 2011, the region hosted an Extravaganza in Mexico City with approximately 20,000 attendees.

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

The South and Central America region reported net sales of \$554.4 million for the year ended December 31, 2011. Net sales increased \$164.0 million, or 42.0%, for the year ended December 31, 2011, as compared to the same period in 2010. In local currency, net sales increased 36.7% for the year ended December 31, 2011, as compared to the same period in 2010. The fluctuation of foreign currency rates had a \$20.6 million favorable impact on net sales for the year ended December 31, 2011. The increase in net sales for the year ended December 31, 2011, as compared to the same period in 2010, was due to an increase in net sales in every country in the region led by Brazil and Venezuela. This growth was primarily driven by the adoption and expansion of daily consumption DMOs throughout the region.

In Brazil, the region's largest market, net sales increased \$91.3 million, or 42.5%, for the year ended December 31, 2011, as compared to the same period in 2010. In local currency, net sales increased 35.9% for the year ended December 31, 2011, as compared to the same period in 2010. The increase in local currency net sales was primarily the result of the successful adoption of Nutrition Clubs and other daily consumption DMOs. The fluctuation of foreign currency rates had a \$14.3 million favorable impact on net sales in Brazil for the year ended December 31, 2011.

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Venezuela, the region's second largest market, experienced a net sales increase of \$24.0 million, or 58.3%, for the year ended December 31, 2011, as compared to the same period in 2010. In local currency, net sales increased 48.3% for the year ended December 31, 2011, as compared to the same period in 2010. The sales growth in local currency was partially driven by price increases of 10% and 4.5% in February 2011 and August 2011, respectively. See *Liquidity and Capital Resources* Working Capital and Operating Activities below for further discussion of currency exchange rate issues in Venezuela.

Average active sales leaders in the region increased 21.2% for the year ended December 31, 2011, as compared to the same period in 2010.

In February 2011, the region hosted two Extravanzas in Buenos Aires, Argentina and Bogota, Colombia. Together, the events had over 15,000 attendees. In April 2011, the region hosted three Extravanzas in Brazil with a total of almost 15,000 attendees. In June 2011, the region also hosted Leadership Development Weekends in 14 cities with a total of almost 13,000 attendees. During the fourth quarter 2011 Brazil held a World Team School with over 5,600 attendees.

## **EMEA**

The EMEA region reported net sales of \$615.2 million for the year ended December 31, 2011. Net sales increased \$87.4 million, or 16.6%, for the year ended December 31, 2011, as compared to the same period in 2010. In local currency, net sales increased 12.2% for the year ended December 31, 2011, as compared to the same period in 2010. The fluctuation of foreign currency rates had a favorable impact on net sales of \$23.3 million for the year ended December 31, 2011. The increase in net sales for the year ended December 31, 2011 was driven by increases in the majority of the countries in the region led by Russia, Spain, Italy, Belgium and several of the Eastern European markets.

Net sales in Italy, our largest market in the region, increased \$7.4 million, or 6.7%, for the year ended December 31, 2011, as compared to the same period in 2010. In local currency, net sales increased 1.6% for the year ended December 31, 2011, as compared to the same period in 2010.

Net sales in Russia, our second largest market in the region, increased \$29.3 million, or 66.4%, for the year ended December 31, 2011, as compared to the same period in 2010. In local currency, net sales increased 61.3% for the year ended December 31, 2011, as compared to the same period in 2010. 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 Spain, our third largest market in the region, increased \$11.1 million, or 27.6%, for the year ended December 31, 2011, as compared to the same period in 2010. In local currency, net sales in Spain increased 21.3% for the year ended December 31, 2011, as compared to the same period in 2010. The increase in Spain was mainly due to the positive effect of increased distributor engagement and recruitment which was aided by our sponsorship of FC Barcelona.

Average active sales leaders in the region increased 15.1% for the year ended December 31, 2011, as compared to the same period in 2010.

The region hosted two Extravanzas in September 2011 with approximately 15,500 attendees in Barcelona, Spain and 2,000 in Istanbul, Turkey.



*Asia Pacific*

The Asia Pacific region, which excludes China, reported net sales of \$938.6 million for the year ended December 31, 2011. Net sales increased \$255.1 million, or 37.3%, for the year ended December 31, 2011, as compared to the same period in 2010. In local currency, net sales increased 32.2% for the year ended December 31, 2011, as compared to the same period in 2010. The fluctuation of foreign currency rates had a favorable impact of \$34.9 million on net sales for the year ended December 31, 2011. The increase in net sales for the year ended December 31, 2011 reflected broad-based growth across the region, especially in South Korea, India, Indonesia, and Malaysia, partially offset by a decrease in Taiwan.

Net sales in South Korea, our largest market in the region, increased \$134.7 million, or 64.5%, for the year ended December 31, 2011, as compared to the same period in 2010. In local currency, net sales increased 57.3% for the year ended December 31, 2011, as compared to the same period in 2010. The increase in net sales was primarily driven by the successful adoption and operation of the Nutrition Club DMO, in the form of Commercial Clubs along with the Mega and Premium Herbalife Opportunity Meetings. The fluctuation of foreign currency rates had a favorable impact on net sales of \$15.1 million for the year ended December 31, 2011, as compared to the same period in 2010.

Net sales in Taiwan, our second largest market in the region, decreased \$11.4 million, or 6.8%, for the year ended December 31, 2011, as compared to the same period in 2010. In local currency, net sales decreased 13.0% for the year ended December 31, 2011, as compared to the same period in 2010. The decline in net sales was mainly due to strategic actions taken to address certain distributor business training practices around nutrition clubs, resulting in the closure of a significant number of clubs. The fluctuation of foreign currency rates had a favorable impact on net sales of \$10.3 million for the year ended December 31, 2011, as compared to the same period in 2010.

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Net sales in India, our third largest market in the region, increased \$62.0 million, or 112.7%, for the year ended December 31, 2011, as compared to the same period in 2010. In local currency, net sales increased 117.5% for the year ended December 31, 2011, as compared to the same period in 2010. The increase in net sales for the year ended December 31, 2011 was primarily driven by the successful adoption of the Nutrition Club DMO. The fluctuation of foreign currency rates had an unfavorable impact on net sales of \$2.6 million for the year ended December 31, 2011, as compared to the same period in 2010.

Net sales in Malaysia, our fourth largest market in the region, increased \$19.5 million, or 30.1%, for the year ended December 31, 2011, as compared to the same period in 2010, reflecting the continued success of the Road Show DMO, which has generated positive distributor momentum and increased recruiting. In local currency, net sales increased 23.9% for the year ended December 31, 2011, as compared to the same period in 2010. The fluctuation of foreign currency rates had a favorable impact on net sales of \$4.0 million for the year ended December 31, 2011, as compared to the same period in 2010.

Average active sales leaders in the region increased 34.3% for the year ended December 31, 2011, as compared to the same period in 2010.

In May 2011, the region hosted an Extravaganza in Bangkok, Thailand with over 22,000 attendees. In September 2011, the region hosted an Asia Pacific University training in Seoul, South Korea with approximately 13,000 attendees.

**China**

Net sales in China were \$210.8 million for the year ended December 31, 2011. Net sales increased \$26.4 million, or 14.3%, for the year ended December 31, 2011, as compared to the same period in 2010. In local currency, net sales increased 9.1% for the year ended December 31, 2011, as compared to the same period in 2010. The fluctuation of foreign currency rates had a favorable impact of \$9.6 million on net sales for the year ended December 31, 2011.

Average active sales leaders in China increased 28.7% for the year ended December 31, 2011, as compared to the same period in 2010. We believe that the increase in distributor engagement as reflected in the average active sales leader numbers was indicative of the market transitioning to daily consumption DMOs.

As of December 31, 2011, we had direct-selling licenses in 16 provinces and we were operating 67 retail stores in 29 provinces in China. The 16 provinces in which we had direct-selling licenses represented a then-addressable population of approximately 844 million.

In September 2011, the region hosted their Anniversary Rally in Qingdao, Shandong with over 10,100 attendees.

**Sales by Product Category**

Year Ended December 31,											
2011					2010					% Change in Net Sales	
Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales		
(Dollars in millions)											

ight	\$ 3,479.4	\$ (1,647.5)	\$ 1,831.9	\$ 326.8	\$ 2,158.7	\$ 2,749.1	\$ (1,303.4)	\$ 1,445.7	\$ 253.2	\$ 1,698.9	27.1
agement											
geted											
rition	1,272.7	(602.6)	670.1	119.5	789.6	1,018.2	(482.8)	535.4	93.8	629.2	25.5
ergy,											
orts and											
ness	273.6	(129.5)	144.1	25.7	169.8	196.3	(93.1)	103.2	18.1	121.3	40.0
er											
rition	238.1	(112.7)	125.4	22.4	147.8	206.3	(97.8)	108.5	19.0	127.5	15.9
erature,											
romotional											
Other(1)	164.0	9.2	173.2	15.4	188.6	136.4	8.3	144.7	12.6	157.3	19.9
al	\$ 5,427.8	\$ (2,483.1)	\$ 2,944.7	\$ 509.8	\$ 3,454.5	\$ 4,306.3	\$ (1,968.8)	\$ 2,337.5	\$ 396.7	\$ 2,734.2	26.3

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

Net sales for all product categories increased for the year ended December 31, 2011 as compared to the same period in 2010. The growth factors described in the above discussions of the individual geographic regions apply generally to all product categories.

### Gross Profit

Gross profit was \$2,774.4 million for the year ended December 31, 2011, as compared to \$2,175.4 million for the same period in 2010. As a percentage of net sales, gross profit for the year ended December 31, 2011 increased to 80.3%, as compared to 79.6% for the same period in 2010, or a favorable net increase of 70 basis points. The net 70 basis point increase for the year ended December 31, 2011, as compared to the same period in 2010, was primarily due to a favorable 51 basis point net increase related to

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circumstances surrounding Herbalife Venezuela and Venezuela's highly inflationary economy. The remaining net increase of 19 basis points was primarily due to the favorable impact from net source savings, foreign exchange fluctuations partially offset by an unfavorable impact from country mix and inventory write-downs. Specifically, the 51 basis point increase resulted from the combination of (i) 47 favorable basis points from recognizing an unfavorable foreign exchange impact of \$12.7 million during the first quarter 2010 relating to the incremental U.S. dollar cost of importing finished goods into Venezuela at the unfavorable parallel market rate rather than the CADIVI official rate, and (ii) 4 favorable basis points from the impact of remeasuring Herbalife Venezuela's Bolivar net sales at the SITME rate during the year ended December 31, 2011, as opposed to being remeasured at the less favorable old parallel market rate during the first five months of fiscal year 2010 prior to the change to remeasuring at the SITME rate. See *Liquidity and Capital Resources - Venezuela* below for further discussion on currency exchange rate issues in Venezuela.

**Royalty Overrides**

Royalty overrides were \$1,137.6 million for the year ended December 31, 2011, as compared to \$900.2 million for the same period in 2010. Royalty overrides as a percentage of net sales was 32.9% for both the years ended December 31, 2011 and 2010. 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 sales employees and 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 distributors under our worldwide marketing plan. We anticipate fluctuations in royalty overrides as a percentage of net sales reflecting the growth prospect of our China business relative to that of our worldwide business.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses were \$1,074.6 million for the year ended December 31, 2011, as compared to \$887.7 million for the same period in 2010. Selling, general and administrative expenses as a percentage of net sales were 31.1% for the year ended December 31, 2011, as compared to 32.5% for the same period in 2010.

The increase in selling, general and administrative expenses for the year ended December 31, 2011 included \$54.0 million in higher salaries, bonuses and benefits, excluding China sales employees; higher variable expenses as a result of sales growth including \$38.6 million in higher distributor promotion and event costs, \$7.7 million in higher advertising expenses, \$21.5 million in higher non-income tax expenses such as value added tax and sales tax, \$8.3 million in higher credit card fees, \$9.4 million in higher expenses related to China sales employees, sales officers and independent service providers and \$4.1 million in higher foreign exchange loss, which included the effect of Herbalife Venezuela's \$7.4 million net foreign exchange loss recorded in the first and second quarter of 2010.

**Net Interest Expense**

Net interest expense is as follows:

	<b>Year Ended December 31, 2011</b>	<b>Year Ended December 31, 2010</b>
	<b>(Dollars in millions)</b>	
<b>Net Interest Expense</b>		
Interest expense	\$ 9.9	\$ 9.7

Interest income	(7.4)	(2.3)
Net Interest Expense	\$ 2.5	\$ 7.4

The decrease in net interest expense for the year ended December 31, 2011, as compared to the same period in 2010, was primarily due to \$2.6 million of interest received on VAT refunds during 2011 and an increase in interest income earned on our outstanding cash and cash equivalents balances which had increased during 2011.

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**Table of Contents****Income Taxes**

Income taxes were \$144.8 million for the year ended December 31, 2011, as compared to \$87.2 million for the same period in 2010. As a percentage of pre-tax income, the effective income tax rate was 25.9% for the year ended December 31, 2011, as compared to 22.9% for the same period in 2010. The increase in the effective tax rate for the year ended December 31, 2011, as compared to the same period in 2010, was primarily due to the conversion of Venezuela to a highly inflationary economy in 2010, a tax benefit from an international income tax audit settlement recognized in 2010, and the change in the operating effective rate reflecting changes in the country mix. See Note 12, *Income Taxes*, to the Consolidated Financial Statements for additional discussion.

During the second quarter of 2011, we had a change in method of accounting for excess tax benefits recognized as a result of the exercise of employee stock options, stock appreciation rights, or SARs, and other share-based equity grants from the tax-law-ordering method to the with-and-without method which impacted our income tax expenses recognized within our consolidated statement of income. This change in accounting principle was applied to all periods presented within our 2011 Annual Report for comparative purposes. This change in accounting principle does not impact the consolidated financial statements related to fiscal years prior to 2010.

**Liquidity and Capital Resources for fiscal years 2012, 2011 and 2010**

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 would directly affect the availability of funds. There are no material contractual restrictions on the 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. However, 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 effectively resulted from our share repurchase and dividend activities over recent years, which together, since the inception of these programs in 2007, amounted to approximately \$2.0 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. Further, as discussed in greater detail below, we maintain the Credit Facility, executed on March 9, 2011 and amended on July 26, 2012, which had \$695.2 million of undrawn capacity as of December 31, 2012. As discussed further below, on July 26, 2012, we amended the Credit Facility and entered into a \$500.0 million term loan with a syndicate of financial institutions which matures in March 2016, or the Term Loan. See *Subsequent Events* below for discussion of borrowings made under the Credit Facility for share repurchases made subsequent to December 31, 2012.

We utilized the majority of the proceeds from the Term Loan to pay down our outstanding balance on our revolving credit facility, which then provided us with additional undrawn capacity. This available undrawn capacity, in addition to cash flow from operations, can be used to support general corporate purposes, including, our future share repurchase programs, dividends, and strategic investment opportunities. Although we believe we will continue to have adequate cash flows from operations to fund our business objectives, the increase in our borrowing capacity will provide us with greater flexibility.

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 December 31, 2012 and December 31, 2011.

For the year ended December 31, 2012, we generated \$567.8 million of operating cash flow, as compared to \$510.5 million for the same period in 2011. The increase in cash generated from operations was primarily due to an increase in operating income of \$99.2 million driven by a 17.9% growth in net sales for the year ended December 31, 2012 as compared to the same period in 2011. For the year ended December 31, 2011, we generated \$510.5 million of operating cash flow, as compared to \$387.9 million for the same period in 2010. The increase in cash generated from operations was primarily due to an increase in operating income of \$174.8 million driven by a 26.3% growth in net sales for the year ended December 31, 2011 as compared to the same period in 2010.

Capital expenditures, including capital leases, for the years ended December 31, 2012, 2011, and 2010 were \$122.8 million, \$90.9 million, and \$68.1 million, respectively. The majority of these expenditures represented investments in management information systems, the development of our distributor internet initiatives, and the expansion of our warehouse, sales centers and manufacturing facilities domestically and internationally. We expect to incur total capital expenditures of approximately \$165 million to \$185 million for the full year of 2013, which includes capital expenditures associated with the Winston-Salem, North Carolina facility that was acquired December 2012. See Note 2, *Basis of Presentation*, to the Consolidated Financial Statements for further discussion of the purchase of the Winston-Salem, North Carolina facility.

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We entered into a \$300.0 million senior secured credit facility, or the Prior Credit Facility, comprised of a \$200.0 million term loan and a revolving credit facility of \$100.0 million, with a syndicate of financial institutions as lenders in July 2006. In September 2007, we amended the Prior Credit Facility, increasing the revolving credit facility by \$150.0 million to \$250.0 million to fund the increase in our share repurchase program. The term loan was to mature on July 21, 2013 and the revolving credit facility was to be available until July 21, 2012. The term loan bore interest at LIBOR plus a margin of 1.5%, or the base rate, which represented the prime rate offered by major U.S. banks, plus a margin of 0.50%. The revolving credit facility bore interest at LIBOR plus a margin of 1.25%, or the base rate, which represented the prime rate offered by major U.S. banks, plus a margin of 0.25%.

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 the Prior Credit Facility. The Credit Facility has a five year maturity and expires on March 9, 2016. Based on our consolidated leverage ratio, U.S. dollar borrowings under the Credit Facility bear interest at either LIBOR plus the applicable margin between 1.50% and 2.50% or the base rate plus the applicable margin between 0.50% and 1.50%. The base rate under the Credit Facility represents the highest of the Federal Funds Rate plus 0.50%, one-month LIBOR plus 1.00%, and the prime rate offered by Bank of America. We, based on our consolidated leverage ratio, pay a commitment fee between 0.25% and 0.50% per annum on the unused portion of the Credit Facility. The Credit Facility also permits us to borrow limited amounts in Mexican Peso and Euro currencies based on variable rates.

In March 2011, we used \$196.0 million in U.S. dollar borrowings under the Credit Facility to repay all amounts outstanding under the Prior Credit Facility. We 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 our consolidated balance sheet and are being amortized over the term of the Credit Facility.

On July 26, 2012, we amended the Credit Facility to include 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 July 2012, we used all \$500.0 million of the borrowings under the Term Loan to pay down amounts outstanding under our revolving credit facility. We 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 our consolidated balance sheet and will be amortized over the life of the Term Loan. On December 31, 2012 and 2011, the weighted average interest rate for borrowings under the Credit Facility, which included borrowings under the Term Loan as of December 31, 2012, was 1.96% and 1.89%, respectively. At December 31, 2010, the weighted average interest rate for borrowings under the Prior Credit Facility was 1.75%.

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 its common shares, merge or consolidate and enter into certain transactions with affiliates. As of December 31, 2012 and 2011, we were in compliance with the debt covenants under the Credit Facility.

During the year ended December 31, 2012, we borrowed \$1,428.0 million and paid a total of \$1,142.5 million under the Credit Facility. During the year ended December 31, 2011, we borrowed \$859.7 million and \$54.0 million under the Credit Facility and the Prior Credit Facility, respectively, and paid a total of \$657.7 million and \$228.9 million of



the Credit Facility and Prior Credit Facility, respectively. During 2010, we borrowed \$427.0 million and paid \$487.0 million under the Prior Revolving Credit Facility. As of December 31, 2012 and December 31, 2011, the U.S. dollar amount outstanding under the Credit Facility was \$487.5 million and \$202.0 million, respectively. The \$487.5 million U.S. dollar amount outstanding under the Credit Facility as of December 31, 2012, related to the Term Loan and there were no amounts outstanding on the revolving credit facility. There were no outstanding foreign currency borrowings as of December 31, 2012 and December 31, 2011 under the Credit Facility.

We use our revolving credit facility to manage normal variations in cash created by significant cash items such as taxes, dividends, share repurchases, capital expenditures and other large cash flow items. Our revolving credit facility provides us with the ability to access significant funds on a timely basis and then repay the outstanding balances as cash from operations becomes available to us. During 2012, a large portion of our borrowings were used to fund the \$427.9 million share repurchase agreement with Merrill Lynch International discussed below. We expect to continue borrowing against our revolving credit facility as needed, including funding for future share repurchases. During 2012, we also borrowed \$500 million against the Term Loan in order to pay down our revolving credit facility as discussed above.

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The following summarizes our contractual obligations including interest at December 31, 2012, and the effect such obligations are expected to have on our liquidity and cash flows in future periods:

	Payments Due by Period				2018 & Thereafter
	Total	2013	2014 - 2015	2016 - 2017	
	(Dollars in millions)				
Borrowings under the senior secured credit facility(1)	\$ 512.0	\$ 65.6	\$ 195.5	\$ 250.9	\$
Capital leases	0.1	0.1			
Operating leases	193.2	50.1	76.8	36.1	30.2
Other	92.4	28.1	30.2	12.0	22.1
<b>Total(2)</b>	<b>\$ 797.7</b>	<b>\$ 143.9</b>	<b>\$ 302.5</b>	<b>\$ 299.0</b>	<b>\$ 52.3</b>

(1) The estimated interest payments on our Credit Facility are based on interest rates effective at December 31, 2012.

(2) Our consolidated balance sheet as of December 31, 2012 included \$45.6 million in unrecognized tax benefits.

The future payments related to these unrecognized tax benefits have not been presented in the table above due to the uncertainty of the amounts and potential timing of cash settlements with the tax authorities, and whether any settlement would occur.

At December 31, 2012 and December 31, 2011, the total amount of our foreign subsidiary cash was \$321.3 million and \$246.0 million, respectively, of which \$6.9 million and \$9.2 million, respectively, was invested in U.S. dollars. For earnings not considered to be indefinitely reinvested, deferred taxes have been provided. For earnings considered to be indefinitely reinvested, deferred taxes have not been provided. Should we make a determination to remit the cash and cash equivalents from our foreign subsidiaries to our U.S. consolidated group for the purpose of repatriation of undistributed earnings, we would need to accrue and pay taxes. As of December 31, 2012, our U.S. consolidated group had approximately \$66.4 million of permanently reinvested unremitted earnings from its subsidiaries, and if these monies were ever needed to be remitted, the impact of any tax consequences on our overall liquidity position would not be material. As of December 31, 2012, our parent, Herbalife Ltd., had \$1.6 billion of permanently reinvested unremitted earnings relating to its operating subsidiaries. We do not have any plans to repatriate these unremitted earnings to our parent; therefore, we do not have any liquidity concerns relating to these unremitted earnings and related cash and cash equivalents. See Note 12, *Income Taxes*, to the Consolidated Financial Statements for additional discussion.

**Off-Balance Sheet Arrangements**

At December 31, 2012 and December 31, 2011, we had no material off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

**Share Repurchases**

On April 17, 2009, our share repurchase program adopted on April 18, 2007 expired pursuant to its terms. On April 30, 2009, our board of directors authorized a new program for us to repurchase up to \$300 million of our common shares during the following two years, at such times and prices as determined by management, as market

conditions warrant. On May 3, 2010, our board of directors approved an increase to the repurchase program from \$300 million to \$1 billion. In addition, our board of directors approved the extension of the expiration date from April 2011 to December 2014.

On May 2, 2012, we entered into an agreement with Merrill Lynch International to repurchase \$427.9 million of our common shares, which was the remaining authorized capacity under existing repurchase program at that time. Under the terms of the repurchase agreement, we paid \$427.9 million on May 4, 2012 and the agreement expired on July 27, 2012. We received 5.3 million and 3.9 million of our common shares under the repurchase agreement during June 2012 and July 2012, respectively. The total number of common shares repurchased under the agreement was determined generally upon a discounted volume-weighted average share price of our common shares over the course of the agreement. On July 27, 2012, we completed the repurchase program upon the final delivery of common shares repurchased under the repurchase agreement.

On July 30, 2012, we announced that our board of directors authorized a new \$1 billion share repurchase program that will expire on June 30, 2017. This repurchase program allows us to repurchase our common shares, at such times and prices as determined by us as market conditions warrant. The Credit Facility permits us to repurchase our common shares as long as no default or event of default exists and the consolidated leverage ratio specified in the Credit Facility is not exceeded. As of December 31, 2012, the remaining authorized capacity under the repurchase program was \$950.0 million.

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During the year ended December 31, 2012, we repurchased 11.0 million of our common shares through open market purchases at an aggregate cost of approximately \$527.8 million, or an average cost of \$47.78 per share. During the year ended December 31, 2011, we repurchased 5.5 million of our common shares through open market purchases at an aggregate cost of approximately \$298.8 million, or an average cost of \$54.27 per share. During the year ended December 31, 2010, we repurchased 5.7 million of our common shares through open market purchases at an aggregate cost of approximately \$150.1 million, or an average cost of \$26.13 per share.

The number of shares issued upon vesting or exercise for certain restricted stock units and SARs granted, pursuant to our share-based compensation plans, is net of the minimum statutory withholding requirements that we pay on behalf of our employees. Although shares withheld are not issued, they are treated as common share repurchases for accounting purposes, 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 repurchase program described above.

## ***Dividends***

The declaration of future dividends is subject to the discretion of our board of directors and will depend upon various factors, including our earnings, financial condition, restrictions imposed by the Credit Facility and the terms of any other indebtedness that may be outstanding, cash requirements, future prospects and other factors deemed relevant by our board of directors. The Credit Facility permits payments of dividends as long as no default or event of default exists and the consolidated leverage ratio specified in the Credit Facility is not exceeded.

During the second quarter of 2007, our board of directors adopted a regular quarterly cash dividend program. Our board of directors authorized a \$0.10 per common share cash dividend each quarter from the adoption of the program through the second quarter of 2010. On August 2, 2010, we announced that our board of directors approved an increase in the quarterly cash dividend to \$0.13 per common share, an increase of \$0.03 per common share from prior quarters. On May 2, 2011, we announced that our board of directors approved an increase in the quarterly cash dividend to \$0.20 per common share, an increase of \$0.07 per common share from prior quarters. On February 21, 2012, we announced that our board of directors approved an increase in the quarterly cash dividend to \$0.30 per common share, an increase of \$0.10 per common share from prior quarters.

The aggregate amount of dividends paid and declared during fiscal year 2012, 2011, and 2010, was approximately \$135.1 million, \$85.5 million, and \$53.7 million, respectively.

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

As of December 31, 2012 and December 31, 2011, we had positive working capital of \$221.7 million and \$206.1 million, respectively, or an increase of \$15.6 million. This increase was primarily related to the increase in our cash and cash equivalents, receivables and inventories, partially offset by the increases in our current liabilities primarily related to our accounts payables, royalty overrides, accrued expenses, and current portion of long-term debt. The increase in receivables primarily relates to increases in receivables from credit card companies due to the sales growth of our business. The increase in inventory primarily relates to increases in finished goods to support sales growth and strategic sourcing initiatives.

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

The majority of our purchases from suppliers are generally made in U.S. dollars, while sales to our distributors generally are made in local currencies. Consequently, strengthening of the U.S. dollar versus a foreign currency can have a negative impact on net sales and contribution margins and can generate transaction losses on intercompany transactions. For discussion of our foreign exchange contracts and other hedging arrangements, see Item 7A *Quantitative and Qualitative Disclosures about Market Risk* in the Original 10-K.

### ***Currency Restrictions in 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 rates from the Venezuelan government and its foreign exchange commission, CADIVI. The application and approval process continue to be delayed and our ability to timely obtain U.S. dollars at the official exchange rates remains uncertain.

In June 2010, the Venezuelan government introduced additional regulations under a new regulated system, SITME, which is controlled by the Central Bank of Venezuela. SITME provides a mechanism to exchange Bolivars into U.S. dollars through the purchase and sale of U.S. dollar denominated bonds issued in Venezuela. However, SITME is only available in certain limited circumstances. Specifically, SITME can only be used for product purchases and is not available for other matters such as the payment

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of dividends. Also, SITME can only be used for amounts of up to \$50,000 per day and \$350,000 per month and is generally only available to the extent the applicant has not exchanged and received U.S. dollars via the CADIVI process within the previous 90 days. Effective January 1, 2012, additional laws were enacted that required companies to register with the Registry of Users of the System of Transactions with Securities in Foreign Currency, or RUSITME, prior to transacting with the SITME, the regulated system, which is controlled by the Central Bank of Venezuela. As an alternative exchange mechanism, we have also participated in certain bond offerings from the Venezuelan government and from Petróleos de Venezuela, S.A. or PDVSA, a Venezuelan state-owned petroleum company, where we effectively purchased bonds with our Bolivars and then sold the bonds for U.S. dollars. In other instances, we have also used other alternative legal exchange mechanisms for currency exchanges.

*Highly Inflationary Economy and Accounting in Venezuela*

Venezuela's inflation rate as measured using the blended National Consumer Price Index and Consumer Price Index rate exceeded a three-year cumulative inflation rate of 100% as of December 31, 2009. Accordingly, effective January 1, 2010, Venezuela was considered a highly inflationary economy. Pursuant to the highly inflationary basis of accounting under U.S. GAAP, Herbalife Venezuela changed its functional currency from the Bolivar to the U.S. dollar. Subsequent movements in the Bolivar to U.S. dollar exchange rate will impact the Company's consolidated earnings. Prior to January 1, 2010 when the Bolivar was the functional currency, movements in the Bolivar to U.S. dollar were recorded as a component of equity through other comprehensive income. Pursuant to highly inflationary accounting rules, we no longer translate Herbalife Venezuela's financial statements as its functional currency is the U.S. dollar.

Based on relevant facts and circumstances at the applicable times, under the highly inflationary basis of accounting, we used the parallel market exchange rate for remeasurement purposes until the parallel market was discontinued in May 2010. On January 1, 2010, in connection with the determination that Venezuela was a highly inflationary economy, we remeasured Herbalife Venezuela's opening balance sheet's monetary assets and liabilities at the parallel market rate and recorded a non-tax deductible foreign exchange loss of \$15.1 million. Nonmonetary assets, such as inventory, reported on our consolidated balance sheet at December 31, 2009, remained at historical cost subsequent to Venezuela becoming a highly inflationary economy. Therefore, the incremental costs related to our 2009 imported products recorded at the parallel market exchange rate negatively impacted our consolidated statement of income for the year ended December 31, 2010 by approximately \$12.7 million as these products were sold during the first quarter of 2010. This amount is not tax deductible. See Note 12, *Income Taxes*, for additional discussion on the income tax impact related to Venezuela becoming a highly inflationary economy.

*Official Exchange Rate Devaluations in Venezuela*

In early January 2010, Venezuela announced an official exchange rate devaluation of the Bolivar to an official rate of 4.3 Bolivars per U.S. dollar for non-essential items and 2.6 Bolivars per U.S. dollar for essential items. Our imports use to fall into both classifications. During 2010, because we used the parallel market exchange rate for remeasurement purposes until the parallel market was discontinued in May 2010 and then used the SITME rate thereafter, any U.S. dollars obtained from CADIVI at the official rate had a positive impact to our consolidated net earnings. The majority of Herbalife Venezuela's 2010 importations were not registered with CADIVI so the official exchange rates were not available to pay for these U.S. imports.

In late December 2010, Venezuela announced the CADIVI official exchange rate of 2.6 Bolivars per U.S. dollar would be eliminated. The CADIVI official exchange of 4.3 Bolivars per U.S. dollar is used for all essential items and non-essential items beginning January 2011. This devaluation did not have a material impact on our consolidated financial statements since the SITME rate was used for remeasurement purposes.

*Remeasurement of Herbalife Venezuela's Monetary Assets and Liabilities*

We recorded \$5.8 million of foreign exchange gains to selling, general and administrative expenses within our consolidated statement of income for the year ended December 31, 2010, as a result of receiving U.S. dollars approved by CADIVI at the favorable official exchange rate compared to the less favorable parallel market and SITME rates. During the second quarter of 2010, we also recorded a \$4.0 million pre-tax (\$2.6 million post-tax) net foreign exchange gain to selling, general and administrative expenses, within our consolidated statement of income, as a result of remeasuring its Bolivar denominated monetary assets and liabilities as of June 30, 2010 at the SITME rate of 5.3 Bolivars per U.S. dollar as opposed to the last parallel market rate prior to the closure of the parallel market in May 2010 of 8.3 Bolivars per U.S. dollar. During the third quarter of 2010 and thereafter, we continued to use the SITME rate of 5.3 Bolivars per U.S. dollar to remeasure its Bolivar denominated transactions.

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In February 2011, Herbalife Venezuela purchased U.S. dollar denominated bonds with a face value of \$20 million U.S. dollars in a bond offering from PDVSA for 86 million Bolivars and then immediately sold the bonds for \$15 million U.S. dollars, resulting in an average effective conversion rate of 5.7 Bolivars per U.S. dollar. This Bolivar to U.S. dollar conversion resulted in us recording a net pre-tax loss of \$1.3 million U.S. dollars during the first quarter of 2011 which is included in its consolidated statement of income for the year ended December 31, 2011. We were unsuccessful in accessing any subsequent PDVSA bond offerings and the frequency of future bond offerings is unknown. During 2011, we also accessed the SITME market in order to exchange its Bolivars to U.S. dollars. In less frequent instances, we have also accessed alternative legal exchange mechanisms, to exchange Bolivars for U.S. dollars, at less favorable rates than the SITME rate, which resulted in us recognizing \$1.2 million of losses in selling, general and administration expenses included within our consolidated statement of income for the year ended December 31, 2011.

During the year ended December 31, 2012, we continued accessing the SITME market in order to exchange its Bolivars to U.S. dollars and the daily and monthly restrictions continue. In other instances, we recognized an aggregate of \$4.8 million of foreign exchange losses as a result of exchanging Bolivars for U.S. dollars using alternative legal exchange mechanisms that were on average approximately 43% less favorable than the 5.3 Bolivars per U.S. dollar published SITME rate. During the year ended December 31, 2012, we have exchanged 59.2 million Bolivars for \$6.4 million U.S. dollars using these alternative legal exchange mechanisms. We continue to remeasure our Bolivars at the published SITME rate given the limited availability of alternative exchange mechanisms and the uncertainty in the effective exchange rate for alternative exchange mechanisms.

As of December 31, 2012 and December 31, 2011, Herbalife Venezuela's net monetary assets and liabilities denominated in Bolivars was approximately \$82.9 million and \$26.8 million, respectively, and included approximately \$99.2 million and \$34.8 million, respectively, in Bolivar denominated cash and cash equivalents. Our Bolivar denominated cash and cash equivalents increased during 2012, primarily due to the current exchange restrictions in Venezuela which has limited our ability to timely exchange our Bolivars to U.S. dollars. These remeasured amounts, including cash and cash equivalents, being reported on our consolidated balance sheet using the published SITME rate of 5.3 Bolivars per U.S. dollar may not accurately represent the amount of U.S. dollars that we could ultimately realize. While we continue to monitor the exchange mechanisms and restrictions under SITME, and assess and monitor the current economic and political environment in Venezuela, there is no assurance that we will be able to exchange Bolivars into U.S. dollars on a timely basis.

*Consolidation of Herbalife Venezuela and Foreign Exchange Risk*

We plan to continue our operation in Venezuela and to import products into Venezuela despite the foreign currency constraints that exist in the country. Herbalife Venezuela will continue to apply for legal exchange mechanisms to convert its Bolivars to U.S. dollars. Despite the currency exchange restrictions in Venezuela, we continue to control Herbalife Venezuela and its operations. The mere existence of the exchange restrictions discussed above does not in and of itself create a presumption that this lack of exchangeability is other-than-temporary, nor does it create a presumption that an entity should deconsolidate its Venezuelan operations. Therefore, we continue to consolidate Herbalife Venezuela in our consolidated financial statements for U.S. GAAP purposes.

We plan to utilize the SITME market and CADIVI rate to the extent allowable under current restrictions in order to exchange Bolivars for U.S. dollars. We also plan to access government, PDVSA bond offerings, and alternative legal exchange mechanisms when they are made available. As discussed above, these alternative legal exchange mechanisms could cause us to recognize significant foreign exchange losses if they are less favorable than the SITME rate, which could also result in our Bolivar denominated cash and cash equivalents reported on our consolidated balance sheet being significantly reduced. To illustrate our sensitivity to potential future changes in the SITME rate or



using unfavorable alternative legal exchange mechanisms to exchange Bolivars to U.S. dollars, if the exchange rate was approximately 43% less favorable than the current 5.3 SITME rate and this unfavorable exchange rate was used to convert our Bolivar denominated cash and cash equivalents as of December 31, 2012, our \$99.2 million in Bolivar denominated cash and cash equivalents as of December 31, 2012 would be reduced by \$42.2 million and result in a corresponding foreign exchange loss to our operating profit. This 43% less favorable exchange rate is not necessarily representative of exchange rates which could be available to us for future exchanges and represents the weighted average rate that we received when using alternative exchange mechanisms during fiscal year 2012. Our ability to access the official exchange rate and the SITME rate could impact what exchange rates will be used for remeasurement purposes in future periods. We continue to assess and monitor the current economic and political environment in Venezuela.

Although Venezuela is an important market in our South and Central America Region, Herbalife Venezuela's net sales represented approximately 4%, 2%, and 2% of our consolidated net sales for the years ended December 31, 2012, 2011, and 2010, respectively, and its total assets represented approximately 7% and 3% of our consolidated total assets as of December 31, 2012 and 2011, respectively. See *Subsequent Events* below for further discussion of Herbalife Venezuela.

**Table of Contents****Quarterly Results of Operations**

	<b>Quarter Ended</b>							
	<b>December 31, 2012</b>	<b>September 30, 2012</b>	<b>June 30, 2012</b>	<b>March 31, 2012</b>	<b>December 31, 2011</b>	<b>September 30, 2011</b>	<b>June 30, 2011</b>	<b>March 31, 2011</b>
	<b>(In thousands except per share data)</b>							
<b>Operations:</b>								
Net sales	\$ 1,059,320	\$ 1,016,887	\$ 1,031,948	\$ 964,175	\$ 884,569	\$ 895,218	\$ 879,654	\$ 795,096
Cost of sales	211,105	201,597	203,737	196,144	170,960	175,308	171,023	162,793
Gross profit	848,215	815,290	828,211	768,031	713,609	719,910	708,631	632,303
Royalty overrides	355,658	330,247	335,195	317,533	293,109	290,842	289,232	264,377
Selling, general and administrative expenses	332,764	324,200	306,310	296,393	286,151	277,721	266,225	244,526
Operating income	159,793	160,843	186,706	154,105	134,349	151,347	153,174	123,400
Interest expense, net	2,453	3,546	3,169	1,373	(1,357)	345	855	2,648
Income before income taxes	157,340	157,297	183,537	152,732	135,706	151,002	152,319	120,752
Income taxes(1)	45,133	45,424	51,586	44,801	25,634	43,543	43,718	31,925
Net income(1)	\$ 112,207	\$ 111,873	\$ 131,951	\$ 107,931	\$ 110,072	\$ 107,459	\$ 108,601	\$ 88,827
<b>Earnings per share</b>								
Basic(1)	\$ 1.04	\$ 1.03	\$ 1.13	\$ 0.93	\$ 0.95	\$ 0.92	\$ 0.91	\$ 0.75
Diluted(1)	\$ 1.00	\$ 0.98	\$ 1.09	\$ 0.88	\$ 0.90	\$ 0.86	\$ 0.86	\$ 0.71
<b>Weighted average shares outstanding</b>								
Basic	107,444	108,816	116,557	116,191	115,989	116,975	119,007	118,206
Diluted	112,230	113,646	121,482	122,373	122,640	124,275	126,617	125,625

- (1) Income taxes, net income, basic earnings per share, and diluted earnings per share for the disclosed quarterly periods during the years ended December 31, 2012 and 2011 have been revised due to the Prior Period Errors. See Note 2, *Basis of Presentation*, to the Consolidated Financial Statements for information on these income tax errors and the related revisions.

**Contingencies**

See Note 7, *Contingencies*, to the Consolidated Financial Statements for information on our contingencies as of December 31, 2012.

### **Subsequent Events**

On February 19, 2013, we announced that our board of directors approved a quarterly cash dividend of \$0.30 per common share to shareholders of record as of March 5, 2013, payable on March 19, 2013.

Subsequent to the year-ended December 31, 2012, borrowings under our revolving credit facility, excluding the Term Loan portion, increased to \$500.0 million, and there was approximately \$195.2 million of unused available credit as of February 19, 2013. These borrowed monies were primarily used for common share repurchases under our share repurchase program described below. As of February 19, 2013, we had approximately \$987.5 million of total borrowings outstanding under the Credit Facility, including the Term Loan and revolving credit facility.

During January and February 2013, we repurchased approximately 4.0 million of our common shares through open market purchases at an aggregate cost of approximately \$162.4 million, or an average cost of \$40.61 per share.

In February 2013, the Venezuela government announced it is devaluing its Bolivar currency. They announced that the current 5.3 SITME rate will be eliminated and that the CADIVI rate will be devalued from 4.3 Bolivars to 6.3 Bolivars per U.S. dollar. As of December 31, 2012, Herbalife Venezuela's net monetary assets and liabilities denominated in Bolivars was approximately \$82.9 million and included approximately \$99.2 million in Bolivar denominated cash and cash equivalents which were remeasured at the published SITME rate of 5.3 Bolivars per U.S. dollar. This new 6.3 CADIVI rate is 16% less favorable than the previously published 5.3 SITME rate. If during 2013, this new 6.3 CADIVI rate or an alternative unfavorable exchange rate is used for remeasurement purposes, then we will have to record a foreign exchange loss to our fiscal year 2013 consolidated statement of income to the extent this exchange rate is less favorable than the previously published 5.3 SITME rate, and our Bolivar denominated cash and cash equivalents will have to be reduced accordingly. If during the first quarter of 2013, we were to use the 6.3 CADIVI rate to remeasure

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Herbalife Venezuela's \$82.9 million net monetary Bolivar denominated assets and liabilities, then we would recognize an approximate \$14 million pre-tax foreign exchange loss to our 2013 consolidated statement of income and our \$99.2 million Bolivar denominated cash and cash equivalents, which is included in our Bolivar denominated monetary assets, would be reduced by approximately \$16 million. We continue to monitor the current exchange restrictions in Venezuela and we are currently assessing what exchange rate we should use prospectively for remeasurement purposes.

In late 2012, a hedge fund manager publicly raised allegations regarding the legality of our network marketing program and announced that the hedge fund manager had taken a significant short position regarding our common shares, leading to intense public scrutiny and significant stock price volatility. We believe that the hedge fund manager's allegations are inaccurate and misleading. Subsequently, we have engaged legal and advisory firms to assist with responding to the allegations and to perform other related services in connection to these recent events.

## **Critical Accounting Policies**

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

We are a nutrition company that sells a wide range of weight management products, nutritional supplements, energy, sports & fitness products and personal care products within one industry segment as defined under Financial Accounting Standard Board, or FASB, Accounting Standards Codification, or ASC, Topic 280, *Segment Reporting*. Our products are manufactured by third party providers and manufactured in our Suzhou, China facility, and in our manufacturing facility located in Lake Forest, California, and then are sold to independent distributors who sell Herbalife products to retail consumers or other distributors. As of December 31, 2012, we sold products in 88 countries throughout the world and we are organized and managed by geographic region. We have elected to aggregate our operating segments into one reporting segment, except China, as management believes that our operating segments have similar operating characteristics and similar long term operating performance. In making this determination, management believes that the operating segments are similar in the nature of the products sold, the product acquisition process, the types of customers to whom products are sold, the methods used to distribute the products, and the nature of the regulatory environment.

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

Allowances for product returns, primarily in connection with our buyback program, are provided at the time the product is shipped. This accrual is based upon historical return rates for each country and the relevant return pattern, which reflects anticipated returns to be received over a period of up to 12 months following the original sale. Historically, product returns and buybacks have not been significant. Product returns and buybacks were approximately 0.3%, 0.4%, and 0.4% of product sales for the years ended December 31, 2012, 2011 and 2010, respectively.

We adjust our inventories to lower of cost or market. Additionally we adjust the carrying value of our inventory based on assumptions regarding future demand for our products and market conditions. If future demand and market conditions are less favorable than management's assumptions, additional inventory write-downs could be required. Likewise, favorable future demand and market conditions could positively impact future operating results if previously written down inventories are sold. We have obsolete and slow moving inventories which have been adjusted downward \$18.0 million and \$17.6 million to present them at their lower of cost or market in our consolidated balance sheets as of December 31, 2012 and December 31, 2011, respectively.

Goodwill and marketing related intangible assets not subject to amortization are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. As discussed below, for goodwill impairment testing, we have the option to perform a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If we conclude it is not more likely than not that the

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fair value of a reporting unit is less than its carrying amount, then there is no need to perform the two-step impairment test. Currently, we do not use this qualitative assessment option but we could in the future elect to use this option. For our marketing related intangible assets a similar qualitative option is also currently available. However, we currently use a discounted cash flow model, or the income approach, under the relief-from-royalty method to determine the fair value of our marketing related intangible assets in order to confirm there is no impairment required. For our marketing related intangible assets, if we do not use this qualitative assessment option, we could still in the future elect to use this option.

In order to estimate the fair value of goodwill, we also primarily use an income approach. The determination of impairment is made at the reporting unit level and consists of two steps. First, we determine the fair value of a reporting unit and compare it to its carrying amount. The determination of the fair value of the reporting units requires us to make significant estimates and assumptions. These estimates and assumptions include estimates of future revenues and expense growth rates, capital expenditures and the depreciation and amortization related to these capital expenditures, discount rates, and other inputs. Due to the inherent uncertainty involved in making these estimates, actual future results could differ. Changes in assumptions regarding future results or other underlying assumptions could have a significant impact on the fair value of the reporting unit. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill and other intangibles over the implied fair value as determined in Step 2 of the goodwill impairment test. Also, if during Step 1 of a goodwill impairment test we determine we have reporting units with zero or negative carrying amounts, then we perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. During Step 2 of a goodwill impairment test, the implied fair value of goodwill is determined in a similar manner as how the amount of goodwill recognized in a business combination is determined, in accordance with FASB ASC Topic 805, *Business Combinations*. We would assign the fair value of a reporting unit to all of the assets and liabilities of that reporting unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. As of both December 31, 2012 and December 31, 2011, we had goodwill of approximately \$105.5 million and marketing related intangible assets of approximately \$310.0 million. No marketing related intangibles or goodwill impairment was recorded during the years ended December 31, 2012, 2011, and 2010, as their estimated fair value significantly exceeded their carrying amounts.

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

Deferred income tax assets have been established for net operating loss and interest carryforwards of certain foreign subsidiaries and have been reduced by a valuation allowance to reflect them at amounts estimated to be ultimately realized. Although realization is not assured, we believe it is more likely than not that the net carrying value will be realized. The amount of the carryforwards that is considered realizable, however, could change if estimates of future taxable income are adjusted. In the ordinary course of our business, there are many transactions and calculations where the tax law and ultimate tax determination is uncertain. As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate

prior to the completion and filing of tax returns for such periods. This process requires estimating both our geographic mix of income and our uncertain tax positions in each jurisdiction where we operate. These estimates involve complex issues and require us to make judgments about the likely application of the tax law to our situation, as well as with respect to other matters, such as anticipating the positions that we will take on tax returns prior to us actually preparing the returns and the outcomes of disputes with tax authorities. The ultimate resolution of these issues may take extended periods of time due to examinations by tax authorities and statutes of limitations. In addition, changes in our business, including acquisitions, changes in our international corporate structure, changes in the geographic location of business functions or assets, changes in the geographic mix and amount of income, as well as changes in our agreements with tax authorities, valuation allowances, applicable accounting rules, applicable tax laws and regulations, rulings and interpretations thereof, developments in tax audit and other matters, and variations in the estimated and actual level of annual pre-tax income can affect the overall effective income tax rate.

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

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

### **Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Our consolidated financial statements and notes thereto and the reports of PricewaterhouseCoopers LLP, independent registered public accounting firm, are set forth in the Index to Financial Statements under Item 15 *Exhibits and Financial Statement Schedules* of this Amendment, and is incorporated herein by reference.

### **Item 9A. CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based on an evaluation of the Company's disclosure controls and procedures as of December 31, 2012 conducted by the Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, and notwithstanding the Prior Period Errors disclosed in Note 2, *Basis of Presentation*, to the Consolidated Financial Statements, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2012.

#### **Management's Report on Internal Control over Financial Reporting**

The SEC, as directed by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules which require the Company to include in this Amendment, an assessment by management of the effectiveness of the Company's internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. In addition, the Company's independent auditors must attest to and report on the effectiveness of the Company's internal control over financial reporting.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The Company's management carried out an evaluation, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's internal control over financial reporting as of December 31, 2012 based on the framework in Internal Control - Integrated Framework



issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this evaluation, under the framework in Internal Control – Integrated Framework, and notwithstanding the Prior Period Errors disclosed in Note 2, *Basis of Presentation*, to the Consolidated Financial Statements, our management concluded that our internal control over financial reporting was effective as of December 31, 2012.

The effectiveness of the Company’s internal control over financial reporting as of December 31, 2012 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report in Item 8 of this Amendment.

#### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act that occurred during the fourth quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART III.****Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES****Fees to Independent Registered Public Accountants for Fiscal 2011 and 2012**

Following the resignation of KPMG LLP as the Company's independent registered public accounting firm on April 8, 2013, the Audit Committee of the Company's Board of Directors engaged PricewaterhouseCoopers LLP, or PwC, on May 21, 2013, to serve as the Company's new independent registered public accounting firm to audit the Company's financial statements for its fiscal year ending December 31, 2013 and to re-audit the Company's financial statements for the fiscal years ended December 31, 2010, 2011 and 2012 included in the Original 10-K, including the audit of the Company's internal control over financial reporting as of December 31, 2012 required by Section 404 of the Sarbanes-Oxley Act of 2002. PwC has provided audit services in the aggregate amount of approximately \$15 million for the re-audit of the financial statements for the years ended December 31, 2010, 2011 and 2012, included within this Amendment.

As previously disclosed, the following services were provided by KPMG LLP during fiscal years 2011 and 2012:

	<b>2011</b>	<b>2012</b>
Audit Fees(1)	\$ 3,839,000	\$ 3,940,000
Audit-related fees(2)		\$ 82,000
Tax fees(3)	\$ 474,000	\$ 773,000
All other fees		
<b>Total</b>	<b>\$ 4,313,000</b>	<b>\$ 4,795,000</b>

- (1) Audit fees consist of fees for professional services rendered for the audit of the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, including the audit of internal controls required by Section 404 of the Sarbanes-Oxley Act of 2002, and the review of financial statements included in the Company's Quarterly Reports on Form 10-Q, and for services that are normally provided by the auditor in connection with statutory and regulatory filings or engagements.
- (2) Audit-related fees consist of assurance and related services that were reasonably related to the performance of the audit or review of the Company's consolidated financial statements and which are not reported above under Audit fees. These fees primarily relate to accounting consultation services.
- (3) Tax fees were billed for the following services: tax compliance and international tax guidance.

**Pre-Approval Policy**

The audit committee has adopted pre-approval policies and procedures for audit and non-audit services which the Company's independent auditors have historically provided. Pursuant to those policies and procedures, the Company's external auditor cannot be engaged to provide any audit or non-audit services to the Company unless the engagement is pre-approved by the audit committee in compliance with the Sarbanes-Oxley Act of 2002. All fees and services described above were pre-approved pursuant to this policy.



**Table of Contents****PART IV****Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

The following documents are filed as part of this Amendment, or incorporated herein by reference:

1. *Financial Statements.* The following financial statements of Herbalife Ltd. are filed as part of this Amendment on the pages indicated:

	<b>Page No.</b>
<b>HERBALIFE LTD. AND SUBSIDIARIES</b>	
<u>Report of Independent Registered Public Accounting Firm</u>	38
<u>Consolidated Balance Sheets as of December 31, 2012 and 2011</u>	39
<u>Consolidated Statements of Income for the years ended December 31, 2012, 2011 and 2010</u>	40
<u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010</u>	41
<u>Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2012, 2011 and 2010</u>	42
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010</u>	43
<u>Notes to Consolidated Financial Statements</u>	44

2. *Financial Statement Schedules.* Schedules are omitted because the required information is inapplicable, not material, or the information is presented in the consolidated financial statements or related notes.

3. *Exhibits.* The exhibits listed in the Exhibit Index immediately below are filed as part of this Amendment, or are incorporated by reference herein.

**EXHIBIT INDEX**

<b>Exhibit</b>		
<b>Number</b>	<b>Description</b>	<b>Reference</b>
3.1	Form of Amended and Restated Memorandum and Articles of Association of Herbalife Ltd.	(d)
4.1	Form of Share Certificate	(d)
10.1	Form of Indemnity Agreement between Herbalife International Inc. and certain officers and directors of Herbalife International, Inc.	(a)
10.2#	Herbalife International of America, Inc.'s Senior Executive Deferred Compensation Plan, effective January 1, 1996, as amended	(a)
10.3#	Herbalife International of America, Inc.'s Management Deferred Compensation Plan, effective January 1, 1996, as amended	(a)

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10.4#	Master Trust Agreement between Herbalife International of America, Inc. and Imperial Trust Company, Inc., effective January 1, 1996	(a)
10.5#	Herbalife International Inc. 401K Profit Sharing Plan and Trust, as amended	(a)
10.6	Notice to Distributors regarding Amendment to Agreements of Distributorship, dated as of July 18, 2002 between Herbalife International, Inc. and each Herbalife Distributor	(a)
10.7	Indemnity agreement dated as of July 31, 2002, by and among WH Holdings (Cayman Islands) Ltd., WH Acquisition Corp., Whitney & Co., LLC, Whitney V, L.P., Whitney Strategic Partners V, L.P., GGC Administration, L.L.C., Golden Gate Private Equity, Inc., CCG Investments (BVI), L.P., CCG Associates-AI, LLC, CCG Investment Fund-AI, LP, CCG AV, LLC-Series C, CCG AV, LLC-Series C, CCG AV, LLC-Series E, CCG Associates-QP, LLC and WH Investments Ltd.	(a)
10.8#	WH Holdings (Cayman Islands) Ltd. Stock Incentive Plan, as restated, dated as of November 5, 2003	(a)
10.9#	Non-Statutory Stock Option Agreement, dated as of April 3, 2003 between WH Holdings (Cayman Islands) Ltd. and Michael O. Johnson	(a)
10.10#	Side Letter Agreement dated as of April 3, 2003 by and among WH Holdings (Cayman Islands) Ltd., Michael O. Johnson and the Shareholders listed therein	(a)
10.11#	Form of Non-Statutory Stock Option Agreement (Non-Executive Agreement)	(a)
10.12#	Form of Non-Statutory Stock Option Agreement (Executive Agreement)	(a)
10.13	Indemnity Agreement, dated as of February 9, 2004, among WH Capital Corporation and Brett R. Chapman	(a)
10.14#	First Amendment to Amended and Restated WH Holdings (Cayman Islands) Ltd. Stock Incentive Plan, dated November 5, 2003	(a)

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<b>Number</b>	<b>Description</b>	<b>Reference</b>
10.15	Registration Rights Agreement, dated as of July 31, 2002, by and among WH Holdings (Cayman Islands) Ltd., Whitney V, L.P., Whitney Strategic Partners V, L.P., WH Investments Ltd., CCG Investments (BVI), L.P., CCG Associates-QP, LLC, CCG Associates-AI, LLC, CCG Investment Fund-AI, L.P., CCG AV, LLC-Series C and CCG AV, LLC-Series E.	(b)
10.16	Share Purchase Agreement, dated as of July 31, 2002, by and among WH Holdings (Cayman Islands) Ltd., Whitney Strategic Partners V, L.P., WH Investments Ltd., Whitney V, L.P., CCG Investments (BVI), L.P., CCG Associates-QP, LLC, CCG Associates-AI, LLC, CCG Investment Fund-AI, LP, CCG AV, LLC-Series C and CCG AV, LLC-Series E.	(b)
10.17	Form of Indemnification Agreement between Herbalife Ltd. and the directors and certain officers of Herbalife Ltd.	(c)
10.18#	Herbalife Ltd. 2004 Stock Incentive Plan, effective December 1, 2004	(c)
10.19	Indemnification Agreement, dated as of December 13, 2004, by and among Herbalife Ltd., Herbalife International, Inc., Whitney V, L.P., Whitney Strategic Partners V, L.P., CCG Investments (BVI), L.P., CCG Associates-QP, LLC, CCG Associates-AI, LLC, CCG Investment Fund-AI, LP, CCG AV, LLC-Series C, CCG AV, LLC-Series E, CCG CI, LLC and GGC Administration, LLC.	(d)
10.20#	Amendment No. 1 to Herbalife Ltd. 2004 Stock Incentive Plan	(e)
10.21#	Form of 2004 Herbalife Ltd. 2004 Stock Incentive Plan Stock Option Agreement	(l)
10.22#	Form of 2004 Herbalife Ltd. 2004 Stock Incentive Plan Non-Employee Director Stock Option Agreement	(l)
10.23#	Amended and Restated Herbalife Ltd. 2005 Stock Incentive Plan	(f)
10.24#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement	(p)
10.25#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement	(p)
10.26#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Michael O. Johnson	(p)
10.27#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Michael O. Johnson	(p)
10.28#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Messrs. Richard P. Goudis and Brett R. Chapman	(p)
10.29#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Messrs. Richard P. Goudis and Brett R. Chapman	(p)
10.30#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Mr. Michael O. Johnson	(s)
10.31#		(s)

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	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Mr. Michael O. Johnson	
10.32#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Messrs. Brett R. Chapman and Richard Goudis	(s)
10.33#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Messrs. Brett R. Chapman and Richard Goudis	(s)
10.34#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement	(s)
10.35#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement	(s)
10.36#	Herbalife Ltd. Employee Stock Purchase Plan	(g)
10.37#	Employment Agreement dated as of March 27, 2008 between Michael O. Johnson and Herbalife International of America, Inc.	(h)
10.38#	Stock Unit Award Agreement by and between Herbalife Ltd. and Michael O. Johnson, dated March 27, 2008.	(h)
10.39#	Stock Appreciation Right Award Agreement by and between Herbalife Ltd. and Michael O. Johnson, dated March 27, 2008.	(h)
10.40#	Stock Appreciation Right Award Agreement by and between Herbalife Ltd. and Michael O. Johnson, dated March 27, 2008.	(h)
10.41#	Amendment to Herbalife International Inc. 401K Profit Sharing Plan and Trust	(i)
10.42#	Form of Independent Directors Stock Appreciation Right Award Agreement	(j)
10.43#	Herbalife Ltd. Amended and Restated Independent Directors Deferred Compensation and Stock Unit Plan	(j)
10.44#	Amended and Restated Employment Agreement by and between Richard P. Goudis and Herbalife International of America, Inc., dated as of January 1, 2010.	(k)
10.45#	First Amendment to the Amended and Restated Employment Agreement by and between Richard P. Goudis and Herbalife International of America, Inc., dated as of December 28, 2010.	(n)

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<b>Number</b>	<b>Description</b>	<b>Reference</b>
10.46#	First Amendment to the Amended and Restated Employment Agreement by and between Brett R. Chapman and Herbalife International of America, Inc., dated as of December 26, 2010.	(n)
10.47#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement	(l)
10.48#	Amended and Restated Non-Management Directors Compensation Plan	(l)
10.49#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Non-Employee Directors Stock Appreciation Right Award Agreement	(l)
10.50#	Amended and Restated Employment Agreement by and between Brett Chapman and Herbalife International of America, Inc., dated as of June 1, 2010.	(m)
10.51#	Severance Agreement by and between John DeSimone and Herbalife International of America, Inc., dated as of February 23, 2011.	(o)
10.52#	Amended and Restated Severance Agreement, dated as of February 23, 2011, by Desmond Walsh and Herbalife International of America, Inc.	(o)
10.53	Credit Agreement, dated as of March 9, 2011, by and among Herbalife International, Inc. ( HII ), Herbalife Ltd., Herbalife International Luxembourg S.a.R.L., certain subsidiaries of HII as guarantors, the lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer.	(p)
10.54	First Amendment, dated July 26, 2012, to Credit Agreement, dated as of March 9, 2011, by and among Herbalife International, Inc. ( HII ), Herbalife Ltd., Herbalife International Luxembourg S.a.R.L., certain subsidiaries of HII as guarantors, the lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer.	(s)
10.55#	Amendment to Amended and Restated Herbalife Ltd. 2005 Stock Incentive Plan	(q)
10.56#	Stock Appreciation Right Award Agreement, dated August 4, 2011, by and between Herbalife Ltd. and Michael O. Johnson	(r)
10.57	Confirmation between Merrill Lynch International and Herbalife Ltd.	(s)
21.1	Subsidiaries of the Registrant	(t)
31.1	Rule 13a-14(a) Certification of Chief Executive Officer	*
31.2	Rule 13a-14(a) Certification of Chief Financial Officer	*
32.1	Section 1350 Certification of Chief Executive Officer	*
32.2	Section 1350 Certification of Chief Financial Officer	*
101.INS	XBRL Instance Document	*
101.SCH	XBRL Taxonomy Extension Schema Document	*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	*



101.LAB	XBRL Taxonomy Extension Label Linkbase Document	*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	*

\* Filed herewith.

# Management contract or compensatory plan or arrangement.

- (a) Previously filed on October 1, 2004 as an Exhibit to the Company's registration statement on Form S-1 (File No. 333-119485) and is incorporated herein by reference.
- (b) Previously filed on November 9, 2004 as an Exhibit to Amendment No. 2 to the Company's registration statement on Form S-1 (File No. 333-119485) and is incorporated herein by reference.
- (c) Previously filed on December 2, 2004 as an Exhibit to Amendment No. 4 to the Company's registration statement on Form S-1 (File No. 333-119485) and is incorporated herein by reference.
- (d) Previously filed on December 14, 2004 as an Exhibit to Amendment No. 5 to the Company's registration statement on Form S-1 (File No. 333-119485) and is incorporated herein by reference.
- (e) Previously filed on February 17, 2005 as an Exhibit to the Company's registration statement on Form S-8 (File No. 333-122871) and is incorporated herein by reference.
- (f) Previously filed on April 30, 2010 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (g) Previously filed on February 26, 2008 as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2007 and is incorporated herein by reference.
- (h) Previously filed on April 7, 2008 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.

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- (i) Previously filed on May 4, 2009 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 and is incorporated by reference.
- (j) Previously filed on May 3, 2010 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 and is incorporated by reference.
- (k) Previously filed on June 17, 2010 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (l) Previously filed on August 2, 2010 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 and is incorporated by reference.
- (m) Previously filed on August 3, 2010 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (n) Previously filed on December 29, 2010 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (o) Previously filed on March 1, 2011 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (p) Previously filed on May 2, 2011 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 and is incorporated by reference.
- (q) Previously filed on April 29, 2011 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (r) Previously filed on August 10, 2011 as an Exhibit to the Company's Current Report on Form 8-K, and is incorporated herein by reference.
- (s) Previously filed on July 30, 2012 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 and is incorporated herein by reference.
- (t) Previously filed on February 19, 2013 as an Exhibit to the Original 10-K and is incorporated herein by reference.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of Herbalife Ltd.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of Herbalife Ltd. and its subsidiaries at December 31, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting as of December 31, 2012 based on our audits (which was an integrated audit in 2012). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects as of December 31, 2012. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Los Angeles, California

December 16, 2013

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**HERBALIFE LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	December 31, 2012                  2011 (In thousands, except share amounts)	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 333,534	\$ 258,775
Receivables, net of allowance for doubtful accounts of \$2,273 (2012) and \$2,250 (2011)	116,139	89,660
Inventories	339,411	247,696
Prepaid expenses and other current assets	145,624	134,605
Deferred income taxes	49,339	54,949
<b>Total current assets</b>	<b>984,047</b>	<b>785,685</b>
<b>Property, plant and equipment at cost:</b>		
Land and Building	22,193	
Furniture and fixtures	8,625	6,020
Equipment	373,028	301,689
Leasehold improvements	94,902	79,729
	498,748	387,438
Less: accumulated depreciation and amortization	(255,862)	(193,735)
<b>Net property, plant and equipment</b>	<b>242,886</b>	<b>193,703</b>
Deferred compensation plan assets	24,267	20,511
Other assets	48,805	41,125
Deferred financing costs, net	7,462	4,797
Marketing related intangibles and other intangible assets, net	311,186	311,764
Goodwill	105,490	105,490
<b>Total assets</b>	<b>\$ 1,724,143</b>	<b>\$ 1,463,075</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 75,209	\$ 57,095
Royalty overrides	243,351	197,756
Accrued compensation	95,220	76,435
Accrued expenses	181,523	152,744
Current portion of long-term debt	56,302	1,542

Advance sales deposits	49,432	31,702
Income taxes payable	61,325	62,283
Total current liabilities	762,362	579,557
<b>NON-CURRENT LIABILITIES:</b>		
Long-term debt, net of current portion	431,305	202,079
Deferred compensation plan liability	29,454	23,702
Deferred income taxes	62,982	70,390
Other non-current liabilities	42,557	39,203
Total liabilities	1,328,660	914,931
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Common shares, \$0.001 par value, 1.0 billion shares authorized, 106.9 million (2012) and 115.8 million (2011) shares outstanding	107	116
Paid-in capital in excess of par value	303,975	291,950
Accumulated other comprehensive loss	(31,695)	(37,809)
Retained earnings	123,096	293,887
Total shareholders' equity	395,483	548,144
Total liabilities and shareholders' equity	\$ 1,724,143	\$ 1,463,075

See the accompanying notes to consolidated financial statements.

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**HERBALIFE LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(In thousands, except per share amounts)</b>		
Product sales	\$ 3,476,926	\$ 2,944,722	\$ 2,337,493
Shipping & handling revenues	595,404	509,815	396,733
Net sales	4,072,330	3,454,537	2,734,226
Cost of sales	812,583	680,084	558,811
Gross profit	3,259,747	2,774,453	2,175,415
Royalty overrides	1,338,633	1,137,560	900,248
Selling, general and administrative expenses	1,259,667	1,074,623	887,655
Operating income	661,447	562,270	387,512
Interest expense	16,736	9,864	9,664
Interest income	6,195	7,373	2,247
Income before income taxes	650,906	559,779	380,095
Income taxes	186,944	144,820	87,212
<b>NET INCOME</b>	<b>\$ 463,962</b>	<b>\$ 414,959</b>	<b>\$ 292,883</b>
Earnings per share			
Basic	\$ 4.13	\$ 3.53	\$ 2.46
Diluted	\$ 3.94	\$ 3.32	\$ 2.32
Weighted average shares outstanding			
Basic	112,359	117,540	119,004
Diluted	117,856	124,846	126,495

See the accompanying notes to consolidated financial statements.

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**HERBALIFE LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<b>Year Ended December 31, 2012</b>	<b>Year Ended December 31, 2011</b>	<b>Year Ended December 31, 2010</b>
	<b>(In thousands)</b>		
Net income	\$ 463,962	\$ 414,959	\$ 292,883
Other comprehensive income:			
Foreign currency translation adjustment, net of income taxes of \$283 (2012), (\$3,090) (2011), and \$0 (2010)	9,821	(16,757)	583
Unrealized (loss) gain on derivatives, net of income taxes of (\$1,161) (2012), \$1,455 (2011), and (\$1,222) (2010)	(3,707)	6,233	(4,472)
<b>Total other comprehensive income (loss)</b>	<b>6,114</b>	<b>(10,524)</b>	<b>(3,889)</b>
<b>Total comprehensive income</b>	<b>\$ 470,076</b>	<b>\$ 404,435</b>	<b>\$ 288,994</b>

See the accompanying notes to consolidated financial statements.



Table of Contents**HERBALIFE LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY**

	<b>Common Shares</b>	<b>Paid-in Capital in Excess of par Value</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Retained Earnings</b>	<b>Total Shareholders Equity</b>
<b>(In thousands, except per share amounts)</b>					
Balance at December 31, 2009	\$ 120	\$ 222,882	\$ (23,396)	\$ 151,612	\$ 351,218
Issuance of 3.3 million common shares from exercise of stock options, SARs, restricted stock units, and employee stock purchase plan	4	15,305			15,309
Excess tax benefit from exercise of stock options, SARs and restricted stock grants		9,254			9,254
Additional capital from share based compensation		22,969			22,969
Repurchases of 6.0 million common shares	(6)	(21,088)		(138,914)	(160,008)
Dividends and dividend equivalents (\$0.45 per share)		580		(54,320)	(53,740)
Net income				292,883	292,883
Foreign currency translation adjustment			583		583
Unrealized loss on derivatives, net of income taxes of (\$1,222)			(4,472)		(4,472)
Balance at December 31, 2010	\$ 118	\$ 249,902	\$ (27,285)	\$ 251,261	\$ 473,996
Issuance of 3.7 million common shares from exercise of stock options, SARs, restricted stock units, employee stock purchase plan, and 0.4 million from exercise of warrants	4	26,463			26,467
Excess tax benefit from exercise of stock options, SARs and restricted stock grants		26,241			26,241
Additional capital from share based compensation		24,133			24,133
Repurchases of 6.0 million common shares	(6)	(35,427)		(286,206)	(321,639)
Dividends and dividend equivalents (\$0.73 per share)		638		(86,127)	(85,489)
Net income				414,959	414,959
Foreign currency translation adjustment, net of income taxes of (\$3,090)			(16,757)		(16,757)
			6,233		6,233

Unrealized gain on derivatives, net of  
income taxes of \$1,455

Balance at December 31, 2011	\$ 116	\$ 291,950	\$ (37,809)	\$ 293,887	\$ 548,144
Issuance of 2.1 million common shares from exercise of stock options, SARs, restricted stock units, and employee stock purchase plan, and 0.4 million from exercise of warrants	3	11,261			11,264
Excess tax benefit from exercise of stock options, SARs and restricted stock grants		29,684			29,684
Additional capital from share based compensation		28,133			28,133
Repurchases of 11.5 million common shares	(12)	(57,655)		(499,060)	(556,727)
Dividends and dividend equivalents (\$1.20 per share)		602		(135,693)	(135,091)
Net income				463,962	463,962
Foreign currency translation adjustment, net of income taxes of \$283			9,821		9,821
Unrealized loss on derivatives, net of income taxes of (\$1,161)			(3,707)		(3,707)
Balance at December 31, 2012	\$ 107	\$ 303,975	\$ (31,695)	\$ 123,096	\$ 395,483

See the accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2012	2011	2010
	(In thousands)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 463,962	\$ 414,959	\$ 292,883
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	74,384	71,853	68,621
Excess tax benefits from share-based payment arrangements	(29,684)	(26,241)	(8,937)
Share based compensation expenses	27,906	24,133	22,969
Amortization of discount and deferred financing costs	1,797	1,007	500
Deferred income taxes	(7,758)	(21,271)	(33,338)
Unrealized foreign exchange transaction loss (gain)	2,121	9,403	(7,142)
Write-off of deferred financing costs		914	
Foreign exchange loss from adoption of highly inflationary accounting in Venezuela			15,131
Other	532	2,206	2,527
Changes in operating assets and liabilities:			
Receivables	(28,186)	(9,687)	(7,593)
Inventories	(82,177)	(84,880)	(31,516)
Prepaid expenses and other current assets	249	3,229	10,254
Other assets	(5,288)	(13,864)	(3,485)
Accounts payable	17,034	15,427	6,650
Royalty overrides	41,868	44,041	15,732
Accrued expenses and accrued compensation	39,440	28,749	31,092
Advance sales deposits	17,790	(1,538)	12,439
Income taxes	28,042	48,565	(2,450)
Deferred compensation plan liability	5,752	3,535	3,538
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>567,784</b>	<b>510,540</b>	<b>387,875</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property, plant and equipment	(121,524)	(90,408)	(68,125)
Proceeds from sale of property, plant and equipment	280	297	115
Deferred compensation plan assets	(3,756)	(1,975)	(1,126)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(125,000)</b>	<b>(92,086)</b>	<b>(69,136)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid	(135,091)	(85,489)	(53,740)
Borrowings from long-term debt	1,430,560	914,200	427,000
Principal payments on long-term debt	(1,146,580)	(888,865)	(499,451)

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Deferred financing costs	(4,460)	(5,718)	
Share repurchases	(556,727)	(321,639)	(160,008)
Excess tax benefits from share-based payment arrangements	29,684	26,241	8,937
Proceeds from exercise of stock options and sale of stock under employee stock purchase plan	11,373	22,262	15,309
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(371,241)</b>	<b>(339,008)</b>	<b>(261,953)</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>3,216</b>	<b>(11,221)</b>	<b>(17,037)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>74,759</b>	<b>68,225</b>	<b>39,749</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>258,775</b>	<b>190,550</b>	<b>150,801</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 333,534</b>	<b>\$ 258,775</b>	<b>\$ 190,550</b>
<b>CASH PAID DURING THE YEAR</b>			
Interest paid	\$ 14,268	\$ 8,800	\$ 9,295
Income taxes paid	\$ 169,725	\$ 118,906	\$ 111,497

See the accompanying notes to consolidated financial statements.

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**HERBALIFE LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**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 leading global nutrition company that sells weight management products, nutritional supplements, energy, sports & fitness products and personal care products utilizing network marketing distribution. As of December 31, 2012, the Company sold its products to and through a network of 3.2 million independent distributors, which included 0.2 million in China. In China, the Company currently 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. Basis of Presentation**

The Company's consolidated financial statements refer to Herbalife and its subsidiaries.

***Revision of Prior Period Financial Statements***

During the quarter ended June 30, 2013, in connection with preparing the interim financial information presented in the Quarterly Report on Form 10-Q for that period, prior period errors were identified which affected the interim period ended June 30, 2013, and the annual periods ended December 31, 2012, 2011 and 2010, including the applicable interim periods therein. These income tax errors primarily relate to income tax expenses calculated on intercompany inventory transactions and the Company's application of ASC 740-10-25-3(e) and ASC 810-10-45-8. As a result of its misapplication of these accounting standards, the Company's income tax expenses and net income within its consolidated statement of income were misstated. There were also certain amounts within the Company's other consolidated financial statements that were misstated. The Company has reflected the correction of these identified prior period errors in the periods in which they originated.

In evaluating whether the Company's previously issued consolidated financial statements were materially misstated, the Company considered the guidance in ASC Topic 250, *Accounting Changes and Error Corrections*, ASC Topic 250-10-S99-1, *Assessing Materiality*, and ASC Topic 250-10-S99-2, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. The Company concluded that these errors were not material, individually or in the aggregate, to any of the prior reporting periods, and therefore, amendments of previously filed reports were not required. If the entire correction was recorded in the second quarter of 2013, it is expected that the cumulative amount would not be material for the fiscal year ending December 31, 2013. As such, this cumulative amount could have been recorded as an out of period adjustment during the second quarter of 2013. However, because the Company is amending its Annual Report on Form 10-K for the fiscal year ended December 31, 2012 due to its predecessor auditors withdrawing their opinions, and will amend its Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2013, June 30, 2013, and September 30, 2013 that were deficient due to the absence of a Statement of Auditing Standards No. 100 review, the Company decided to revise its applicable prior period financial statements in the amendments to its Annual Report on Form 10-K and the Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2013 so that the financial statements included herein and therein do not include these income tax errors. The Company believes this approach is more beneficial to investors due to the Company's unusual facts and circumstances surrounding its predecessor auditors resigning and withdrawing their audit opinions and the Company being required to file amendments to its Annual Report on Form 10-K and

Quarterly Reports on Form 10-Q referenced above. As such, the revisions for these corrections are reflected herein and will be reflected in the financial information of the applicable prior periods and will be reflected in future filings containing such financial information.

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The effects of these prior period errors in the consolidated financial statements are as follows:

**Consolidated Balance Sheets**

	December 31, 2012		December 31, 2011	
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted
	(In thousands, except per share amount)			
Prepaid expenses and other current assets	\$ 125,425	\$ 145,624	\$ 117,073	\$ 134,605
Deferred income taxes	\$ 49,339	\$ 49,339	\$ 55,615	\$ 54,949
Total current assets	\$ 963,848	\$ 984,047	\$ 768,819	\$ 785,685
Total assets	\$ 1,703,944	\$ 1,724,143	\$ 1,446,209	\$ 1,463,075
Income taxes payable	\$ 15,854	\$ 61,325	\$ 31,415	\$ 62,283
Total current liabilities	\$ 716,891	\$ 762,362	\$ 548,689	\$ 579,557
Deferred income taxes	\$ 62,982	\$ 62,982	\$ 72,348	\$ 70,390
Total liabilities	\$ 1,283,189	\$ 1,328,660	\$ 886,021	\$ 914,931
Retained earnings	\$ 148,368	\$ 123,096	\$ 305,931	\$ 293,887
Total shareholders equity	\$ 420,755	\$ 395,483	\$ 560,188	\$ 548,144
Total liabilities and shareholders equity	\$ 1,703,944	\$ 1,724,143	\$ 1,446,209	\$ 1,463,075

**Consolidated Statements of Income**

	Three months Ended March 31, 2012 (Unaudited)		Three months Ended June 30, 2012 (Unaudited)		Three months Ended September 30, 2012 (Unaudited)	
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted
	(In thousands, except per share amount)					
Income taxes	\$ 44,570	\$ 44,801	\$ 50,169	\$ 51,586	\$ 39,518	\$ 45,424
Net Income	\$ 108,162	\$ 107,931	\$ 133,368	\$ 131,951	\$ 117,779	\$ 111,873
Basic earnings per share	\$ 0.93	\$ 0.93	\$ 1.14	\$ 1.13	\$ 1.08	\$ 1.03
Diluted earnings per share	\$ 0.88	\$ 0.88	\$ 1.10	\$ 1.09	\$ 1.04	\$ 0.98

	Three months Ended December 31, 2012 (Unaudited)		Three months Ended March 31, 2011 (Unaudited)		Three months Ended June 30, 2011 (Unaudited)	
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted
	(In thousands, except per share amount)					
Income taxes	\$ 39,459	\$ 45,133	\$ 32,733	\$ 31,925	\$ 41,139	\$ 43,718
Net Income	\$ 117,881	\$ 112,207	\$ 88,019	\$ 88,827	\$ 111,180	\$ 108,601
Basic earnings per share	\$ 1.10	\$ 1.04	\$ 0.74	\$ 0.75	\$ 0.93	\$ 0.91
Diluted earnings per share	\$ 1.05	\$ 1.00	\$ 0.70	\$ 0.71	\$ 0.88	\$ 0.86





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	Three months Ended September 30, 2011 (Unaudited)		Three months Ended December 31, 2011 (Unaudited)	
	As Previously		As Previously	
	Reported	As Adjusted	Reported	As Adjusted
	(In thousands, except per share amount)			
Income taxes	\$ 42,980	\$ 43,543	\$ 30,349	\$ 25,634
Net Income	\$ 108,022	\$ 107,459	\$ 105,357	\$ 110,072
Basic earnings per share	\$ 0.92	\$ 0.92	\$ 0.91	\$ 0.95
Diluted earnings per share	\$ 0.87	\$ 0.86	\$ 0.86	\$ 0.90

	Year Ended December 31, 2012		Year Ended December 31, 2011		Year Ended December 31, 2010	
	As Previously		As Previously		As Previously	
	Reported	As Adjusted	Reported	As Adjusted	Reported	As Adjusted
	(In thousands, except per share amount)					
Income taxes	\$ 173,716	\$ 186,944	\$ 147,201	\$ 144,820	\$ 80,880	\$ 87,212
Net Income	\$ 477,190	\$ 463,962	\$ 412,578	\$ 414,959	\$ 299,215	\$ 292,883
Basic earnings per share	\$ 4.25	\$ 4.13	\$ 3.51	\$ 3.53	\$ 2.51	\$ 2.46
Diluted earnings per share	\$ 4.05	\$ 3.94	\$ 3.30	\$ 3.32	\$ 2.37	\$ 2.32

**Consolidated Statements of Comprehensive Income**

	Year Ended December 31, 2012		Year Ended December 31, 2011		Year Ended December 31, 2010	
	As Previously		As Previously		As Previously	
	Reported	As Adjusted	Reported	As Adjusted	Reported	As Adjusted
	(In thousands, except per share amount)					
Net Income	\$ 477,190	\$ 463,962	\$ 412,578	\$ 414,959	\$ 299,215	\$ 292,883
Total comprehensive income	\$ 483,304	\$ 470,076	\$ 402,054	\$ 404,435	\$ 295,326	\$ 288,994

**Consolidated Statements of Changes in Shareholders' Equity**

	Paid-in Capital in Excess of par Value		Retained Earnings		Total Shareholders Equity	
	As Previously		As Previously		As Previously	
	Reported	As Adjusted	Reported	As Adjusted	Reported	As Adjusted
	(In thousands, except per share amount)					
Balance at December 31, 2009	\$ 222,882	\$ 222,882	\$ 159,705	\$ 151,612	\$ 359,311	\$ 351,218
Excess tax benefit from exercise of stock options, SARs and restricted stock grants	\$ 8,045	\$ 9,254			\$ 8,045	\$ 9,254
Net income			\$ 299,215	\$ 292,883	\$ 299,215	\$ 292,883
Balance at December 31, 2010	\$ 248,693	\$ 249,902	\$ 265,686	\$ 251,261	\$ 487,212	\$ 473,996
	\$ 27,450	\$ 26,241			\$ 27,450	\$ 26,241

Excess tax benefit from exercise of stock options, SARs and restricted stock grants						
Net income			\$ 412,578	\$ 414,959	\$ 412,578	\$ 414,959
Balance at December 31, 2011	\$ 291,950	\$ 291,950	\$ 305,931	\$ 293,887	\$ 560,188	\$ 548,144
Net income			\$ 477,190	\$ 463,962	\$ 477,190	\$ 463,962
Balance at December 31, 2012	\$ 303,975	\$ 303,975	\$ 148,368	\$ 123,096	\$ 420,755	\$ 395,483

**Table of Contents****Consolidated Statement of Cash Flows**

	Year Ended December 31, 2012		Year Ended December 31, 2011		Year Ended December 31, 2010	
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted
	(In thousands, except per share amount)					
Net income	\$ 477,190	\$ 463,962	\$ 412,578	\$ 414,959	\$ 299,215	\$ 292,883
Excess tax benefits from share-based payment arrangements	\$ (29,684)	\$ (29,684)	\$ (27,450)	\$ (26,241)	\$ (7,728)	\$ (8,937)
Deferred income taxes	\$ (9,050)	\$ (7,758)	\$ (12,984)	\$ (21,271)	\$ (33,313)	\$ (33,338)
Income taxes	\$ 16,106	\$ 28,042	\$ 42,659	\$ 48,565	\$ (8,807)	\$ (2,450)
Net cash provided by operating activities	\$ 567,784	\$ 567,784	\$ 509,331	\$ 510,540	\$ 389,084	\$ 387,875
Excess tax benefits from share-based payment arrangements	\$ 29,684	\$ 29,684	\$ 27,450	\$ 26,241	\$ 7,728	\$ 8,937
Net cash used in financing activities	\$ (371,241)	\$ (371,241)	\$ (337,799)	\$ (339,008)	\$ (263,162)	\$ (261,953)

In addition, the Company also identified income tax errors related to certain deferred income tax assets, which carry full valuation allowances. These deferred income tax assets relate to deferred interest expense carryforwards and net operating loss carryforwards which resulted in the gross deferred tax assets and related valuation allowance assets being overstated by \$40.2 million as of December 31, 2011. These errors had no net impact to the Company's financial position as of December 31, 2012 and 2011, or to the Company's results of operations and cash flows for the years ended December 31, 2012, 2011 and 2010. However, certain information presented within Note 12, *Income Taxes*, included in the Original 10-K was misstated. The Company is revising its applicable disclosures in Note 12 in this Amendment so that the disclosures included herein do not include these immaterial errors.

***New Accounting Pronouncements***

In July 2012, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2012-02, *Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*. This ASU allows an entity to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test for indefinite-lived intangible assets. An organization that elects to perform a qualitative assessment is required to perform the quantitative impairment test for an indefinite-lived intangible asset if it is more likely than not that the asset is impaired. This ASU, which applies to all public, private, and not-for-profit organizations, is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements, as it was intended to simplify the impairment assessment for indefinite-lived intangible assets.

In January 2013, the FASB issued ASU 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities* which provides further clarification relating to the scope of ASU 2011-11,

*Balance Sheet (Topic 210): Disclosure about Offsetting Assets and Liabilities.* Effective for fiscal years beginning on or after January 1, 2013, ASU 2011-11 requires an entity to include additional disclosures about financial instruments and transactions eligible for offset in the statement of financial position, as well as financial instruments subject to a master netting agreement or similar arrangement. ASU 2013-01 added further scope clarification that ASU 2011-11 applies to derivatives, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. This pronouncement may increase the Company's disclosures, including disclosures about its derivatives described in Note 11, *Derivative Instruments and Hedging Activities*, and will not have a material effect on the Company's operating results or financial position. This ASU will be effective for fiscal years beginning on or after January 1, 2013, including interim periods within those fiscal years. Due to the Company filing this Amendment, the Company has retrospectively adopted ASU 2013-01 and ASU 2011-11 and has presented the required disclosures within Note 13, *Fair Value Measurements*.

### ***Significant Accounting Policies***

#### *Consolidation Policy*

The consolidated financial statements include the accounts of Herbalife Ltd. and its subsidiaries. All significant intercompany transactions and accounts have been eliminated.

#### *Foreign Currency Translation and Transactions*

In the majority of the countries that the Company operates, the functional currency is the local currency. The Company's foreign subsidiaries' asset and liability accounts are translated for consolidated financial reporting purposes into U.S. dollar amounts at year-end exchange rates. Revenue and expense accounts are translated at the average rates during the year. Foreign exchange translation

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adjustments are included in accumulated other comprehensive loss on the accompanying consolidated balance sheets. Foreign currency transaction gains and losses, which include the cost of foreign currency derivative contracts and the related settlement gains and losses but excluding certain foreign currency derivatives designated as cash flow hedges as discussed in Note 11, *Derivative Instruments and Hedging Activities*, are included in selling, general and administrative expenses in the accompanying consolidated statements of income. The Company recorded net foreign currency transaction losses of \$16.7 million, \$11.4 million, and \$7.3 million, for the years ended December 31, 2012, 2011, and 2010, respectively, which includes the foreign exchange impact relating to the Company's Venezuelan subsidiary, Herbalife Venezuela. Herbalife Venezuela's foreign currency financial statement impact is discussed further below within this Note.

*Forward Exchange Contracts, Option Contracts and Interest Rate Swaps*

The Company enters into foreign currency derivative instruments such as forward exchange contracts and option contracts in managing its foreign exchange risk on sales to distributors, purchase commitments denominated in foreign currencies, and intercompany transactions and bank loans. The Company also enters into interest rate swaps in managing its interest rate risk on its variable rate credit facility. The Company does not use the contracts for trading purposes.

In accordance with FASB Accounting Standards Codification, or ASC, Topic 815, *Derivatives and Hedging*, or ASC 815, the Company designates certain of its derivative instruments as cash flow hedges and formally documents its hedge relationships, including identification of the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction, at the time the derivative contract is executed. The Company assesses the effectiveness of the hedge both at inception and on an ongoing basis and determines whether the hedge is highly or perfectly effective in offsetting changes in cash flows of the hedged item. The Company records the effective portion of changes in the estimated fair value in accumulated other comprehensive income (loss) and subsequently reclassifies the related amount of accumulated other comprehensive income (loss) to earnings when the hedged item and underlying transaction impacts earnings. If it is determined that a derivative has ceased to be a highly effective hedge, the Company will discontinue hedge accounting for such transaction. For derivatives that are not designated as hedges, all changes in estimated fair value are recognized in the consolidated statements of income.

*Cash and Cash Equivalents*

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents are comprised primarily of foreign and domestic bank accounts. To reduce its credit risk, the Company monitors the credit standing of the financial institutions that hold the Company's cash and cash equivalents.

During 2011, the Company entered into a cash pooling arrangement with a financial institution for cash management purposes. This cash pooling arrangement allows certain of the Company's participating foreign locations to withdraw cash from this financial institution to the extent aggregate cash deposits held by its participating locations are available at the financial institution. To the extent any participating location on an individual basis is in an overdraft position, these overdrafts will be recorded as liabilities and reflected as financing activities in the Company's consolidated balance sheet and consolidated statement of cash flows, respectively. As of December 31, 2012 and December 31, 2011, the Company did not owe any amounts to this financial institution.

As of December 31, 2012 and 2011, the Company's subsidiary in Venezuela, Herbalife Venezuela, had \$99.2 million and \$34.8 million, respectively, in Bolivar denominated cash and cash equivalents. Please see *Remeasurement of*

*Herbalife Venezuela's Monetary Assets and Liabilities* below for a further description of Herbalife Venezuela's cash and cash equivalents balances.

*Accounts Receivable*

Accounts receivable consist principally of receivables from credit card companies, arising from the sale of products to the Company's distributors, and receivables from importers, who are utilized in a limited number of countries to sell products to distributors. The Company believes the concentration of its collection risk related to its credit card receivables is diminished due to the geographic dispersion of its receivables. The receivables from credit card companies were \$81.1 million and \$65.1 million as of December 31, 2012 and 2011, respectively. Substantially all of the receivables from credit card companies were current as of December 31, 2012 and 2011. Although receivables from importers can be significant, the Company performs ongoing credit evaluations of its importers and maintains an allowance for potential credit losses. The Company considers customer credit-worthiness, past and current transaction history with the customer, contractual terms, current economic industry trends, and changes in customer payment terms when determining whether collectability is reasonably assured and whether to record allowances for its receivables. If the financial condition of the Company's customers deteriorates and adversely affects their ability to make payments, additional allowances will be recorded. The Company believes that it provides adequate allowances for receivables from its distributors and importers which are not material to its consolidated financial statements. As of December 31, 2012 and 2011, the majority of the Company's total outstanding accounts receivable were current.

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### *Fair Value of Financial Instruments*

The Company applies the provisions of FASB authoritative guidance as it applies to the nonfinancial assets and nonfinancial liabilities. The FASB authoritative guidance clarifies the definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value, and expands disclosures about fair value measurements. As disclosed in Note 13, *Fair Value Measurements*, the Company has properly measured and disclosed its financial instruments.

The Company has estimated the fair value of its financial instruments using the following methods and assumptions:

The carrying amounts of cash and cash equivalents, receivables and accounts payable approximate fair value due to the short-term maturities of these instruments;

The fair value of option and forward contracts are based on dealer quotes; and

The carrying values of the Company's variable rate debt instruments are considered to approximate their fair values because interest rates of those instruments approximate current rates offered to the Company.

### *Inventories*

Inventories are stated at lower of cost (primarily on the first-in, first-out basis) or market.

### *Deferred Financing Costs*

Deferred financing costs represent fees and expenses related to the borrowing of the Company's long-term debt and are amortized over the term of the related debt using the interest method.

### *Long-Lived Assets*

In December 2012, the Company purchased an approximate 800,000 square foot facility in Winston-Salem, North Carolina, for approximately \$22.2 million. As of December 31, 2012, the Company allocated \$18.8 million and \$3.4 million between buildings and land respectively, based on their relative fair values. As of December 31, 2012, these amounts have been reflected in property, plant and equipment on the Company's accompanying consolidated balance sheet.

Depreciation of furniture, fixtures, and equipment (includes computer hardware and software) is computed on a straight-line basis over the estimated useful lives of the related assets, which range from three to ten years. Leasehold improvements are amortized on a straight-line basis over the life of the related asset or the term of the lease, whichever is shorter. Buildings are depreciated over 40 years. Land is not depreciated. Depreciation and amortization expenses recorded to selling, general and administrative expenses totaled \$70.9 million, \$68.9 million, and \$67.7 million, for the years ended December 31, 2012, 2011, and 2010, respectively.

Long-lived assets are reviewed for impairment, based on undiscounted cash flows, whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Measurement of an impairment loss is based on the estimated fair value of the asset.

Goodwill and marketing related intangible assets with indefinite lives are evaluated on an annual basis for impairment or more frequently if events or changes in circumstances indicate that the asset might be impaired. For goodwill, the Company uses a discounted cash flow approach to estimate the fair value of a reporting unit. If the fair value of the reporting unit is less than the carrying value then the implied fair value of the goodwill must be determined. If the implied fair value of the goodwill is less than its carrying value then a goodwill impairment amount is recorded for the difference. For the marketing related intangible assets, the Company uses a discounted cash flow model under the relief-from-royalty method in order to determine the fair value. If the fair value is less than its carrying value then an impairment amount is recorded for the difference. During the years ended December 31, 2012, 2011, and 2010, there were no goodwill or marketing related intangible asset impairments. At December 31, 2012, 2011, and 2010, the marketing related intangible asset balance was \$310.0 million which consisted of the Company's trademark, trade name, and marketing franchise. As of December 31, 2012, 2011, and 2010, the goodwill balance was \$105.5 million, \$105.5 million, and \$102.9 million, respectively. The \$2.6 million increase in goodwill in 2011 from 2010 was primarily due to the acquisition of iChange Network, Inc., a privately held software company, where the purchase price was not material to the Company's consolidated financial statements.

Intangible assets with finite lives are amortized over their expected lives, and are expected to be fully amortized over the next four years. As of December 31, 2012, the Company's intangible assets with finite lives decreased to \$1.1 million. As of December 31, 2011, the Company's intangible assets with finite lives increased to \$1.7 million, net of \$0.6 million amortization, due to the iChange Network acquisition. As of December 31, 2010, the Company's intangible assets with finite lives decreased to \$0.8 million. The annual amortization expense for finite life intangibles was \$0.6 million, \$0.6 million, and \$0.9 million for the years ended December 31, 2012, 2011, and 2010, respectively. At December 31, 2012, the annual expected amortization expense is as follows: 2013 \$0.4 million; 2014 \$0.3 million; 2015 \$0.3 million; and 2016 \$0.1 million.

#### *Income Taxes*

Income tax expense includes income taxes payable for the current year and the change in deferred income tax assets and liabilities for the future tax consequences of events that have been recognized in the Company's financial statements or income tax returns. A valuation allowance is recognized to reduce the carrying value of deferred income tax assets if it is believed to be more likely than not that a component of the deferred income tax assets will not be realized.



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The Company accounts for uncertainty in income taxes in accordance with FASB authoritative guidance which clarifies the accounting and reporting for uncertainties in income taxes recognized in an enterprise's financial statements. This guidance prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. See Note 12, *Income Taxes*, for a further description on income taxes.

*Royalty Overrides*

An independent distributor may earn commissions, called royalty overrides which include production bonuses, based on retail sales volume. Royalty overrides are based on the retail sales volume of certain other distributors who are sponsored directly or indirectly by the distributor. Royalty overrides are recorded when the products are delivered and revenue is recognized. The royalty overrides are compensation to distributors for services rendered including the development, retention and the improved productivity of their sales organizations. As such royalty overrides are classified as an operating expense. Non-U.S. royalty override checks that have aged, for a variety of reasons, beyond a certainty of being paid, are taken back into income. Management has estimated this period of certainty to be three years worldwide.

*Comprehensive Income*

Comprehensive income consists of net earnings, foreign currency translation adjustments and the effective portion of the unrealized gains or losses on derivatives.

Components of accumulated other comprehensive income (loss) consisted of the following (in thousands):

	<b>December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Foreign currency translation adjustment, net of tax	\$ (28,788)	\$ (38,609)	\$ (21,852)
Unrealized loss on derivatives, net of tax	(2,907)	800	(5,433)
<b>Total accumulated other comprehensive income (loss)</b>	<b>\$ (31,695)</b>	<b>\$ (37,809)</b>	<b>\$ (27,285)</b>

*Operating Leases*

The Company leases most of its physical properties under operating leases. Certain lease agreements generally include rent holidays and tenant improvement allowances. The Company recognizes rent holiday periods on a straight-line basis over the lease term beginning when the Company has the right to the leased space. The Company also records tenant improvement allowances and rent holidays as deferred rent liabilities and amortizes the deferred rent over the terms of the lease to rent expense.

*Research and Development*

The Company's research and development is performed by in-house staff and outside consultants. For all periods presented, research and development costs were expensed as incurred and were not material.

*Professional Fees*

The Company expenses professional fees, including legal fees, as incurred. These professional fees are included in selling, general and administrative expenses in the Company's consolidated statements of income.

*Advertising*

Advertising costs, including Company sponsorships, are expensed as incurred and amounted to approximately \$42.3 million, \$38.4 million, and \$30.7 million for the years ended December 31, 2012, 2011, and 2010, respectively. These expenses are included in selling, general and administrative expenses in the accompanying consolidated statements of income.

*Earnings Per Share*

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

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

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Weighted average shares used in basic computations	112,359	117,540	119,004
Dilutive effect of exercise of equity grants outstanding	5,457	7,046	7,059
Dilutive effect of warrants	40	260	432
Weighted average shares used in diluted computations	117,856	124,846	126,495

There were an aggregate of 4.0 million, 2.1 million, and 1.5 million of equity grants, consisting of stock options, SARs, and stock units that were outstanding during the years ended December 31, 2012, 2011, and 2010, respectively, but were not included in the computation of diluted earnings per share because their effect would be anti-dilutive.

*Revenue Recognition*

The Company generally recognizes revenue upon delivery and when both the title and risk and rewards pass to the independent distributor or importer, or as products are sold in retail stores in China or through the Company's independent service providers in China. Product sales are recognized net of product returns and discounts referred to as distributor allowances. Net sales include product sales and shipping and handling revenues. Shipping and handling costs paid by the Company are included in cost of sales. The Company generally receives the net sales price in cash or through credit card payments at the point of sale. The Company currently presents sales taxes collected from customers on a net basis. Allowances for product returns, primarily in connection with the Company's buyback program, are provided at the time the sale is recorded. This accrual is based upon historical return rates for each country and the relevant return pattern, which reflects anticipated returns to be received over a period of up to 12 months following the original sale.

*Share-Based Payments*

The Company accounts for share-based compensation in accordance with FASB authoritative guidance which requires the measurement of share-based compensation expense for all share-based payment awards made to employees for service. The Company measures share-based compensation cost at the grant date, based on the fair value of the award, and recognizes the expense on a straight-line basis over the employee's requisite service period.

*Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which the Company believes to be reasonable under the circumstances. The Company adjusts such estimates and assumptions when facts and circumstances dictate. Illiquid credit markets, volatile equity, and foreign currency have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ from these estimates. Changes

in estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

*Currency Restrictions in 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 rates from the Venezuelan government and its foreign exchange commission, CADIVI. The application and approval process continue to be delayed and the Company's ability to timely obtain U.S. dollars at the official exchange rates remains uncertain.

In June 2010, the Venezuelan government introduced additional regulations under a new regulated system, SITME, which is controlled by the Central Bank of Venezuela. SITME provides a mechanism to exchange Bolivars into U.S. dollars through the purchase and sale of U.S. dollar denominated bonds issued in Venezuela. However, SITME is only available in certain limited circumstances. Specifically, SITME can only be used for product purchases and is not available for other matters such as the payment of dividends. Also, SITME can only be used for amounts of up to \$50,000 per day and \$350,000 per month and is generally only available to the extent the applicant has not exchanged and received U.S. dollars via the CADIVI process within the previous 90 days. Effective January 1, 2012, additional laws were enacted that required companies to register with the Registry of Users of the System

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of Transactions with Securities in Foreign Currency, or RUSITME, prior to transacting with the SITME, the regulated system, which is controlled by the Central Bank of Venezuela. As an alternative exchange mechanism, the Company has also participated in certain bond offerings from the Venezuelan government and from Petróleos de Venezuela, S.A. or PDVSA, a Venezuelan state-owned petroleum company, where the Company effectively purchased bonds with its Bolívares and then sold the bonds for U.S. dollars. In other instances, the Company has also used other alternative legal exchange mechanisms for currency exchanges.

*Highly Inflationary Economy and Accounting in Venezuela*

Venezuela's inflation rate as measured using the blended National Consumer Price Index and Consumer Price Index rate exceeded a three-year cumulative inflation rate of 100% as of December 31, 2009. Accordingly, effective January 1, 2010, Venezuela was considered a highly inflationary economy. Pursuant to the highly inflationary basis of accounting under U.S. GAAP, Herbalife Venezuela changed its functional currency from the Bolívar to the U.S. dollar. Subsequent movements in the Bolívar to U.S. dollar exchange rate will impact the Company's consolidated earnings. Prior to January 1, 2010 when the Bolívar was the functional currency, movements in the Bolívar to U.S. dollar were recorded as a component of equity through other comprehensive income. Pursuant to highly inflationary accounting rules, the Company no longer translates Herbalife Venezuela's financial statements as its functional currency is the U.S. dollar.

Based on relevant facts and circumstances at the applicable times, under the highly inflationary basis of accounting, the Company used the parallel market exchange rate for remeasurement purposes until the parallel market was discontinued in May 2010. On January 1, 2010, in connection with the determination that Venezuela was a highly inflationary economy, the Company remeasured Herbalife Venezuela's opening balance sheet's monetary assets and liabilities at the parallel market rate and recorded a non-tax deductible foreign exchange loss of \$15.1 million. Nonmonetary assets, such as inventory, reported on the Company's consolidated balance sheet at December 31, 2009, remained at historical cost subsequent to Venezuela becoming a highly inflationary economy. Therefore, the incremental costs related to the Company's 2009 imported products recorded at the parallel market exchange rate negatively impacted the Company's consolidated statement of income for the year ended December 31, 2010 by approximately \$12.7 million as these products were sold during the first quarter of 2010. This amount is not tax deductible. See Note 12, *Income Taxes*, for additional discussion on the income tax impact related to Venezuela becoming a highly inflationary economy.

*Official Exchange Rate Devaluations in Venezuela*

In early January 2010, Venezuela announced an official exchange rate devaluation of the Bolívar to an official rate of 4.3 Bolívares per U.S. dollar for non-essential items and 2.6 Bolívares per U.S. dollar for essential items. The Company's imports use to fall into both classifications. During 2010, because the Company used the parallel market exchange rate for remeasurement purposes until the parallel market was discontinued in May 2010 and then used the SITME rate thereafter, any U.S. dollars obtained from CADIVI at the official rate had a positive impact to the Company's consolidated net earnings. The majority of Herbalife Venezuela's 2010 importations were not registered with CADIVI so the official exchange rates were not available to pay for these U.S. imports.

In late December 2010, Venezuela announced the CADIVI official exchange rate of 2.6 Bolívares per U.S. dollar would be eliminated. The CADIVI official exchange of 4.3 Bolívares per U.S. dollar is used for all essential items and non-essential items beginning January 2011. This devaluation did not have a material impact on the Company's consolidated financial statements since the SITME rate was used for remeasurement purposes.

*Remeasurement of Herbalife Venezuela's Monetary Assets and Liabilities*

The Company recorded \$5.8 million of foreign exchange gains to selling, general and administrative expenses within the Company's consolidated statement of income for the year ended December 31, 2010, as a result of receiving U.S. dollars approved by CADIVI at the favorable official exchange rate compared to the less favorable parallel market and SITME rates. During the second quarter of 2010, the Company also recorded a \$4.0 million pre-tax (\$2.6 million post-tax) net foreign exchange gain to selling, general and administrative expenses, within the Company's consolidated statement of income, as a result of remeasuring its Bolivar denominated monetary assets and liabilities as of June 30, 2010 at the SITME rate of 5.3 Bolivars per U.S. dollar as opposed to the last parallel market rate prior to the closure of the parallel market in May 2010 of 8.3 Bolivars per U.S. dollar. During the third quarter of 2010 and thereafter, the Company continued to use the SITME rate of 5.3 Bolivars per U.S. dollar to remeasure its Bolivar denominated transactions.

In February 2011, Herbalife Venezuela purchased U.S. dollar denominated bonds with a face value of \$20 million U.S. dollars in a bond offering from PDVSA for 86 million Bolivars and then immediately sold the bonds for \$15 million U.S. dollars, resulting in an average effective conversion rate of 5.7 Bolivars per U.S. dollar. This Bolivar to U.S. dollar conversion resulted in the Company recording a net pre-tax loss of \$1.3 million U.S. dollars during the first quarter of 2011 which is included in its consolidated statement of income for the year ended December 31, 2011. The Company was unsuccessful in accessing any subsequent PDVSA bond offerings and the frequency of future bond offerings is unknown. During 2011, the Company also accessed the SITME market in order to exchange its Bolivars to U.S. dollars. In less frequent instances, the Company has also accessed alternative legal exchange mechanisms, to exchange Bolivars for U.S. dollars, at less favorable rates than the SITME rate, which resulted in the Company recognizing \$1.2 million of losses in selling, general and administration expenses included within its consolidated statement of income for the year ended December 31, 2011.

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During the year ended December 31, 2012, the Company continued accessing the SITME market in order to exchange its Bolivars to U.S. dollars and the daily and monthly restrictions continues. In other instances, the Company recognized an aggregate of \$4.8 million of foreign exchange losses as a result of exchanging Bolivars for U.S. dollars using alternative legal exchange mechanisms that were approximately 43% less favorable than the 5.3 Bolivars per U.S. dollar published SITME rate. During the year ended December 31, 2012, the Company has exchanged 59.2 million Bolivars for \$6.4 million U.S. dollars using these alternative legal exchange mechanisms. The Company continues to remeasure its Bolivars at the published SITME rate given the limited availability of alternative exchange mechanisms and the uncertainty in the effective exchange rate for alternative exchange mechanisms.

As of December 31, 2012 and December 31, 2011, Herbalife Venezuela's net monetary assets and liabilities denominated in Bolivars was approximately \$82.9 million and \$26.8 million, respectively, and included approximately \$99.2 million and \$34.8 million, respectively, in Bolivar denominated cash and cash equivalents. These remeasured amounts, including cash and cash equivalents, that are reported on the Company's consolidated balance sheet using the published SITME rate of 5.3 Bolivars per U.S. dollar may not accurately represent the amount of U.S. dollars that the Company could ultimately realize. While the Company continues to monitor the exchange mechanisms and restrictions under SITME, and assess and monitor the current economic and political environment in Venezuela, there is no assurance that the Company will be able to exchange Bolivars into U.S. dollars on a timely basis or at any particular exchange rate.

*Consolidation of Herbalife Venezuela*

The Company plans to continue its operation in Venezuela and to import products into Venezuela despite the foreign currency constraints described above. Herbalife Venezuela will continue to apply for legal exchange mechanisms to convert its Bolivars to U.S. dollars. Despite the currency exchange restrictions in Venezuela, the Company continues to control Herbalife Venezuela and its operations. The mere existence of the exchange restrictions discussed above does not in and of itself create a presumption that this lack of exchangeability is other-than-temporary, nor does it create a presumption that an entity should deconsolidate its Venezuelan operations. Therefore, the Company continues to consolidate Herbalife Venezuela in its consolidated financial statements for U.S. GAAP purposes. The majority of Herbalife Venezuela's Bolivar denominated assets and liabilities are currently being remeasured at the SITME rate.

Although Venezuela is an important market in the Company's South and Central America Region, Herbalife Venezuela's net sales represented approximately 4%, 2%, and 2% of the Company's consolidated net sales for the years ended December 31, 2012, 2011, and 2010, respectively, and its total assets represented approximately 7% and 3% of the Company's consolidated total assets as of December 31, 2012 and 2011, respectively. See Note 14, *Subsequent Events*, for further discussion of Herbalife Venezuela.

**3. Inventories**

Inventories consist primarily of finished goods available for resale and can be categorized as follows (in millions):

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
Weight Management, Targeted Nutrition and Energy, Sports and Fitness	\$ 303.8	\$ 223.5
Outer Nutrition	17.5	11.1
Literature, Promotional and Others	18.1	13.1

Total \$ 339.4 \$ 247.7

The following are the major classes of inventory (in millions):

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
Raw materials	\$ 19.6	\$ 21.7
Work in process	1.9	2.5
Finished goods	317.9	223.5
Total	\$ 339.4	\$ 247.7



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Long-term debt consists of the following (in millions):

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
Borrowings under the senior secured credit facility	\$ 487.5	\$ 202.0
Capital leases	0.1	1.4
Other debt		0.2
	487.6	203.6
Less: current portion	56.3	1.5
Long-term portion	\$ 431.3	\$ 202.1

On July 21, 2006, the Company entered into a \$300.0 million senior secured credit facility, or the Prior Credit Facility, comprised of a \$200.0 million term loan and a \$100.0 million revolving credit facility, with a syndicate of financial institutions as lenders. In September 2007, the Company and its lenders amended the credit agreement, increasing the amount of the revolving credit facility by an aggregate principal amount of \$150.0 million to \$250.0 million primarily to finance the increase in the Company's share repurchase program. See Note 8, *Shareholders' Equity*, for further discussion of the share repurchase program and the share repurchase amounts during the years ended December 31, 2012, 2011, and 2010. The term loan bore interest at LIBOR plus a margin of 1.5%, or the base rate plus a margin of 0.50%. The revolving credit facility bore interest at LIBOR plus a margin of 1.25%, or the base rate plus a margin of 0.25%.

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 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. On December 31, 2012 and 2011, the weighted average interest rate for borrowings under the Credit Facility, which included borrowings under the Term Loan as of December 31, 2012, was 1.96% and 1.89%, 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 December 31, 2012 and 2011, the Company was compliant with its debt covenants under the Credit Facility. The fair value of the Company's Credit Facility, including the Term Loan, approximated its carrying value as of December 31, 2012, due to its variable interest rate which reprices frequently and represents floating market rates. The fair value of the Credit Facility is determined by utilizing Level 2 inputs as defined in Note 13, *Fair Value Measurements*, such as observable market interest rates and yield curves.

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During 2012, the Company borrowed an aggregate amount of \$1,428.0 million and paid a total amount of \$1,142.5 million under the Credit Facility. During 2011, the Company borrowed \$859.7 million and \$54.0 million under the Credit Facility and Prior Credit Facility, respectively, and paid a total of \$657.7 million and \$228.9 million under the Credit Facility and Prior Credit Facility, respectively. During 2010, the Company borrowed an aggregate amount of \$427.0 million and paid a total amount of \$487.0 million under the Prior Credit Facility. As of December 31, 2012 and December 31, 2011, the U.S. dollar amount outstanding under the Credit Facility was \$487.5 million and \$202.0 million, respectively. Of the \$487.5 million U.S. dollar amount outstanding under the Credit Facility as of December 31, 2012, \$487.5 million was outstanding on the Term Loan and no amounts were outstanding on the revolving credit facility. There were no outstanding foreign currency borrowings as of December 31, 2012 and December 31, 2011 under the Credit Facility.

As of December 31, 2012, the aggregate annual maturities of the Credit Facility were expected to be \$56.3 million for 2013, \$81.2 million for 2014, \$100.0 million for 2015, and \$250.0 million for 2016.

Interest expense was \$16.7 million, \$9.9 million, and \$9.7 million, for the years ended December 31, 2012, 2011, and 2010, respectively. Interest expense for the year ended December 31, 2011 included a \$0.9 million write-off of unamortized deferred financing costs resulting from the extinguishment of the Prior Credit Facility, as discussed above.

**5. Lease obligations**

The Company has warehouse, office, furniture, fixtures and equipment leases, which expire at various dates through 2023. Under the lease agreements, the Company is also obligated to pay property taxes, insurance and maintenance costs.

Certain leases contain renewal options. Future minimum rental commitments for non-cancelable operating leases and capital leases at December 31, 2012, were as follows (in millions):

	<b>Operating</b>	<b>Capital</b>
2013	\$ 50.1	\$ 0.1
2014	42.0	
2015	34.8	
2016	21.8	
2017	14.3	
Thereafter	30.2	
<b>Total</b>	<b>\$ 193.2</b>	<b>\$ 0.1</b>
Less: amounts included above representing interest		
<b>Present value of net minimum lease payments</b>		<b>\$ 0.1</b>

Rental expense for the years ended December 31, 2012, 2011, and 2010, was \$52.5 million, \$49.2 million, and \$43.5 million, respectively.

Property, plant and equipment under capital leases are included in property, plant and equipment on the accompanying consolidated balance sheets as follows (in millions):

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
Equipment	\$ 7.7	\$ 10.6
Less: accumulated depreciation	(7.4)	(9.7)
<b>Total</b>	<b>\$ 0.3</b>	<b>\$ 0.9</b>

## **6. Employee compensation plans**

The Company maintains a profit sharing plan pursuant to Sections 401(a) and (k) of the Internal Revenue Code of 1986, as amended, or the Code. The plan is available to substantially all employees who meet the length of service requirements. Prior to January 1, 2009, employees could elect to contribute between 2% to 17% of their compensation, and the Company would make matching contributions in an amount equal to one dollar for each dollar of deferred earnings not to exceed 3% of the participants' earnings. Participants are partially vested in the Company contributions after one year and fully vested after five years. Effective January 1, 2009, the Company amended its profit sharing plan. Starting January 1, 2009, employees may elect to contribute up to 75% of their compensation; however, contributions are limited to a maximum annual amount as set periodically by the Code. The Company will make matching contributions in an amount equal to one dollar for each dollar of deferred earnings up to the first 1%, and then make matching contributions in an amount equal to 50% of one dollar for each dollar on the subsequent 5% of deferred earnings. The contributions become fully vested after two years. The Company contributed \$2.7 million, \$2.5 million, and \$2.3 million, to its profit sharing plan during the years ended December 31, 2012, 2011, and 2010, respectively.

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The Company has non-qualified deferred compensation plans for select groups of management: the Herbalife Management Deferred Compensation Plan and the Herbalife Senior Executive Deferred Compensation Plan. The deferred compensation plans allow eligible employees to elect annually to defer up to 75% of their base annual salary and up to 100% of their annual bonus for each calendar year, or the Annual Deferral Amount. The Company makes matching contributions on behalf of each participant in the Senior Executive Deferred Compensation Plan. The Senior Executive Deferred Compensation Plan provides that the amount of the matching contributions is to be determined by the Company at its discretion. In 2012, 2011 and 2010, the Company's matching contribution was 3.5% which aligns with the 401(k) retirement plan match.

Each participant in either of the non-qualified deferred compensation plans discussed above has, at all times, a fully vested and non-forfeitable interest in each year's contribution, including interest credited thereto, and in any Company matching contributions, if applicable. In connection with a participant's election to defer an Annual Deferral Amount, the participant may also elect to receive a short-term payout, equal to the Annual Deferral Amount plus interest. Such amount is payable in two or more years from the first day of the year in which the Annual Deferral Amount is actually deferred.

The total expense for the two non-qualified deferred compensation plans, excluding participant contributions, was \$2.9 million, \$0.2 million, and \$2.1 million for the years ended December 31, 2012, 2011, and 2010, respectively. The total long-term deferred compensation liability under the two deferred compensation plans was \$29.5 million and \$23.7 million at December 31, 2012 and 2011, respectively.

The deferred compensation plans are unfunded and their benefits are paid from the general assets of the Company, except that the Company has contributed to a rabbi trust whose assets will be used to pay the benefits if the Company remains solvent, but can be reached by the Company's creditors if the Company becomes insolvent. The value of the assets in the rabbi trust was \$24.3 million and \$20.5 million as of December 31, 2012 and 2011, respectively.

The Company has employees in international countries that are covered by various deferred compensation plans. These plans are administered based upon the legal requirements in the countries in which they are established. The Company's compensation expenses relating to these plans were \$7.2 million, \$4.9 million and \$3.4 million for the years ended December 31, 2012, 2011, and 2010, respectively.

**7. 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 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 their 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.

The Mexican Tax Administration Service commenced audits of the Company's Mexican subsidiaries for the period from January to September 2007 and the 2011 year. On October 19, 2012, the Mexican Tax Administration Service issued a preliminary audit report for the January to September 2007 period which primarily focused on VAT allegations. The final audit report for the January to September 2007 period was issued on December 11, 2012 and is substantially similar to the preliminary report. The Company has not yet received any assessment related to this final audit report. The Mexican Tax Authority generally issues an assessment within six months of the final audit report.

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Prior to the nullification of the 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 Company has not recognized a loss as the Company, based on its analysis and guidance from its advisors, does not believe a loss would be probable if the assessment is re-issued or if any additional assessment is issued. 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 Company received an assessment from the Spanish Tax Authority in an amount equivalent to approximately \$4.2 million translated at the period ended spot rate, for withholding taxes, interest and penalties related to payments to Spanish distributors for the 2003-2004 period. 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 distributors 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 \$4.2 million U.S. dollars translated at the period ended spot rate, related to withholding/contributions based on payments to the Company's distributors 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. 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 \$7.1 million U.S. dollars translated at the period ended spot rate, for social contributions, interest and penalties related to payments to Italian distributors from 2002 through 2005. The Company has filed a writ with the Rome Labor Court appealing the order and the Social Security Authority filed a response brief. At a hearing on July 12, 2012, the Social Security Authority announced its intention to withdraw their claim as well as the order to pay the assessment. A hearing on this matter was originally scheduled for October 23, 2012 but it has been postponed and will be rescheduled.

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 has reserved 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 the assessment, the Company may have to record additional expenses, when it becomes probable that an increased potential liability is warranted.

**8. Shareholders' equity**

The Company had 106.9 million, 115.8 million, and 117.8 million common shares outstanding at December 31, 2012, 2011, and 2010, respectively. In December 2004, the Company authorized 7.5 million preference shares at \$0.002 par value. The 7.5 million authorized preference shares remained unissued as of December 31, 2012. Preference shares

may be issued from time to time in one or more series, each of such series to have such voting powers (full or limited or without voting powers), designations, preferences and relative, participating, optional or other special rights and qualifications, limitations or restrictions as determined by the Company's board of directors.

### *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.

During the second quarter of 2007, the Company's board of directors adopted a regular quarterly cash dividend program. The Company's board of directors authorized a \$0.10 per common share cash dividend each quarter from the adoption of the program through the second quarter of 2010. On August 2, 2010, the Company announced that its board of directors approved an increase in the quarterly cash dividend to \$0.13 per common share, an increase of \$0.03 per common share from prior quarters. On May 2, 2011, the Company announced that its board of directors approved an increase in the quarterly cash dividend to \$0.20 per common share, an increase of \$0.07 per common share from prior quarters. On February 21, 2012, the Company announced that its board of directors approved an increase in the quarterly cash dividend to \$0.30 per common share, an increase of \$0.10 per common share from prior quarters. The aggregate amount of dividends paid and declared during the fiscal years ended December 31, 2012, 2011, and 2010, was approximately \$135.1 million, \$85.5 million, and \$53.7 million, respectively.



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On April 17, 2009, the Company's share repurchase program adopted on April 18, 2007 expired pursuant to its terms. On April 30, 2009, the Company announced that its board of directors authorized a new program for the Company to repurchase up to \$300 million of Herbalife common shares during the following two years, at such times and prices as determined by the Company's management as market conditions warrant. On May 3, 2010, the Company's board of directors approved an increase to this share repurchase program from \$300 million to \$1 billion. In addition, the Company's board of directors approved the extension of the expiration date of this share repurchase program from April 2011 to December 2014.

On May 2, 2012, the Company entered into an agreement with Merrill Lynch International to repurchase \$427.9 million of its common shares, which was the remaining authorized capacity under this share repurchase program at that time. Under the terms of the repurchase agreement, the Company paid \$427.9 million on May 4, 2012 and the agreement expired on July 27, 2012. The Company received 5.3 million and 3.9 million of its common shares under the repurchase agreement during June 2012 and July 2012, respectively. The total number of common shares repurchased under the agreement was determined generally upon a discounted volume-weighted average share price of the Company's common shares over the course of the agreement. On July 27, 2012, the Company completed this share repurchase program upon the final delivery of common shares repurchased under the repurchase agreement.

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. 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. As of December 31, 2012, the remaining authorized capacity under this share repurchase program was \$950.0 million.

During the year ended December 31, 2012, the Company repurchased 11.0 million of its common shares through open market purchases at an aggregate cost of approximately \$527.8 million, or an average cost of \$47.78 per share. During the year ended December 31, 2011, the Company repurchased 5.5 million of its common shares through open market purchases at an aggregate cost of approximately \$298.8 million, or an average cost of \$54.27 per share. During the year ended December 31, 2010, the Company repurchased 5.7 million of its common shares through open market purchases at an aggregate cost of approximately \$150.1 million, or an average cost of \$26.13 per share.

The Company reflects the aggregate purchase price of the common shares repurchased as a reduction to shareholders equity. The Company allocated the purchase price of the repurchased shares as a reduction to 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 share repurchase program described above.

**9. Share-Based Compensation**

The Company has five share-based compensation plans, the WH Holdings (Cayman Islands) Ltd. Stock Incentive Plan, or the Management Plan, the WH Holdings (Cayman Islands) Ltd. Independent Directors Stock Incentive Plan, or the Independent Directors Plan, the Herbalife Ltd. 2004 Stock Incentive Plan, or the 2004 Stock Incentive Plan, the Amended and Restated Herbalife Ltd. 2005 Stock Incentive Plan, or the 2005 Stock Incentive Plan, and the Amended and Restated Herbalife Ltd. Independent Directors Deferred Compensation and Stock Unit Plan, or the Independent Director Stock Unit Plan. The Management Plan provided for the grant of options to purchase common shares of Herbalife to members of the Company's management. The Independent Directors Plan provided for the grant of options to purchase common shares of Herbalife to the Company's independent directors. The 2004 Stock Incentive Plan replaced the Management Plan and the Independent Directors Plan and after the adoption thereof, no additional awards were made under either the Management Plan or the Independent Directors Plan. However, the shares remaining available for issuance under these plans were absorbed by and became available for issuance under the 2004 Stock Incentive Plan. The 2005 Stock Incentive Plan replaced the 2004 Stock Incentive Plan and after the adoption thereof, no additional awards were made under the 2004 Stock Incentive Plan. The terms of the 2005 Stock Incentive Plan are substantially similar to the terms of the 2004 Stock Incentive Plan. The 2005 Stock Incentive Plan authorizes the issuance of 14,400,000 common shares pursuant to awards granted under the plan, plus any shares that remained available for issuance under the 2004 Stock Incentive Plan at the time of the adoption of the 2005 Stock Incentive Plan. The purpose of the Independent Directors Stock Unit Plan is to facilitate equity ownership in the Company by its independent directors through the award of stock units. At December 31, 2012 an aggregate of approximately 3.1 million common shares remain available for future issuance under the 2005 Stock Incentive Plan and the Independent Directors Stock Unit Plan.

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The Company's share-based compensation plans provide for grants of stock options, SARs, and stock units, which are collectively referred to herein as awards. Stock options typically vest quarterly over a five-year period or less, beginning on the grant date. Certain SARs vest quarterly over a five-year period beginning on the grant date. Other SARs vest annually over a three-year period. The contractual term of service condition stock options and SARs is generally ten years. Stock unit awards under the 2005 Incentive Plan, or Incentive Plan Stock Units, vest annually over a three year period which is equal to the contractual term. Stock units awarded under the Independent Directors Stock Unit Plan, or Independent Director Stock Units, vest at a rate of 25% on each January 15, April 15, July 15 and October 15. In January 2009, the Company moved to granting SARs instead of stock units for its independent directors. In March 2008, the Company granted stock unit awards to its Chairman and Chief Executive Officer, which vest over a four-year period at a rate of 30% during each of the first three years and 10% during the fourth year. In February 2009, the Company granted stock units and SARs to certain employees subject to continued service, one-third of which vest on the third anniversary of the date of grant, one-third of which vest on the fourth anniversary of the date of grant, and the remaining one-third of which vest on the fifth anniversary of the date of grant. In 2010, the Company granted other stock units to certain key employees subject to continued service, one half of which vest on the first anniversary of the date of the grant, and the remaining half of which vest on the second anniversary of the date of the grant.

Awards can be subject to the following: market and service conditions, or market condition awards; market, service and performance conditions, or market and performance condition awards; or be subject only to continued service with the Company, or service condition awards. All awards granted by the Company are market condition awards, market and performance condition awards, or service condition awards. Unless otherwise determined at the time of grant, the value of each stock unit shall be equal to one common share of Herbalife. The Company's stock compensation awards outstanding as of December 31, 2012 include stock options, SARs, and stock units.

In March 2008, the Company granted SARs with market conditions to its Chairman and Chief Executive Officer, which fully vested during 2012. These SARs vested at the end of four years subject to his continued employment through that date and the achievement of certain conditions related to the market value of the Company's common shares. The market conditions included targets for stock price appreciation of both a 10% and a 15% compound annual growth rate. The fair value of these SARs was determined on the date of the grant using the Monte Carlo lattice model.

In August 2011, the Company granted SARs with market and performance conditions to its Chairman and Chief Executive Officer. These awards will vest on December 31, 2014, subject to his continued employment through that date, the Company's stock price appreciating and exceeding a targeted price, and the Company's achievement of certain volume point performance targets. The fair value of these SARs was determined on the date of the grant using the Monte Carlo lattice model.

The Company records compensation expense over the requisite service period which is equal to the vesting period. For awards granted on or after January 1, 2006, the compensation expense is recognized on a straight-line basis over the vesting term. Stock-based compensation expense is included in selling, general and administrative expenses in the consolidated statements of income. For the years ended December 31, 2012, 2011, and 2010, share-based compensation expense, relating to service condition awards, amounted to \$22.7 million, \$19.2 million, and \$20.0 million, respectively. For the years ended December 31, 2012, 2011, and 2010, share-based compensation expense, relating to market condition awards, amounted to \$0.7 million, \$2.9 million, and \$3.0 million, respectively. For the year ended December 31, 2012 and 2011, share-based compensation expense, relating to market and performance condition awards, amounted to \$4.6 million and \$1.4 million, respectively. For the years ended December 31, 2012, 2011, and 2010, the related income tax benefits recognized in earnings for all awards amounted to \$9.5 million, \$7.5 million, and \$7.4 million, respectively.

As of December 31, 2012, the total unrecognized compensation cost related to non-vested service condition stock awards was \$41.2 million and the related weighted-average period over which it is expected to be recognized is approximately 1.4 years. As of December 31, 2012, the total unrecognized compensation cost related to non-vested market and performance condition awards was \$9.0 million and the related weighted-average period over which it is expected to be recognized is approximately 2.0 years.

For the years ended December 31, 2012, 2011, and 2010, excess tax benefits of \$29.7 million, \$26.2 million, and \$9.3 million, respectively, were generated and recognized from exercises of awards.

Stock units are valued at the market value on the date of grant. The fair value of service condition SARs are estimated on the date of grant using the Black-Scholes-Merton option-pricing model. The fair value of SARs with market conditions are estimated on the date of grant using the Monte Carlo lattice model. Historically, the expected term of the SARs and stock options was based on the simple average of the average vesting period and the life of the award, or the simplified method. During the fourth quarter of 2011, the Company began calculating the expected term of its SARs based on historical data as more historical information was available. All groups of employees have been determined to have similar historical exercise patterns for valuation purposes. The expected volatility of the SARs and stock options are based upon the historical volatility of the Company's common shares and it is also validated against the volatility rates of a peer group of companies. The risk free interest rate is based on the implied yield on a U.S. Treasury zero-coupon issue with a remaining term equal to the expected term of the SARs and stock options. The expected dividend yield assumption is based on the Company's historical and expected amount of dividend payouts.

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There were no stock options granted during the years ended December 31, 2012, 2011, and 2010. The following table summarizes the weighted average assumptions used in the calculation of the fair value for service condition awards for the years ended December 31, 2012, 2011, and 2010:

	SARs			Independent Director s SARs		
	Year Ended December 31,			Year Ended December 31,		
	2012	2011	2010	2012	2011	2010
Expected volatility	48.4%	46.6%	48.3%	52.1%	49.4%	48.2%
Dividends yield	2.7%	1.5%	1.8%	2.7%	1.5%	1.7%
Expected term	5.3 years	6.2 years	6.4 years	3.8 years	3.8 years	3.8 years
Risk-free interest rate	0.7%	1.9%	2.4%	0.4%	1.0%	1.3%

There were no market condition awards or market and performance condition awards granted during the years ended December 31, 2012 and 2010. For market and performance condition awards granted during the year ended December 31, 2011, the following table summarizes the weighted average assumptions used in the calculation of the fair value:

	SARs Year Ended December 31, 2011
Expected volatility	44.0%
Dividends yield	1.4%
Expected term	5.2 years
Risk-free interest rate	1.2%

The following tables summarize the activity under all share-based compensation plans, which includes all stock awards, for the year ended December 31, 2012:

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, 2011(2)				
(3)	11,169	\$ 22.54	5.5 years	\$ 332.8
Granted	2,109	\$ 45.10		
Exercised	(1,862)	\$ 10.23		
Forfeited	(83)	\$ 41.54		
Outstanding at December 31, 2012(2)				
(3)	11,333	\$ 28.62	5.9 years	\$ 119.1
Exercisable at December 31, 2012(3)	5,751	\$ 18.29	3.9 years	\$ 89.8

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

(2) Includes 0.9 million SARs with market and performance conditions.

(3) Includes 1.5 million SARs with market conditions.

The weighted-average grant date fair value of service condition SARs granted during the years ended December 31, 2012, 2011, and 2010 was \$15.36, \$21.23, and \$9.32, respectively. The weighted-average grant date fair value of SARs with market and performance conditions granted during the year ended December 31, 2011 was \$17.37. The total intrinsic value of service condition stock options and SARs exercised during the years ended December 31, 2012, 2011, and 2010 was \$98.6 million, \$133.8 million, and \$63.8 million, respectively. There were no market condition, or market condition and performance condition SARs exercised during the years ended December 31, 2012, 2011, and 2010.

<b>Incentive Plan and Independent Directors Stock Units</b>	<b>Shares (In thousands)</b>	<b>Weighted Average Grant Date Fair Value</b>
Outstanding and nonvested at December 31, 2011	717.6	\$ 12.25
Granted		\$
Vested	(395.7)	\$ 12.71
Forfeited	(0.3)	\$ 6.82
Outstanding and nonvested at December 31, 2012	321.6	\$ 11.70

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The total vesting date fair value of stock units which vested during the years ended December 31, 2012, 2011, and 2010 was \$24.3 million, \$19.8 million, and \$10.3 million, respectively.

**Employee Stock Purchase Plan**

During 2007, the Company adopted a qualified employee stock purchase plan, or ESPP, which was implemented during the first quarter of 2008. In connection with the adoption of the ESPP, the Company has reserved for issuance a total of 2 million common shares. At December 31, 2012, approximately 1.8 million common shares remain available for future issuance. Under the terms of the ESPP, rights to purchase common shares may be granted to eligible qualified employees subject to certain restrictions. The ESPP enables the Company's eligible employees, through payroll withholdings, to purchase a limited number of common shares at 85% of the fair market value of a common share at the purchase date. Purchases are made on a quarterly basis.

**10. Segment Information**

The Company is a nutrition company that sells a wide range of weight management products, nutritional supplements and personal care products within one industry segment as defined under FASB ASC Topic 280, *Segment Reporting*. The Company's products are manufactured by third party providers and by the Company in its Suzhou, China facility and in its Lake Forest, California facility, and then are sold to independent distributors who both consume and sell Herbalife products to retail consumers or other distributors. Revenues reflect sales of products by the Company to its distributors and are categorized based on geographic location.

As of December 31, 2012, the Company sold products in 88 countries throughout the world and was organized and managed by geographic regions. The Company aggregates its operating segments, excluding China, into one reporting segment, or the Primary Reporting Segment, as management believes that the Company's operating segments have similar operating characteristics and similar long term operating performance. In making this determination, management believes that the operating segments are similar in the nature of the products sold, the product acquisition process, the types of customers to whom products are sold, the methods used to distribute the products, and the nature of the regulatory environment. China has been identified as a separate reporting segment as it does not meet the criteria for aggregation. The operating information for the Primary Reporting Segment and China, and sales by product line are as follows:

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(In millions)</b>		
<b>Net Sales:</b>			
Primary Reporting Segment:			
United States	\$ 816.9	\$ 676.9	\$ 595.4
Mexico	496.1	436.9	334.0
South Korea	421.4	343.5	208.9
Others	2,059.4	1,786.4	1,411.5
Total Primary Reporting Segment	3,793.8	3,243.7	2,549.8
China	278.5	210.8	184.4
Total Net Sales	\$ 4,072.3	\$ 3,454.5	\$ 2,734.2

**Contribution Margin(1):**

Primary Reporting Segment:			
United States	\$ 359.5	\$ 286.3	\$ 257.0
Mexico	205.6	191.1	131.7
South Korea	199.4	163.1	103.0
Others	906.5	810.0	618.5
Total Primary Reporting Segment	1,671.0	1,450.5	1,110.2
China(2)	250.1	186.4	165.0
Total Contribution Margin	\$ 1,921.1	\$ 1,636.9	\$ 1,275.2
Selling, general and administrative expense (2)	1,259.7	1,074.6	887.7
Interest expense	16.7	9.9	9.7
Interest income	6.2	7.4	2.3
Income before income taxes	650.9	559.8	380.1
Income taxes	186.9	144.8	87.2
Net Income	\$ 464.0	\$ 415.0	\$ 292.9



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	Year Ended December 31,		
	2012	2011	2010
(In millions)			
<b>Capital Expenditures:</b>			
United States	\$ 81.6	\$ 60.4	\$ 51.0
Mexico	2.8	3.5	2.5
South Korea	4.1	2.1	0.4
China	15.4	6.6	3.1
Others	18.9	18.3	11.1
<b>Total Capital Expenditures</b>	<b>\$ 122.8</b>	<b>\$ 90.9</b>	<b>\$ 68.1</b>

	Year Ended December 31,		
	2012	2011	2010
(In millions)			
<b>Net sales by product line:</b>			
Weight Management	\$ 2,554.9	\$ 2,158.7	\$ 1,698.9
Targeted Nutrition	944.8	789.6	629.2
Energy, Sports & Fitness	209.4	169.8	121.3
Outer Nutrition	146.3	147.8	127.5
Literature, Promotional and Other(3)	216.9	188.6	157.3
<b>Total Net Sales</b>	<b>\$ 4,072.3</b>	<b>\$ 3,454.5</b>	<b>\$ 2,734.2</b>

<b>Net sales by geographic region:</b>			
North America	\$ 841.2	\$ 698.6	\$ 614.1
Mexico	496.1	436.9	334.0
South & Central America	688.8	554.4	390.4
EMEA	627.8	615.2	527.8
Asia Pacific	1,139.9	938.6	683.5
China	278.5	210.8	184.4
<b>Total Net Sales</b>	<b>\$ 4,072.3</b>	<b>\$ 3,454.5</b>	<b>\$ 2,734.2</b>

- (1) Contribution margin consists of net sales less cost of sales and royalty overrides. See Part II, Item 7 *Management's Discussion and Analysis of Financial Condition and Results of Operations* in this Amendment to the Company's Annual Report on Form 10-K for a description of net sales, cost of sales and royalty overrides.
- (2) Compensation to China sales employees and service fees to China independent service providers totaling \$123.5 million, \$96.8 million, and \$87.3 million for the years ended December 31, 2012, 2011, and 2010, respectively, are included in selling, general and administrative expenses while distributor 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 December 31, 2012 and 2011, total assets for the Company's Primary Reporting Segment were \$1,607.2 million and \$1,374.3 million, respectively. Total assets for the China segment were \$116.9 million and \$88.8 million as of December 31, 2012 and 2011, respectively.

As of December 31, 2012 and 2011, goodwill allocated to the Company's reporting units included in the Company's Primary Reporting Segment was \$102.4 million for both periods. Goodwill allocated to the China segment was \$3.1 million as of December 31, 2012 and 2011.

As of December 31, 2012, the net property, plant and equipment located in the U.S. and in all foreign countries was \$170.9 million and \$71.9 million, respectively. As of December 31, 2011, the net property, plant and equipment located in the U.S. and in all foreign countries was \$144.2 million and \$49.5 million, respectively.

As of December 31, 2012, the deferred tax assets related to the U.S. and all foreign countries was \$68.4 million and \$51.4 million, respectively. As of December 31, 2011, the deferred tax assets related to the U.S. and all foreign countries was \$67.3 million and \$46.2 million, respectively.

The majority of the Company's foreign subsidiaries designate their local currencies as their functional currency. As of December 31, 2012 and 2011, the total amount of cash held by foreign subsidiaries reported in the Company's consolidated balance sheet was \$321.3 million and \$246.0 million, respectively, of which \$6.9 million and \$9.2 million, respectively, was maintained or invested in U.S. dollars.

**Table of Contents****11. Derivative Instruments and Hedging Activities*****Interest Rate Risk Management***

The Company engages in an interest rate hedging strategy for which the hedged transactions are forecasted interest payments on the Company's Credit Facility. The hedged risk is the variability of forecasted interest rate cash flows, where the hedging strategy involves the purchase of interest rate swaps. For the outstanding cash flow hedges on interest rate exposures at December 31, 2012, the maximum length of time over which the Company is hedging certain of these exposures is approximately seven months.

During August 2009, the Company entered into four interest rate swap agreements with an effective date of December 31, 2009. The agreements collectively provide for the Company to pay interest for less than a four-year period at a weighted average fixed rate of 2.78% on notional amounts aggregating to \$140.0 million while receiving interest for the same period at the one month LIBOR rate on the same notional amounts. These agreements will expire in July 2013. These swaps at inception were designated as cash flow hedges against the variability in the LIBOR interest rate on the Company's term loan under the Prior Credit Facility or against the variability in the LIBOR interest rate on the replacement debt. The Company's term loan under the Prior Credit Facility was terminated in March 2011 and refinanced with the Credit Facility as discussed further in Note 4, *Long-Term Debt*. The Company's swaps remain effective and continue to be designated as cash flow hedges against the variability in certain LIBOR interest rate borrowings under the Credit Facility at LIBOR plus 1.50% to 2.50%, fixing the Company's weighted average effective rate on the notional amounts at 4.28% to 5.28%. There was no hedge ineffectiveness recorded as result of this refinancing event.

The Company assesses hedge effectiveness and measures hedge ineffectiveness at least quarterly. During the years ended December 31, 2012 and 2011, the ineffective portion relating to these hedges was immaterial and the hedges remained effective as of December 31, 2012 and December 31, 2011. Consequently, all changes in the fair value of the derivatives are deferred and recorded in other comprehensive income (loss) until the related forecasted transactions are recognized in the consolidated statements of income. The fair value of the interest rate swap agreements are based on third-party quotes. At December 31, 2012 and 2011, the Company recorded the interest rate swaps as liabilities at their fair value of \$2.0 million and \$5.1 million, respectively.

The table below describes the interest rate swaps in aggregate, and the fair value of the liabilities that were outstanding as of December 31, 2012 and 2011:

<b>Interest Rate</b>	<b>Aggregate Notional Amounts (In millions)</b>	<b>Average Swap Rate</b>	<b>Aggregate Fair Value (In millions)</b>	<b>Maturity Dates</b>
<b>At December 31, 2012</b>				
Interest Rate Swaps	\$ 140.0	2.78%	\$ (2.0)	July 2013
<b>At December 31, 2011</b>				
Interest Rate Swaps	\$ 140.0	2.78%	\$ (5.1)	July 2013

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

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As of December 31, 2012 and 2011, the aggregate notional amounts of all foreign currency contracts outstanding designated as cash flow hedges were approximately \$256.9 million and \$64.4 million, respectively. At December 31, 2012, these outstanding contracts were expected to mature over the next twelve months. The Company's derivative financial instruments are recorded on the consolidated balance sheet at fair value based on third-party quotes. As of December 31, 2012, the Company recorded assets at fair value of \$0.5 million and liabilities at fair value of \$3.3 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. As of December 31, 2011, the Company recorded assets 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 years ended December 31, 2012 and 2011, the ineffective portion relating to these hedges was immaterial and the hedges remained effective as of December 31, 2012 and December 31, 2011.

As of December 31, 2012 and 2011, the majority of the Company's outstanding foreign currency forward contracts had maturity dates of less than twelve months and fifteen months, respectively, with the majority of freestanding derivatives expiring within one month as of December 31, 2012 and 2011. There were no foreign currency option contracts outstanding as of December 31, 2012 and 2011.

The table below describes all foreign currency forward contracts that were outstanding as of December 31, 2012 and 2011:

Foreign Currency	Average Contract Rate	Original Notional Amount (In millions)	Fair Value Gain (Loss) (In millions)
<b>At December 31, 2012</b>			
Buy Brazilian real sell U.S. dollar	2.08	\$ 12.5	\$ 0.2
Buy Chinese yuan sell U.S. dollar	6.29	1.3	
Buy Euro sell Argentine peso	6.66	3.0	
Buy Euro sell Australian dollar	1.27	1.4	
Buy Euro sell Chilean peso	633.00	1.5	
Buy Euro sell Indonesian rupiah	12,935.00	9.7	
Buy Euro sell Mexican peso	17.18	143.7	0.3
Buy Euro sell Malaysian ringgit	4.06	15.2	(0.1)
Buy Euro sell Peruvian nuevo sol	3.41	2.0	
Buy Euro sell U.S. dollar	1.33	82.1	(0.4)
Buy British pound sell Euro	0.82	2.4	
Buy Japanese yen sell U.S. dollar	85.88	9.3	(0.1)
Buy South Korean won sell U.S. dollar	1,077.18	52.5	0.2
Buy Malaysian ringgit sell Euro	4.07	0.8	
Buy Malaysian ringgit sell U.S. dollar	3.08	21.7	0.1
Buy U.S. dollar sell Brazilian real	2.05	12.6	
Buy U.S. dollar sell Colombian peso	1,800.10	11.7	(0.2)
Buy U.S. dollar sell Euro	1.30	174.4	(2.9)
Buy U.S. dollar sell British pound	1.62	16.2	(0.1)
Buy U.S. dollar sell South Korean won	1,089.08	6.3	(0.1)
Buy U.S. dollar sell Mexican peso	13.12	25.4	(0.3)
Buy U.S. dollar sell Philippine peso	40.99	2.9	

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Buy U.S. dollar sell New Taiwan dollar	28.98	0.8		
Buy U.S. dollar sell South African rand	8.54	0.7		
Total forward contracts			\$ 610.1	\$ (3.4)

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Foreign Currency	Average Contract Rate	Original Notional Amount (In millions)	Fair Value Gain (Loss) (In millions)
<b>At December 31, 2011</b>			
Buy Chinese yuan sell U.S. dollar	6.34	\$ 2.5	\$
Buy Euro sell Argentine peso	5.70	3.0	
Buy Euro sell Australian dollar	1.30	0.8	
Buy Euro sell British pound	0.83	0.8	
Buy Euro sell Hong Kong dollar	10.15	0.9	
Buy Euro sell Indonesian rupiah	11,985.00	2.2	
Buy Euro sell Indian rupee	69.21	2.3	
Buy Euro sell Mexican peso	18.14	14.9	
Buy Euro sell Malaysian ringgit	4.17	6.0	(0.1)
Buy Euro sell Russian ruble	41.74	9.2	
Buy Euro sell U.S. dollar	1.30	44.8	(0.1)
Buy Euro sell South African rand	10.89	0.6	
Buy British pound sell Euro	0.84	0.8	
Buy Japanese yen sell U.S. dollar	77.85	7.0	0.1
Buy South Korean won sell U.S. dollar	1,161.81	32.2	(0.2)
Buy Malaysian ringgit sell Euro	4.12	0.8	
Buy Malaysian ringgit sell U.S. dollar	3.18	19.0	
Buy Peruvian nuevo sol sell U.S. dollar	2.70	6.7	
Buy Swedish kronor sell Euro	8.98	1.0	
Buy U.S. dollar sell Argentine peso	4.37	0.8	
Buy U.S. dollar sell Colombian peso	1,943.00	5.1	
Buy U.S. dollar sell Euro	1.37	81.4	4.4
Buy U.S. dollar sell British pound	1.55	24.1	
Buy U.S. dollar sell Indian rupee	53.30	1.0	
Buy U.S. dollar sell South Korean won	1,156.38	7.5	
Buy U.S. dollar sell Mexican peso	13.89	37.3	0.4
Buy U.S. dollar sell Philippine peso	43.79	3.2	
Buy U.S. dollar sell Russian ruble	31.86	1.3	
Buy U.S. dollar sell Singapore dollar	1.28	0.3	
Buy U.S. dollar sell Thai baht	31.43	0.2	
Buy U.S. dollar sell South African rand	8.33	1.1	
<b>Total forward contracts</b>		<b>\$ 318.8</b>	<b>\$ 4.5</b>

The following tables summarize the derivative activity during the year ended December 31, 2012, 2011, and 2010 relating to all the Company's derivatives.

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

The following table summarizes gains (losses) relating to derivative instruments recorded in other comprehensive income (loss) during the years ended December 31, 2012, 2011, and 2010:

**Amount of Gain (Loss) Recognized  
in Other Comprehensive Income (Loss)  
For the Year Ended**

**December 31, 2012,    December 31, 2011,    December 31,  
2012                      2011                      2010  
(In millions)**

**Derivatives designated as cash flow hedging  
instruments:**

Foreign exchange currency contracts relating  
to inventory and intercompany management  
fee hedges

\$ (3.3)                      \$     4.1                      \$     5.6

Interest rate swaps

\$ (0.6)                      \$     (2.1)                      \$     (7.5)

As of December 31, 2012, the estimated amount of existing net losses related to cash flow hedges recorded in accumulated other comprehensive income (loss) that are expected to be reclassified into earnings over the next twelve months was \$5.3 million.



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The following table summarizes gains (losses) relating to derivative instruments recorded to income during the years ended December 31, 2012, 2011, and 2010:

	Amount of Gain (Loss) Recognized in Income For the Year Ended			Location of Gain (Loss) Recognized in Income
	December 31, 2012	December 31, 2011	December 31, 2010	
(In millions)				
<b>Derivatives designated as cash flow hedging instruments:</b>				
Foreign exchange currency contracts relating to inventory hedges and intercompany management fee hedges(1)	\$ (1.8)	\$	\$	Selling, general and administrative expenses
<b>Derivatives not designated as hedging instruments:</b>				
Foreign exchange currency contracts	\$ (10.0)	\$ 2.7	\$ (9.4)	Selling, general and administrative expenses

- (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 reported for derivatives designated as hedging instruments.

The following table summarizes gains (losses) relating to derivative instruments reclassified from accumulated other comprehensive loss into income during the years ended December 31, 2012, 2011, and 2010:

	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income For the Year Ended			Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (effective portion)
	December 31, 2012	December 31, 2011	December 31, 2010	
(In millions)				
<b>Derivatives designated as cash flow hedging instruments:</b>				
Foreign exchange currency contracts relating to inventory hedges	\$ 0.1	\$ (0.3)	\$ 1.8	Cost of sales
Foreign exchange currency contracts relating to intercompany management fee hedges	\$ 4.5	\$ (1.8)	\$ 6.6	Selling, general and administrative expenses
Interest rate contracts	\$ (3.6)	\$ (3.6)	\$ (3.6)	Interest expense, net

The Company reports its derivatives at fair value as either assets or liabilities within its consolidated balance sheet. See Note 13, *Fair Value Measurements*, for information on derivative fair values and their consolidated balance sheet location as of December 31, 2012, and December 31, 2011.

## 12. Income Taxes

The components of income before income taxes are as follows (in millions):

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Domestic	\$ 172.3	\$ 143.9	\$ 69.5
Foreign	478.6	415.9	310.6
<b>Total</b>	<b>\$ 650.9</b>	<b>\$ 559.8</b>	<b>\$ 380.1</b>

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Income taxes are as follows (in millions):

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Current:</b>			
Foreign	\$ 104.0	\$ 103.3	\$ 84.9
Federal	82.1	55.3	27.4
State	8.6	7.4	8.2
	194.7	166.0	120.5
<b>Deferred:</b>			
Foreign	(6.3)	(11.8)	(3.2)
Federal	(2.7)	(8.7)	(29.9)
State	1.2	(0.7)	(0.2)
	(7.8)	(21.2)	(33.3)
	\$ 186.9	\$ 144.8	\$ 87.2

The Company recognizes excess tax benefits associated with share-based compensation to shareholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, the Company follows the with-and-without approach. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company, which are also subject to applicable limitations. As of December 31, 2012 and 2011, the Company had \$25.9 million and \$20.6 million, respectively, of unrealized excess tax benefits. Of the \$25.9 million of excess tax benefits at December 31, 2012, \$17.7 million relates to foreign tax credits generated and carried forward on US federal income tax returns. If unused, tax credit carryforwards of \$6.3 million will expire in 2020, \$4.6 million will expire in 2021, and \$6.8 million will expire in 2022.

Venezuela has experienced cumulative inflation of at least 100% during the three year period ended December 31, 2009. Therefore, as of January 1, 2010 the Bolivar is hyperinflationary for U.S. federal income tax purposes. As a result, because Herbalife Venezuela is considered a dual incorporated entity, it is now required to account for its operations using the Dollar Approximate Separate Transactions Method of accounting, or DASTM. The transitional impact of DASTM resulted in a deferred income tax benefit of approximately \$14.5 million recorded during the first quarter of 2010 which is included within the Company's consolidated statement of income for the year ended December 31, 2010. See Note 2, *Basis of Presentation*, for a further discussion on Herbalife Venezuela and Venezuela's highly inflationary economy.

The significant categories of temporary differences that gave rise to deferred tax assets and liabilities are as follows (tax effected in millions):

	<b>Year Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>

<b>Deferred income tax assets:</b>		
Accruals not currently deductible	\$ 48.0	\$ 46.4
Tax loss carry forwards of certain foreign subsidiaries	22.0	16.9
Depreciation/amortization	13.5	13.9
Deferred compensation plan	35.6	26.2
Deferred interest expense	186.9	151.3
Accrued vacation	4.6	4.0
Inventory reserve	6.4	4.2
Hyperinflationary adjustment	3.5	7.4
Other	8.6	11.3
<b>Gross deferred income tax assets</b>	<b>329.1</b>	<b>281.6</b>
Less: valuation allowance	(209.3)	(168.1)
<b>Total deferred income tax assets</b>	<b>\$ 119.8</b>	<b>\$ 113.5</b>
<b>Deferred income tax liabilities:</b>		
Intangible assets	\$ 111.7	\$ 113.1
Unremitted foreign earnings	13.9	8.7
Other	4.5	4.7
<b>Total deferred income tax liabilities</b>	<b>\$ 130.1</b>	<b>\$ 126.5</b>
<b>Total net deferred tax liabilities</b>	<b>\$ (10.3)</b>	<b>\$ (13.0)</b>

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Net operating loss carryforwards of subsidiaries for 2012 and 2011 were \$22.0 million and \$16.9 million, respectively. If unused, net operating losses and tax credits of \$2.6 million will expire between 2013 and 2022 and \$19.4 million can be carried forward indefinitely. Deferred interest carryforwards of subsidiaries for 2012 and 2011 were \$186.9 million and \$151.3 million, respectively, and can be carried forward indefinitely.

The Company recognizes valuation allowances on deferred tax assets reported if, based on the weight of the evidence it is more likely than not that some or all of the deferred tax assets will not be realized. As of December 31, 2012 and December 31, 2011 the Company held valuation allowances against net deferred tax assets of certain subsidiaries, primarily related to deferred interest expense carryforwards and net operating loss carryforwards, in the amount of \$209.3 million and \$168.1 million, respectively. The change in the Company's valuation allowance during 2012 of \$41.2 million was related to \$40.2 million of net additions charged to income tax expense and \$1.0 million of currency translation adjustments recognized within other comprehensive income. The change in the Company's valuation allowance during 2011 of \$29.5 million was related to \$31.8 million of net additions charged to income tax expense, reduced by \$2.3 million of currency translation adjustments recognized within other comprehensive income. The change in the Company's valuation allowance during 2010 of \$65.4 million was primarily related to net additions charged to income tax expense.

At December 31, 2012, the Company's U.S. consolidated group had approximately \$66.4 million of unremitted earnings that were permanently reinvested from certain foreign subsidiaries. In addition, at December 31, 2012, Herbalife Ltd. had approximately \$1.6 billion of permanently reinvested unremitted earnings relating to its operating subsidiaries. Since these unremitted earnings have been permanently reinvested, deferred taxes were not provided on these unremitted earnings. Further, it is not practicable to determine the amount of unrecognized deferred taxes with respect to these unremitted earnings. If the Company were to remit these unremitted earnings then it would be subject to income tax on these remittances. Deferred taxes have been accrued for earnings that are not considered indefinitely reinvested. The deferred tax liability on the unremitted foreign earnings as of December 31, 2012 and 2011 was \$13.9 million and \$8.7 million, respectively.

The applicable statutory income tax rate in the Cayman Islands was zero for Herbalife Ltd. for the years being reported. For purposes of the reconciliation between the provision for income taxes at the statutory rate and the provision for income taxes at the effective tax rate, a notional 35% tax rate is applied as follows (in millions):

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(In millions)</b>		
Tax expense at United States statutory rate	\$ 227.8	\$ 195.9	\$ 133.0
Increase (decrease) in tax resulting from:			
Differences between U.S. and foreign tax rates on foreign income, including withholding taxes	(97.9)	(78.1)	(71.1)
U.S. tax (benefit) on foreign income net of foreign tax credits	1.8	(8.8)	(19.3)
Increase (decrease) in valuation allowances	40.2	31.8	65.4
State taxes, net of federal benefit	7.3	5.2	5.9
Unrecognized tax benefits	6.6	1.1	(10.9)
Venezuela DASTM hyperinflationary impact			(14.5)
Other	1.1	(2.3)	(1.3)
Total	\$ 186.9	\$ 144.8	\$ 87.2

During the years ended December 31, 2012, 2011 and 2010, the Company benefited from the terms of a tax holiday in the People's Republic of China. The tax holiday commenced on January 1, 2008 and concluded on December 31, 2012. Under the terms of the holiday, the Company was subject to an 11% tax rate in 2010, a 12% tax rate in 2011, and a 12.5% tax rate in 2012. The Company will be subject to the statutory tax rate of 25% in 2013.

As of December 31, 2012, the total amount of unrecognized tax benefits, including related interest and penalties was \$47.1 million. If the total amount of unrecognized tax benefits was recognized, \$38.2 million of unrecognized tax benefits, \$5.7 million of interest and \$1.7 million of penalties would impact the effective tax rate. As of December 31, 2011, the total amount of unrecognized tax benefits, including related interest and penalties was \$39.0 million. If the total amount of unrecognized tax benefits was recognized, \$32.1 million of unrecognized tax benefits, \$5.5 million of interest and \$1.1 million of penalties would impact the effective tax rate.

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The Company accounts for the interest and penalties generated by tax contingencies as a component of income tax expense. During the year ended December 31, 2012, the Company recorded an increase in interest and penalty expense related to uncertain tax positions of \$0.2 million and \$0.6 million, respectively. During the year ended December 31, 2011, the Company recorded an increase in interest expense and a reversal of penalty expense related to uncertain tax positions of \$0.1 million and \$0.1 million, respectively. During the year ended December 31, 2010, the Company recorded a reversal of interest and penalty expense related to uncertain tax positions of \$2.9 million. As of December 31, 2012, total amount of interest and penalties related to unrecognized tax benefits were \$5.7 million and \$1.7 million respectively. As of December 31, 2011, total amount of interest and penalties related to unrecognized tax benefits were \$5.5 million and \$1.1 million respectively.

The following changes occurred in the amount of unrecognized tax benefits during the years ended December 31, 2012, 2011, and 2010 (in millions):

	<b>Year Ended December 31, 2012</b>	<b>Year Ended December 31, 2011</b>	<b>Year Ended December 31, 2010</b>
Beginning balance of unrecognized tax benefits	\$ 32.4	\$ 31.6	\$ 39.3
Additions for current year tax positions	7.8	5.5	4.3
Additions for prior year tax positions	4.5	2.0	1.1
Reductions for prior year tax positions	(0.1)	(0.9)	(2.3)
Reductions for audit settlements	(0.3)	(0.7)	(8.6)
Reductions for the expiration of statutes of limitation	(4.9)	(4.5)	(2.4)
Changes due to foreign currency translation adjustments	0.3	(0.6)	0.2
Ending balance of unrecognized tax benefits (excluding interest and penalties)	\$ 39.7	\$ 32.4	\$ 31.6
Interest and penalties associated with unrecognized tax benefits	7.4	6.6	6.9
Ending balance of unrecognized tax benefits (including interest and penalties)	\$ 47.1	\$ 39.0	\$ 38.5

The amount of income taxes the Company pays is subject to ongoing audits by taxing jurisdictions around the world. The Company's estimate of the potential outcome of any uncertain tax position is subject to management's assessment of relevant risks, facts, and circumstances existing at that time. The Company believes that it has adequately provided for these matters. However, the Company's future results may include favorable or unfavorable adjustments to its estimates in the period the audits are resolved, which may impact the Company's effective tax rate. As of December 31, 2012, the Company's tax filings are generally subject to examination in major tax jurisdictions for years ending on or after December 31, 2008.

The Company believes that it is reasonably possible that the amount of unrecognized tax benefits could decrease by up to approximately \$27.9 million within the next twelve months. Of this possible decrease, \$26.0 million would be

due to the settlement of audits or resolution of administrative or judicial proceedings. The remaining possible decrease of \$1.9 million would be due to the expiration of statute of limitations in various jurisdictions.

### **13. Fair Value Measurements**

The Company applies the provisions of FASB 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.



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The Company measures certain assets and liabilities at fair value as discussed throughout the notes to its consolidated financial statements. Foreign exchange currency contracts and interest rate swaps are valued using standard calculations and models. Foreign exchange currency contracts are valued primarily based on inputs such as observable forward rates, spot rates and foreign currency exchange rates at the reporting period ended date. Interest rate swaps are valued primarily based on inputs such as LIBOR and swap yield curves at the reporting period ended date. Assets or liabilities that have recurring measurements and are measured at fair value consisted of Level 2 derivatives and are shown below at their gross values at December 31, 2012, and December 31, 2011:

**Fair Value Measurements at Reporting Date Using**

Derivative Balance Sheet Location	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 2) Fair Value at December 31,
	Fair Value at December 31, 2012	Value at December 31, 2011
<b>(In millions)</b>		
<b>ASSETS:</b>		
<b>Derivatives designated as cash flow hedging instruments:</b>		
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	Prepaid expenses and other current assets	\$ 0.5      \$ 4.4
<b>Derivatives not designated as cash flow hedging instruments:</b>		
Foreign exchange currency contracts	Prepaid expenses and other current assets	\$ 0.7      \$ 0.8
		\$ 1.2      \$ 5.2
<b>LIABILITIES:</b>		
<b>Derivatives designated as cash flow hedging instruments:</b>		
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	Accrued expenses	\$ 3.3      \$
Interest rate swaps	Accrued expenses	\$ 2.0      \$ 5.1
<b>Derivatives not designated as hedging instruments:</b>		
Foreign exchange currency contracts	Accrued expenses	\$ 1.3      \$ 0.7
		\$ 6.6      \$ 5.8

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*, 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 consolidated balance sheet at December 31, 2012 and December 31, 2011:

<b>Offsetting of Derivative Assets</b>			<b>Net Amounts of Assets Presented in the Balance Sheet</b>
	<b>Gross Amounts of Recognized Assets</b>	<b>Gross Amounts Offset in the Balance Sheet (In millions)</b>	
<b>December 31, 2012</b>			
Foreign exchange currency contracts	\$ 1.2	\$ (1.2)	
<b>Total</b>	<b>\$ 1.2</b>	<b>\$ (1.2)</b>	

<b>December 31, 2011</b>			
Foreign exchange currency contracts	\$ 5.2	\$ (0.7)	\$ 4.5
<b>Total</b>	<b>\$ 5.2</b>	<b>\$ (0.7)</b>	<b>\$ 4.5</b>

<b>Offsetting of Derivative Liabilities</b>			<b>Net Amounts of Liabilities Presented in the Balance Sheet</b>
	<b>Gross Amounts of Recognized Liabilities</b>	<b>Gross Amounts Offset in the Balance Sheet (In millions)</b>	
<b>December 31, 2012</b>			
Foreign exchange currency contracts	\$ 4.6	\$ (1.2)	\$ 3.4
Interest rate swaps	2.0		2.0
<b>Total</b>	<b>\$ 6.6</b>	<b>\$ (1.2)</b>	<b>\$ 5.4</b>
<b>December 31, 2011</b>			
Foreign exchange currency contracts	\$ 0.7	\$ (0.7)	
Interest rate swaps	5.1		\$ 5.1
<b>Total</b>	<b>\$ 5.8</b>	<b>\$ (0.7)</b>	<b>\$ 5.1</b>

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 December 31, 2012 and December 31, 2011, 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.

#### **14. Subsequent Events**

On February 19, 2013, the Company announced that its board of directors approved a quarterly cash dividend of \$0.30 per common share to shareholders of record as of March 5, 2013, payable on March 19, 2013.

Subsequent to the year-ended December 31, 2012, borrowings under the Company's revolving credit facility, excluding the Term Loan portion, increased to \$500.0 million, and there was approximately \$195.2 million of unused available credit as of February 19, 2013. These borrowed monies were primarily used for common share repurchases under the Company's share repurchase program described below. As of February 19, 2013, the Company had approximately \$987.5 million of total borrowings outstanding under the Credit Facility, including the Term Loan and revolving credit facility.

During January and February 2013, the Company repurchased approximately 4.0 million of its common shares through open market purchases at an aggregate cost of approximately \$162.4 million, or an average cost of \$40.61 per share.

In February 2013, the Venezuela government announced it is devaluing its Bolivar currency. They announced that the current 5.3 SITME rate will be eliminated and that the CADIVI rate will be devalued from 4.3 Bolivars to 6.3 Bolivars per U.S. dollar. As of December 31, 2012, Herbalife Venezuela's net monetary assets and liabilities denominated in Bolivars was approximately \$82.9 million and included approximately \$99.2 million in Bolivar denominated cash and cash equivalents which were remeasured at the published SITME rate of 5.3 Bolivars per U.S. dollar. This new 6.3 CADIVI rate is 16% less favorable than the previously published 5.3 SITME rate. If during 2013, this new 6.3 CADIVI rate or an alternative unfavorable exchange rate is used for remeasurement purposes, then the Company will have to record a foreign exchange loss to its fiscal year 2013 consolidated statement of income to the extent this exchange rate is less favorable than the previously published 5.3 SITME rate, and the Company's Bolivar denominated cash and cash equivalents will have to be reduced accordingly. The Company continues to monitor the current exchange restrictions in Venezuela and is assessing what exchange rate it should use prospectively for remeasurement purposes. See Note 2, *Basis of Presentation*, for a further description of currency restrictions in Venezuela.

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. Subsequently, the Company has engaged legal and advisory firms to assist with responding to the allegations and to perform other related services in connection to these recent events.

**Table of Contents****15. Quarterly Information (Unaudited)**

	<b>2012</b>	<b>2011</b>
	<b>(In millions, except per share data)</b>	
<b>First Quarter Ended March 31</b>		
Net sales	\$ 964.2	\$ 795.1
Gross profit	768.0	632.3
Net income	107.9	88.8
Earnings per share		
Basic	\$ 0.93	\$ 0.75
Diluted	\$ 0.88	\$ 0.71
<b>Second Quarter Ended June 30</b>		
Net sales	\$ 1,031.9	\$ 879.7
Gross profit	828.2	708.6
Net income	132.0	108.6
Earnings per share		
Basic	\$ 1.13	\$ 0.91
Diluted	\$ 1.09	\$ 0.86
<b>Third Quarter Ended September 30</b>		
Net sales	\$ 1,016.9	\$ 895.2
Gross profit	815.3	719.9
Net income	111.9	107.5
Earnings per share		
Basic	\$ 1.03	\$ 0.92
Diluted	\$ 0.98	\$ 0.86
<b>Fourth Quarter Ended December 31</b>		
Net sales	\$ 1,059.3	\$ 884.5
Gross profit	848.2	713.7
Net income	112.2	110.1
Earnings per share		
Basic	\$ 1.04	\$ 0.95
Diluted	\$ 1.00	\$ 0.90

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Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

HERBALIFE LTD.

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

Dated: December 16, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ MICHAEL O. JOHNSON Michael O. Johnson	Chief Executive Officer, Director, Chairman of the Board (Principal Executive Officer)	December 16, 2013
/s/ JOHN G. DESIMONE John G. DeSimone	Chief Financial Officer (Principal Financial Officer)	December 16, 2013
/s/ BOSCO CHIU Bosco Chiu	Senior Vice President and Principal Accounting Officer (Principal Accounting Officer)	December 16, 2013
/s/ LEROY T. BARNES, JR. Leroy T. Barnes, Jr.	Director	December 16, 2013
/s/ RICHARD P. BERMINGHAM Richard P. Bermingham	Director	December 16, 2013
/s/ CAROLE BLACK Carole Black	Director	December 16, 2013

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/s/ PEDRO CARDOSO	Director	December 16, 2013
Pedro Cardoso		
/s/ RICHARD H. CARMONA	Director	December 16, 2013
Richard H. Carmona		
/s/ JONATHAN CHRISTODORO	Director	December 16, 2013
Jonathan Christodoro		
/s/ KEITH COZZA	Director	December 16, 2013
Keith Cozza		
/s/ JEFFREY T. DUNN	Director	December 16, 2013
Jeffrey T. Dunn		
/s/ MICHAEL J. LEVITT	Director	December 16, 2013
Michael J. Levitt		
/s/ COLOMBE M. NICHOLAS	Director	December 16, 2013
Colombe M. Nicholas		
/s/ MARIA OTERO	Director	December 16, 2013
Maria Otero		
/s/ JOHN TARTOL	Director	December 16, 2013
John Tartol		