

HERBALIFE LTD.
Form 10-Q
August 03, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

OR

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

For the transition period from _____ to _____.

Commission file number: 1-32381

HERBALIFE LTD.

(Exact name of registrant as specified in its charter)

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

incorporation or organization) Identification No.)

P.O. Box 309GT

Ugland House, South Church Street

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Grand Cayman, Cayman Islands

(Address of principal executive offices) (Zip code)

(213) 745-0500

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

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

Number of shares of registrant's common shares outstanding as of July 28, 2016 was 92,906,300.

HERBALIFE LTD.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HERBALIFE LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30,	December 31,
	2016	2015
	(In millions, except share and par value amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$936.7	\$ 889.8
Receivables, net of allowance for doubtful accounts	94.1	69.9
Inventories	322.5	332.0
Prepaid expenses and other current assets	193.2	161.1
Deferred income tax assets	114.8	113.5
Total current assets	1,661.3	1,566.3
Property, at cost, net of accumulated depreciation and amortization	371.5	339.2
Deferred compensation plan assets	29.5	29.3
Other assets	148.1	141.1
Marketing related intangibles and other intangible assets, net	310.1	310.2
Goodwill	93.4	91.8
Total assets	\$2,613.9	\$2,477.9
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	\$85.4	\$ 71.1
Royalty overrides	247.1	249.9
Accrued compensation	115.3	128.8
Accrued expenses	455.8	228.7
Current portion of long-term debt	423.3	229.5
Advance sales deposits	101.4	63.8
Income taxes payable	29.4	52.6
Total current liabilities	1,457.7	1,024.4
NON-CURRENT LIABILITIES:		
Long-term debt, net of current portion	1,003.3	1,392.5
Deferred compensation plan liability	46.9	43.6
Deferred income tax liabilities	0.4	0.4
Other non-current liabilities	70.1	70.5

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Total liabilities	2,578.4	2,531.4
CONTINGENCIES		
SHAREHOLDERS' EQUITY (DEFICIT):		
Common shares, \$0.001 par value; 1.0 billion shares authorized; 93.0 million (2016)		
and 92.7 million (2015) shares outstanding	0.1	0.1
Paid-in capital in excess of par value	457.3	438.2
Accumulated other comprehensive loss	(168.5)	(165.5)
Accumulated deficit	(253.4)	(326.3)
Total shareholders' equity (deficit)	35.5	(53.5)
Total liabilities and shareholders' equity (deficit)	\$2,613.9	\$2,477.9

See the accompanying notes to unaudited condensed consolidated financial statements.

HERBALIFE LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(Unaudited)

	Three Months		Six Months Ended	
	Ended June 30,	June 30,	June 30,	June 30,
	2016	2015	2016	2015
	(In millions, except per share amounts)			
Product sales	\$1,137.9	\$1,090.0	\$2,189.9	\$2,118.3
Shipping & handling revenues	63.9	72.3	131.5	149.4
Net sales	1,201.8	1,162.3	2,321.4	2,267.7
Cost of sales	236.3	229.3	449.4	444.7
Gross profit	965.5	933.0	1,872.0	1,823.0
Royalty overrides	336.7	318.7	648.6	641.7
Selling, general & administrative expenses	676.8	470.5	1,103.9	901.9
Other operating income	(28.1)	—	(28.9)	—
Operating (loss) income	(19.9)	143.8	148.4	279.4
Interest expense, net	23.1	23.7	48.0	45.2
Other expense, net	—	—	—	2.3
(Loss) income before income taxes	(43.0)	120.1	100.4	231.9
Income taxes	(20.1)	37.3	27.5	70.9
NET (LOSS) INCOME	\$(22.9)	\$82.8	\$72.9	\$161.0
(Loss) Earnings per share:				
Basic	\$(0.28)	\$1.00	\$0.88	\$1.95
Diluted	\$(0.28)	\$0.97	\$0.85	\$1.90
Weighted average shares outstanding:				
Basic	83.0	82.6	82.9	82.5
Diluted	83.0	85.2	85.9	84.8

See the accompanying notes to unaudited condensed consolidated financial statements.

HERBALIFE LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2016	2015	2016	2015
	(In millions)			
Net (loss) income	\$ (22.9)	\$ 82.8	\$ 72.9	\$ 161.0
Other comprehensive (loss) income:				
Foreign currency translation adjustment, net of income taxes of \$2.3 and \$(2.4) for the three months ended June 30, 2016 and 2015, respectively, and \$1.5 and \$(4.3) for the six months ended June 30, 2016 and 2015, respectively	(15.8)	10.5	4.2	(44.4)
Unrealized (loss) gain on derivatives, net of income taxes of \$(0.1) and \$(0.3) for the three months ended June 30, 2016 and 2015, respectively, and \$(0.3) and \$0.3 for the six months ended June 30, 2016 and 2015, respectively	(1.5)	(0.7)	(7.1)	4.5
Unrealized loss on available-for-sale investments, net of income taxes of \$0.1 and \$(0.2) for the six months ended June 30, 2016 and 2015, respectively	—	—	(0.1)	(0.3)
Total other comprehensive (loss) income	(17.3)	9.8	(3.0)	(40.2)
Total comprehensive (loss) income	\$ (40.2)	\$ 92.6	\$ 69.9	\$ 120.8

See the accompanying notes to unaudited condensed consolidated financial statements.

HERBALIFE LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended	
	June 30,	June 30,
	2016	2015
	(In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$72.9	\$161.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	47.9	48.0
Excess tax benefits from share-based payment arrangements	(2.1)	(1.5)
Share-based compensation expenses	20.5	23.9
Non-cash interest expense	28.7	25.5
Deferred income taxes	(21.2)	(2.5)
Inventory write-downs	11.2	17.7
Foreign exchange transaction gain	(2.9)	(12.3)
Foreign exchange loss and other charges relating to Venezuela	4.8	36.9
Other	(5.9)	9.3
Changes in operating assets and liabilities:		
Receivables	(20.4)	(24.4)
Inventories	(0.2)	16.5
Prepaid expenses and other current assets	5.7	6.4
Other assets	(5.2)	(10.1)
Accounts payable	17.4	16.8
Royalty overrides	(1.4)	(9.3)
Accrued expenses and accrued compensation	219.3	50.1
Advance sales deposits	37.3	31.8
Income taxes	(40.8)	(26.6)
Deferred compensation plan liability	2.4	1.5
NET CASH PROVIDED BY OPERATING ACTIVITIES	368.0	358.7
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(86.9)	(39.9)
Other	4.5	5.6
NET CASH (USED IN) INVESTING ACTIVITIES	(82.4)	(34.3)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on senior secured credit facility and other debt	(229.7)	(163.8)
Issuance costs relating to long-term debt	—	(6.2)
Share repurchases	(4.5)	(9.1)
Excess tax benefits from share-based payment arrangements	2.1	1.5
Other	(1.4)	0.9

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NET CASH (USED IN) FINANCING ACTIVITIES	(233.5)	(176.7)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(5.2)	(43.5)
NET CHANGE IN CASH AND CASH EQUIVALENTS	46.9	104.2
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	889.8	645.4
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$936.7	\$749.6

See the accompanying notes to unaudited condensed consolidated financial statements.

HERBALIFE LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization

Herbalife Ltd., a Cayman Islands exempt limited liability company, or Herbalife, was incorporated on April 4, 2002. Herbalife Ltd. (and together with its subsidiaries, the “Company”) is a global nutrition company that sells weight management, targeted nutrition, energy, sports & fitness, and outer nutrition products. As of June 30, 2016, the Company sold its products to and through a network of 4.1 million independent members, or Members, which included 0.3 million in China. In China, the Company sells its products to and through independent service providers, sales representatives, and sales officers to customers and preferred customers, as well as through a limited number of Company-operated retail stores. The Company reports revenue in six geographic regions: North America; Mexico; South and Central America; EMEA, which consists of Europe, the Middle East and Africa; Asia Pacific (excluding China); and China.

2. Significant Accounting Policies

Basis of Presentation

The unaudited condensed consolidated interim financial information of the Company has been prepared in accordance with Article 10 of the Securities and Exchange Commission’s, or the SEC, Regulation S-X. Accordingly, as permitted by Article 10 of the SEC’s Regulation S-X, it does not include all of the information required by generally accepted accounting principles in the U.S., or U.S. GAAP, for complete financial statements. The condensed consolidated balance sheet at December 31, 2015 was derived from the audited financial statements at that date and does not include all the disclosures required by U.S. GAAP, as permitted by Article 10 of the SEC’s Regulation S-X. The Company’s unaudited condensed consolidated financial statements as of June 30, 2016, and for the three and six months ended June 30, 2016 and 2015, include Herbalife and all of its direct and indirect subsidiaries. In the opinion of management, the accompanying financial information contains all adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company’s unaudited condensed consolidated financial statements as of June 30, 2016, and for the three and six months ended June 30, 2016 and 2015. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2015, or the 2015 10-K. Operating results for the three and six months ended June 30, 2016, are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

New Accounting Pronouncements

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

the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which deferred the effective date of ASU No. 2014-09 for all entities by one year to annual reporting periods beginning after December 15, 2017. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue versus Net), which clarifies the implementation guidance on principal versus agent considerations in the new revenue recognition standard. ASU 2016-08 clarifies how an entity should identify the unit of accounting (i.e. the specified good or service) for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing, which clarifies the implementation guidance on how an entity should identify performance obligations in contracts with customers, and how it should account for licensing arrangements with customers. In May 2016, the FASB issued ASU 2016-12, Narrow-Scope Improvements and Practical Expedients, to improve guidance on assessing collectability, presentation of sales taxes, noncash consideration, and contract modifications and completed contracts at transition. The amendments in this series of updates shall be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Early adoption is permitted as of the original effective date of December 15, 2016. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

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

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

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

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

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

In March 2016, the FASB issued ASU No. 2016-04, Liabilities — Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products. This ASU requires entities that sell prepaid stored-value products redeemable for goods, services or cash at third-party merchants to recognize breakage (i.e. the value that is ultimately not redeemed by the consumer) in a way that is consistent with how it will be recognized under

the new revenue recognition standard. Under current U.S. GAAP, there is diversity in practice in how entities account for breakage that results when a consumer does not redeem the entire product balance. This ASU clarifies that an entity's liability for prepaid stored-value products within its scope meets the definition of a financial liability. The amendments in this update are effective for reporting periods beginning after December 15, 2017, with early adoption permitted. The amendment may be applied using either a modified retrospective approach or a full retrospective approach. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

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

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

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

In June 2016, the FASB issued ASU No. 2016-13, Financial Instrument — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU changes the impairment model for most financial assets, requiring the use of an expected loss model which requires entities to estimate the lifetime expected credit loss on financial assets measured at amortized cost. Such credit losses will be recorded as an allowance to offset the amortized cost of the financial asset, resulting in a net presentation of the amount expected to be collected on the financial asset. In addition, credit losses relating to available-for-sale debt securities will now be recorded through an allowance for credit losses rather than as a direct write-down to the security. The amendments in this update are effective for reporting periods beginning after December 15, 2019, with early adoption permitted for reporting periods beginning after December 15, 2018. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

Other Operating Income

To encourage local investment and operations, governments in various China provinces conduct grant programs. The Company applied for and received several such grants in China. Government grants are recorded into income when a legal right to the grant exists, there is a reasonable assurance that the grant proceeds will be received, and the substantive conditions under which the grants were provided have been met. During the three and six months ended June 30, 2016, the Company recognized government grant income of approximately \$28.1 million and \$28.9 million, respectively, in other operating income within its condensed consolidated statements of income (loss), related to its regional headquarters and distribution centers within China. The Company intends to continue applying for

government grants in China when programs are available; however, there is no assurance that the Company will receive grants in future periods.

Purchase of Previously Leased Office Building

On April 21, 2016, the Company purchased one of its office buildings in Torrance, California, which it had previously leased, for approximately \$29.6 million. The Company allocated \$16.9 million and \$11.6 million, which was net of the deferred rent liability of \$1.1 million, between buildings and land, respectively, based on their relative fair values.

Venezuela

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

During the three and six months ended June 30, 2016, the Company recognized foreign exchange losses and other related charges of \$2.4 million and \$7.1 million, respectively, as compared to \$0.6 million and \$36.9 million for the same periods in 2015, within its condensed consolidated statements of income (loss) related to its Venezuelan operations. During both the six months ended June 30, 2016 and 2015, Herbalife Venezuela's net sales represented less than 1% of the Company's consolidated net sales. As of June 30, 2016, Herbalife Venezuela's assets primarily consisted of Bolivar-denominated cash of approximately \$2.0 million. See the Company's consolidated financial statements and related notes in the 2015 10-K for further information on Herbalife Venezuela and Venezuela's highly inflationary economy.

3. Inventories

Inventories consist primarily of finished goods available for resale. Inventories are currently stated at lower of cost (primarily on the first-in, first-out basis) and net realizable value.

The following are the major classes of inventory:

	June 30,	December 31,
	2016	2015
	(In millions)	
Raw materials	\$44.5	\$ 41.5
Work in process	5.4	3.8
Finished goods	272.6	286.7
Total	\$322.5	\$ 332.0

4. Long-Term Debt

Long-term debt consists of the following:

	June 30,	December 31,
	2016	2015
	(In millions)	
Senior secured credit facility, carrying value	\$410.0	\$ 639.5
Convertible senior notes, carrying value of liability	1,003.3	982.5

component		
Other debt	13.3	—
Total	1,426.6	1,622.0
Less: current portion	423.3	229.5
Long-term portion	\$1,003.3	\$1,392.5

Senior Secured Credit Facility

On March 9, 2011, the Company entered into a \$700.0 million senior secured revolving credit facility, or the Credit Facility, with a syndicate of financial institutions as lenders and terminated its prior senior secured credit facility, or the Prior Credit Facility.

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

On July 26, 2012, the Company amended the Credit Facility to include a \$500.0 million term loan with a syndicate of financial institutions as lenders, or the Term Loan. The Term Loan was a part of the Credit Facility and was in addition to the Company's current revolving credit facility.

In July 2012, the Company used all \$500.0 million of the borrowings under the Term Loan to pay down amounts outstanding under the Company's revolving credit facility. The Company incurred approximately \$4.5 million of debt issuance costs in connection with the Term Loan. These debt issuance costs were recorded on the Company's condensed consolidated balance sheet and amortized over the life of the Term Loan. The Term Loan matured on March 9, 2016 and was repaid in full.

In February 2014, in connection with issuing the \$1.15 billion Convertible Notes described below, the Company amended the Credit Facility. Pursuant to this amendment, the Company amended the terms of the Credit Facility to provide for technical amendments to the indebtedness, asset sale and dividend covenants and the cross-default event of default to accommodate the issuance of the convertible senior notes described below and the capped call and prepaid forward share repurchase transactions described in greater detail in Note 10, Shareholders' Equity (Deficit). The amendment also increased by 0.50% the highest applicable margin payable by Herbalife in the event that Herbalife's consolidated total leverage ratio is equal to or exceeds 2.50 to 1.00 and increased the permitted consolidated total leverage ratio of Herbalife under the Credit Facility. The Company incurred approximately \$2.3 million of debt issuance costs in connection with the amendment. The debt issuance costs are recorded on the Company's condensed consolidated balance sheet and are being amortized over the life of the Credit Facility.

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

The base rate under the Credit Facility represents the highest of the Federal Funds Rate plus 0.50%, the one-month LIBOR plus 1.00%, and the prime rate offered by Bank of America. The Company, based on its consolidated leverage ratio, pays a commitment fee between 0.40% and 0.50% per annum on the unused portion of the Credit Facility. The Credit Facility also permits the Company to borrow limited amounts in Mexican Peso and Euro currencies based on variable rates. All obligations under the Credit Facility are unconditionally guaranteed by certain of the Company's subsidiaries and are secured by substantially all of the assets of the U.S. subsidiaries of the parent company, Herbalife Ltd. and by certain assets of certain foreign subsidiaries of Herbalife Ltd.

The Credit Facility requires the Company to comply with a leverage ratio and a coverage ratio. In addition, the Credit Facility contains customary covenants, including covenants that limit or restrict the Company's ability to incur liens, incur indebtedness, make investments, dispose of assets, make certain restricted payments, pay dividends, repurchase its common shares, merge or consolidate and enter into certain transactions with affiliates. The Credit Facility restricts the Company's ability to pay dividends or repurchase its common shares to a maximum of \$233.0 million until maturity and for every one dollar of share repurchase or dividend paid, the revolving credit facility's borrowing capacity is permanently decreased by two dollars. The Credit Facility also provides for the grant of security interest on certain additional assets of the Company and its subsidiaries. The Company is also required to maintain a minimum balance of \$200.0 million of consolidated cash and cash equivalents. As of June 30, 2016 and December 31, 2015, the Company was compliant with its debt covenants under the Credit Facility.

On June 30, 2016 and December 31, 2015, the weighted average interest rate for borrowings under the Credit Facility, including borrowings under the Term Loan as of December 31, 2015, was 3.87% and 2.78%, respectively.

During the three months ended March 31, 2016, the Company repaid a total amount of \$229.7 million to repay in full the Term Loan. The Company did not repay any amounts under the revolving credit facility during the three months ended June 30, 2016. As of June 30, 2016, the U.S. dollar amount outstanding under the revolving credit facility was \$410.0 million. As of December 31, 2015, the U.S. dollar amount outstanding under the Credit Facility was \$639.7 million, which consisted of \$229.7 million outstanding on the Term Loan and \$410.0 million outstanding on the revolving credit facility. There were no outstanding foreign currency borrowings as of June 30, 2016 and December 31, 2015 under the Credit Facility.

The fair value of the outstanding borrowings on the Company's revolving credit facility approximated its carrying value as of June 30, 2016 due to its variable interest rate which reprices frequently and which represents floating market rates. The fair value of the outstanding borrowings on the Company's revolving credit facility is determined by utilizing Level 2 inputs as defined in Note 12, Fair Value Measurements, such as observable market interest rates and yield curves.

Convertible Senior Notes

During February 2014, the Company initially issued \$1 billion aggregate principal amount of convertible senior notes, or Convertible Notes, in a private offering to qualified institutional buyers, pursuant to Rule 144A under the Securities Act of 1933, as amended. The Company granted an option to the initial purchasers to purchase up to an additional \$150 million aggregate principal amount of Convertible Notes which was subsequently exercised in full during February 2014, resulting in a total issuance of \$1.15 billion aggregate principal amount of Convertible Notes. The Convertible Notes are senior unsecured obligations which rank effectively subordinate to any of the Company's existing and future secured indebtedness, including amounts outstanding under the Credit Facility, to the extent of the value of the assets securing such indebtedness. The Convertible Notes pay interest at a rate of 2.00% per annum payable semiannually in arrears on February 15 and August 15 of each year, beginning on August 15, 2014. The Convertible Notes mature on August 15, 2019, unless earlier repurchased or converted. The Company may not redeem the Convertible Notes prior to their stated maturity date. Holders of the Convertible Notes may convert their notes at their option under the following circumstances: (i) during any calendar quarter commencing after the calendar quarter ending March 31, 2014, if the last reported sale price of the Company's common shares for at least 20 trading days (whether or not consecutive) in a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter exceeds 130% of the conversion price for the Convertible Notes on each applicable trading day; (ii) during the five business-day period immediately after any five consecutive trading day period, or the measurement period, in which the trading price per \$1,000 principal amount of Convertible Notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of the Company's common shares and the conversion rate for the Convertible Notes for each such day; or (iii) upon the occurrence of specified corporate events. On and after May 15, 2019, holders may convert their Convertible Notes at any time, regardless of the foregoing circumstances. Upon conversion, the Convertible Notes will be settled in cash and, if applicable, the Company's common shares, based on the applicable conversion rate at such time. The Convertible Notes had an initial conversion rate of 11.5908 common shares per \$1,000 principal amount of the Convertible Notes (which is equal to an initial conversion price of approximately \$86.28 per common share).

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

During February 2014, the \$1.15 billion proceeds received from the issuance of the Convertible Notes were initially allocated between long-term debt, or liability component, and additional paid-in-capital, or equity component, within the Company's condensed consolidated balance sheet at \$930.9 million and \$219.1 million, respectively. The liability component was measured using the nonconvertible debt interest rate. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the face value of the Convertible Notes as a whole. Since the Company must still settle these Convertible Notes at face value at or prior to maturity, this liability component will be accreted up to its face value resulting in additional non-cash interest expense being recognized within the Company's condensed consolidated statements of income (loss) while the Convertible Notes remain outstanding. The effective interest rate on the Convertible Notes is approximately 6.2% per annum. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

As of June 30, 2016, the outstanding principal on the Convertible Notes was \$1.15 billion, the unamortized debt discount and debt issuance cost was \$146.7 million, and the carrying amount of the liability component was \$1,003.3 million, which was recorded to long-term debt within the Company's condensed consolidated balance sheet as

reflected in the table above within this Note. As of June 30, 2016, the fair value of the liability component relating to the Convertible Notes was approximately \$957.5 million. As of December 31, 2015, the outstanding principal on the Convertible Notes was \$1.15 billion, the unamortized debt discount and debt issuance costs was \$167.6 million, and the carrying amount of the liability component was \$982.5 million, which was recorded to long-term debt within the Company's consolidated balance sheet as reflected in the table above within this Note. As of December 31, 2015, the fair value of the liability component relating to the Convertible Notes was approximately \$795.9 million. At June 30, 2016 and December 31, 2015, the Company determined the fair value of the liability component of the Convertible Notes using two valuation methods. The Company reviewed market data that was available for publicly traded, senior, unsecured nonconvertible corporate bonds issued by companies with similar credit ratings. Assumptions used in the estimate represent what market participants would use in pricing the liability component, including market yields and credit standing to develop the straight debt yield estimate. The Company also used a lattice model, which included inputs such as stock price, the Convertible Note trading price, volatility and dividend yield to estimate the straight debt yield. The Company combined the results of the two valuation methods to determine the fair value of the liability component of the Convertible Notes. Most of these inputs are primarily considered Level 2 and Level 3 inputs. This valuation approach was similar to the approach the Company used to determine the initial fair value of the liability component of the Convertible Notes on the February 7, 2014 issuance date.

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

During the three and six months ended June 30, 2016, the Company recognized \$16.2 million and \$32.3 million, respectively, of interest expense relating to the Convertible Notes, which included \$9.6 million and \$19.0 million, respectively, relating to non-cash interest expense relating to the debt discount and \$1.0 million and \$1.9 million, respectively, relating to amortization of debt issuance costs. During the three and six months ended June 30, 2015, the Company recognized \$15.6 million and \$30.8 million, respectively, of interest expense relating to the Convertible Notes, which included \$8.9 million and \$17.7 million, respectively, relating to non-cash interest expense relating to the debt discount and \$1.0 million and \$1.9 million, respectively, relating to amortization of debt issuance costs. The Company's total interest expense, including the Credit Facility, was \$24.6 million and \$24.8 million for the three months ended June 30, 2016 and 2015, respectively, and \$50.6 million and \$48.2 million for the six months ended June 30, 2016 and 2015, respectively, which was recognized within its condensed consolidated statements of income (loss).

As of June 30, 2016, the aggregate annual maturity of the Credit Facility was expected to be \$410.0 million for 2017. The \$1.15 billion Convertible Notes are due in 2019.

Certain vendors and government agencies may require letters of credit or similar guaranteeing arrangements to be issued or executed. As of June 30, 2016, the Company had \$40.4 million of issued but undrawn letters of credit or similar arrangements, which included the Mexico Value Added Tax, or VAT, related surety bonds described in Note 5, Contingencies.

5. Contingencies

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

As a marketer of foods, dietary and nutritional supplements, and other products that are ingested by consumers or applied to their bodies, the Company has been and is currently subjected to various product liability claims. The effects of these claims to date have not been material to the Company, and the reasonably possible range of exposure on currently existing claims is not material to the Company. The Company believes that it has meritorious defenses to the allegations contained in the claims. The Company currently maintains product liability insurance with an annual deductible of \$15 million.

Certain of the Company's subsidiaries have been subject to tax audits by governmental authorities in their respective countries. In certain of these tax audits, governmental authorities are proposing that significant amounts of additional taxes and related interest and penalties are due. The Company and its tax advisors believe that there are substantial defenses to governmental allegations that significant additional taxes are owed, and the Company is vigorously contesting the additional proposed taxes and related charges.

On May 7, 2010, the Company received an assessment from the Mexican Tax Administration Service in an amount equivalent to approximately \$62 million, translated at the June 30, 2016 spot rate, for various items, the majority of which was VAT allegedly owed on certain of the Company's products imported into Mexico during the years 2005 and 2006. This assessment is subject to interest and inflationary adjustments. On July 8, 2010, the Company initiated a formal administrative appeal process. On May 13, 2011, the Mexican Tax Administration Service issued a resolution on the Company's administrative appeal. The resolution nullified the assessment. Since the Mexican Tax Administration Service can further review the tax audit findings and re-issue some or all of the original assessment, the Company commenced litigation in the Tax Court of Mexico in August 2011 to dispute the assertions made by the Mexican Tax Administration Service in the case. The Company received notification on February 6, 2015 that the Tax Court of Mexico nullified substantially all of the assessment. On March 18, 2015, the Mexican Tax Administration Service filed an appeal against the verdict with the Circuit Court. On August 27, 2015, the Circuit Court remanded the case back to the Tax Court of Mexico to reconsider a portion of the procedural decision that was adverse to the Mexican Tax Administration. The Company received notification on March 18, 2016 that the Tax Court of Mexico nullified a portion of the assessment and upheld a portion of the original assessment. The Company is preparing an appeal of this decision to the Circuit Court. The Company believes that it has meritorious defenses if the assessment is reissued. The Company has not recognized a loss as the Company does not believe a loss is probable.

The Mexican Tax Administration Service commenced audits of the Company's Mexican subsidiaries for the period from January to September 2007 and on May 10, 2013, the Company received an assessment of approximately \$15.8 million, translated at the June 30, 2016 spot rate, related to that period. On July 11, 2013, the Company filed an administrative appeal disputing the assessment. On September 22, 2014, the Mexican Tax Administration Service denied the Company's administrative appeal. The Company commenced litigation in the Tax Court of Mexico in November 2014 to dispute the assertions made by the Mexican Tax Administration Service in the case. The Company issued a surety bond in the amount of \$17.1 million, translated at the June 30, 2016 spot rate, through an insurance company to guarantee payment of the tax assessment as required while the Company pursues an appeal of the assessment. Litigation in this case is currently ongoing. The Company has not recognized a loss as the Company does not believe a loss is probable.

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

The Mexican Customs Service has challenged the customs classification codes used by the Company for certain importations. A change in the customs classification codes would require the payment of additional VAT and other taxes for those importations. The Company believes that the customs classification codes used for the importation of these products were correct and has generally prevailed in such cases through an administrative appeal. The Company expects to challenge any further assessments as they are received. Most of the products that were the subject of the dispute have since been reformulated to avoid potential additional assessments related to future importations of product.

The Mexican Tax Administration Service has delayed processing VAT refunds for companies operating in Mexico and the Company believes that the process for its Mexico subsidiary to receive VAT refunds may be delayed. In March 2015, the Company commenced litigation in the Tax Court of Mexico to reclaim the VAT refund pertaining specifically to the July 2013 period. In July 2016, the Company withdrew its VAT refund claim as it has elected to apply this immaterial amount against certain future tax liabilities. As of June 30, 2016, the Company had \$50.8 million of Mexico VAT related assets, of which \$40.5 million was within non-current other assets and \$10.3 million was within prepaid expenses and other current assets on its consolidated balance sheet. This amount relates to VAT payments made over various periods and the Company believes these amounts are recoverable by refund or they may be applied against certain future tax liabilities. The Company has not recognized any losses related to these VAT related assets as the Company does not believe