HERBALIFE LTD.
Form 10-Q/A
December 16, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A

Amendment No. 1

(Mark One)

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

For the quarterly period ended March 31, 2013

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 incorporation or organization)	**(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)

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 x

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Number of shares of registrant s common shares outstanding as of December 11, 2013 was 101,010,427.

HERBALIFE LTD.

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

Table of Contents

EXPLANATORY NOTE

On April 29, 2013, Herbalife Ltd., or the Company, filed its Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2013, or the Original 10-Q. However, as previously disclosed in the Original 10-Q, because of the resignation of KPMG LLP as the Company s independent registered public accounting firm described in greater detail in the Explanatory Note to Amendment No. 1 to the Company s Annual Report on Form 10-K/A for the fiscal year ended December 31, 2012, filed with the SEC on December 16, 2013, or the 2012 10-K/A, the unaudited interim financial information presented in the Original 10-Q was not subject to a Statement of Auditing Standards No. 100, or SAS 100, review by an outside independent registered public accounting firm as required by the rules of the Securities and Exchange Commission, or the SEC, and the Original 10-Q was therefore considered deficient. 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. Additional information with respect to the selection of PwC is disclosed in the Explanatory Note to the 2012 10-K/A.

This Amendment No. 1 on Form 10-Q/A to the Original 10-Q, or this Amendment, is being filed to disclose that PwC has completed its SAS 100 review of the unaudited interim financial information presented in the Original 10-Q and to make certain revisions to the Company s financial statements covered by the Original 10-Q in respect of the prior period income tax errors, or the Prior Period Errors, discussed in greater detail in Note 2, *Significant Accounting Policies* under the heading *Revision of Prior Period Financial Statements* in this Amendment. In addition, the Company has updated Note 2, *Significant Accounting Policies*, and Note 14, *Subsequent Events*, to reflect the engagement of PwC, the completion of the re-audits noted in the Explanatory Note to the 2012 10-K/A, and the completion of the SAS 100 review for the interim periods covered by this Amendment. As a result, the Company s consolidated financial statements and notes thereto set forth in Part I, Item 1 of the Original 10-Q are hereby updated and superseded to reflect the foregoing. In addition, Part I, Items 2 and 4 of the Original 10-Q are amended and restated herein in their entirety to address the Prior Period Errors. 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 II, Item 6 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 II, Item 6 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-Q and this Amendment does not change the other disclosures contained in the Original 10-Q. In addition, except as specifically described above, this Amendment does not reflect events occurring after the filing of the Original 10-Q, 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-Q have not been revised to reflect events that occurred or facts that became known to the Company after the filing of the Original 10-Q, and such forward looking statements should be read in their historical context.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

HERBALIFE LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2013	December 31, 2012
	(In thousands, except shareand par value amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 722,474	$ 333,534
Receivables, net of allowance for doubtful accounts of $1,988 (2013) and $2,273 (2012)	112,041	116,139
Inventories	334,412	339,411
Prepaid expenses and other current assets	146,373	145,624
Deferred income taxes	50,622	49,339
Total current assets	1,365,922	984,047
Property, at cost, net of accumulated depreciation and amortization of $272,728 (2013) and $255,862 (2012)	246,682	242,886
Deferred compensation plan assets	25,074	24,267
Deferred financing costs, net	6,809	7,462
Other assets	48,141	48,805
Marketing related intangibles and other intangible assets, net	311,090	311,186
Goodwill	105,490	105,490
Total assets	$ 2,109,208	$ 1,724,143
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 79,109	$ 75,209
Royalty overrides	221,814	243,351
Accrued compensation	66,719	95,220
Accrued expenses	195,466	181,523
Current portion of long-term debt	62,807	56,302
Advance sales deposits	44,684	49,432
Income taxes payable	71,434	61,325
Total current liabilities	742,033	762,362

NON-CURRENT LIABILITIES:		
Long-term debt, net of current portion	912,517	431,305
Deferred compensation plan liability	32,529	29,454
Deferred income taxes	59,888	62,982
Other non-current liabilities	44,550	42,557
Total liabilities	1,791,517	1,328,660
CONTINGENCIES		
SHAREHOLDERS EQUITY:		
Common shares, $0.001 par value; 1.0 billion shares authorized; 103.0 million (2013) and 106.9 million (2012) shares outstanding	103	107
Paid-in-capital in excess of par value	299,391	303,975
Accumulated other comprehensive loss	(41,711)	(31,695)
Retained earnings	59,908	123,096
Total shareholders equity	317,691	395,483
Total liabilities and shareholders equity	$ 2,109,208	$ 1,724,143

See the accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

HERBALIFE LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended March 31, 2013	March 31, 2012
	(In thousands, except per share amounts)	
Product sales	$ 951,583	$ 821,646
Shipping & handling revenues	172,064	142,529
Net sales	1,123,647	964,175
Cost of sales	225,977	196,144
Gross profit	897,670	768,031
Royalty overrides	364,029	317,533
Selling, general & administrative expenses	364,720	296,393
Operating income	168,921	154,105
Interest expense, net	5,373	1,373
Income before income taxes	163,548	152,732
Income taxes	44,675	44,801
NET INCOME	$ 118,873	$ 107,931
Earnings per share:		
Basic	$ 1.14	$ 0.93
Diluted	$ 1.10	$ 0.88
Weighted average shares outstanding:		
Basic	104,121	116,191
Diluted	108,068	122,373
Dividends declared per share	$ 0.30	$ 0.30

See the accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

HERBALIFE LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended	
	March 31, 2013	March 31, 2012
	(In thousands)	
Net income	$ 118,873	$ 107,931
Other comprehensive income (loss):		
Foreign currency translation adjustment, net of income taxes of $(305) and $1,757 for the three months ended March 31, 2013 and 2012, respectively	(8,684)	11,219
Unrealized (loss) gain on derivatives, net of income taxes of $(507) and $(641) for the three months ended March 31, 2013 and 2012, respectively	(1,332)	(1,722)
Total other comprehensive income (loss)	(10,016)	9,497
Total comprehensive income	$ 108,857	$ 117,428

See the accompanying notes to unaudited condensed consolidated financial statements.

6

Table of Contents

HERBALIFE LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 118,873	$ 107,931
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,964	18,590
Excess tax benefits from share-based payment arrangements	(447)	(20,675)
Share-based compensation expenses	7,866	7,227
Amortization of deferred financing costs	650	286
Deferred income taxes	(3,773)	(597)
Unrealized foreign exchange transaction (gain) loss	(10,971)	(3,868)
Foreign exchange loss from Venezuela currency devaluation	15,116	
Other	(890)	391
Changes in operating assets and liabilities:		
Receivables	3,216	(14,759)
Inventories	5,012	9,742
Prepaid expenses and other current assets	(8,200)	(4,029)
Other assets	(15)	(905)
Accounts payable	4,900	11,496
Royalty overrides	(21,472)	(2,302)
Accrued expenses and accrued compensation	(15,517)	(17,373)
Advance sales deposits	(3,857)	9,062
Income taxes	23,097	16,720
Deferred compensation plan liability	3,075	3,431
NET CASH PROVIDED BY OPERATING ACTIVITIES	137,627	120,368
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(24,856)	(24,691)
Proceeds from sale of property, plant and equipment	24	15
Deferred compensation plan assets		(2,552)
NET CASH USED IN INVESTING ACTIVITIES	(24,832)	(27,228)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(30,904)	(35,172)
Borrowings from long-term debt	513,223	114,560
Principal payments on long-term debt	(25,509)	(86,402)

Share repurchases	(164,485)	(72,942)
Excess tax benefits from share-based payment arrangements	447	20,675
Proceeds from exercise of stock options and sale of stock under employee stock purchase plan	425	7,128
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	293,197	(52,153)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(17,052)	6,099
NET CHANGE IN CASH AND CASH EQUIVALENTS	388,940	47,086
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	333,534	258,775
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 722,474	$ 305,861
CASH PAID DURING THE PERIOD		
Interest paid	$ 5,486	$ 2,477
Income taxes paid	$ 31,853	$ 29,958

See the accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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 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 March 31, 2013, the Company sold its products to and through a network of 3.6 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. Significant Accounting Policies

Basis of Presentation

The unaudited 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, 2012 was derived from the audited financial statements at that date included in Amendment No.1 to the Company s Annual Report on Form 10-K/A for the fiscal year ended December 31, 2012, or the 10-K Amendment, which reflects the revisions discussed below, and does not include all the disclosures required by U.S. GAAP, as permitted by Article 10 of the SEC s Regulation S-X. The Company s unaudited condensed consolidated financial statements as of March 31, 2013, and for the three months ended March 31, 2013 and 2012, include Herbalife and all of its direct and indirect subsidiaries. In the opinion of management, the accompanying financial information contains all adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company s unaudited condensed consolidated financial statements as of March 31, 2013, and for the three months ended March 31, 2013 and 2012. 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, 2012, as amended by the 10-K Amendment, or the 2012 10-K. Operating results for the three months ended March 31, 2013, are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

New Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for which the Total Amount of the Obligation Is Fixed at the Reporting Date (a consensus of the FASB Emerging Issues Task Force).* This ASU addresses the recognition, measurement, and disclosure of certain obligations resulting from joint and several arrangements including debt arrangements, other contractual obligations, and settled litigation and judicial rulings. The ASU is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In March 2013, the FASB issued ASU No. 2013-05, *Foreign Currency Matters (Topic 830)*: *Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (a consensus of the FASB Emerging Issues Task Force).* This ASU addresses the accounting for the cumulative translation adjustment when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. This ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

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.

Table of Contents

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 was amending its Annual Report on Form 10-K for the fiscal year ended December 31, 2012 due to its predecessor auditors withdrawing their opinions, is amending the original Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2013 pursuant to this Amendment, and will amend its Quarterly Report on Form 10-Q for the fiscal quarters ended June 30, 2013 and September 30, 2013, which Form 10-Qs were deficient due to the absence of a SAS 100 review, the Company decided to revise its applicable prior period financial statements in the 10-K Amendment and this Amendment so that the financial statements included therein and herein 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 Report 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.

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

Condensed Consolidated Balance Sheets

	March 31, 2013		December 31, 2012	
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted
	(In thousands)			
Prepaid expenses and other current assets	$ 126,465	$ 146,373	$ 125,425	$ 145,624
Total current assets	$ 1,346,014	$ 1,365,922	$ 963,848	$ 984,047
Total assets	$ 2,089,300	$ 2,109,208	$ 1,703,944	$ 1,724,143
Income taxes payable	$ 26,272	$ 71,434	$ 15,854	$ 61,325
Total current liabilities	$ 696,871	$ 742,033	$ 716,891	$ 762,362
Total liabilities	$ 1,746,355	$ 1,791,517	$ 1,283,189	$ 1,328,660
Retained earnings	$ 85,162	$ 59,908	$ 148,368	$ 123,096
Total shareholders equity	$ 342,945	$ 317,691	$ 420,755	$ 395,483
Total liabilities and shareholders equity	$ 2,089,300	$ 2,109,208	$ 1,703,944	$ 1,724,143

Condensed Consolidated Statements of Income

	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012	
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted

	(In thousands, except per share amount)			
Income taxes	$ 44,692	$ 44,675	$ 44,570	$ 44,801
Net Income	$ 118,856	$ 118,873	$ 108,162	$ 107,931
Basic earnings per share	$ 1.14	$ 1.14	$ 0.93	$ 0.93
Diluted earnings per share	$ 1.10	$ 1.10	$ 0.88	$ 0.88

Table of Contents

Condensed Consolidated Statements of Comprehensive Income

	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012	
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted
	(In thousands)			
Net Income	$ 118,856	$ 118,873	$ 108,162	$ 107,931
Total comprehensive income	$ 108,840	$ 108,857	$ 117,659	$ 117,428

Condensed Consolidated Statement of Cash Flows

	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012	
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted
	(In thousands)			
Net Income	$ 118,856	$ 118,873	$ 108,162	$ 107,931
Income taxes	$ 23,114	$ 23,097	$ 16,489	$ 16,720

Venezuela

Currency restrictions enacted by the Venezuelan government have become more restrictive and have impacted the ability of the Company s subsidiary in Venezuela, Herbalife Venezuela, to timely obtain U.S. dollars in exchange for Venezuelan Bolivars, or Bolivars, at the official foreign exchange rate 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 rate remains uncertain.

In February 2013, the Venezuela government announced that it devalued its Bolivar currency and will eliminate the SITME regulated system. The SITME 5.3 Bolivars per U.S. dollar rate was eliminated and the CADIVI rate has been devalued from 4.3 Bolivars to 6.3 Bolivars per U.S. dollar. This new CADIVI rate is approximately 16% less favorable than the previously published 5.3 SITME rate. The Company recognized approximately $15.1 million of net foreign exchange losses within its condensed consolidated statement of income for the three months ended March 31, 2013, as a result of remeasuring the Company s Bolivar denominated monetary assets and liabilities at this new CADIVI rate of 6.3 Bolivars per U.S. dollar. The majority of these foreign exchange losses related to the approximately $16.9 million devaluation of Herbalife Venezuela s Bolivar denominated cash and cash equivalents. In March 2013, the Venezuelan government also announced they will introduce an additional complimentary exchange mechanism known as SICAD. It is currently unknown whether Herbalife Venezuela will be able to access this new exchange mechanism and the Company is currently assessing and monitoring the restrictions and exchange rates relating to this alternative mechanism.

During the three months ended March 31, 2013, the Company also recognized $0.7 million of foreign exchange losses as a result of exchanging Bolivars for U.S. dollars using alternative legal exchange mechanisms that were approximately 75% less favorable than the new CADIVI rate. During the three months ended March 31, 2013, the Company has exchanged 5.6 million Bolivars for $0.2 million U.S. dollars using these alternative legal exchange mechanisms. As of March 31, 2013, Herbalife Venezuela s net monetary assets and liabilities denominated in Bolivars were approximately $89.5 million, and included approximately $102.3 million in Bolivar denominated cash and cash equivalents. These Bolivar denominated assets and liabilities were remeasured at the CADIVI rate. The Company remeasures its Bolivars at the official published CADIVI rate given the limited availability of alternative exchange mechanisms and the uncertainty in the effective exchange rate for alternative exchange mechanisms. These remeasured amounts, including cash and cash equivalents, being reported on the Company s condensed consolidated balance sheet using the published CADIVI rate 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 CADIVI, 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. Herbalife Venezuela s net sales represented approximately 4% and 3% of the Company s consolidated net sales for the three months ended March 31, 2013 and 2012, respectively, and its total assets represented approximately 6% and 7% of the Company s consolidated total assets as of March 31, 2013 and December 31, 2012, respectively. As of March 31, 2013 and December 31, 2012, the majority of its total assets consisted of Bolivar denominated cash and cash equivalents.

See the Company s 2012 10-K for further information on Herbalife Venezuela and Venezuela s highly inflationary economy.

Table of Contents

3. Inventories

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

	March 31, 2013	December 31, 2012
	(In millions)	
Raw materials	$ 20.4	$ 19.6
Work in process	2.2	1.9
Finished goods	311.8	317.9
Total	$ 334.4	$ 339.4

4. Long-Term Debt

Long-term debt consists of the following:

	March 31, 2013	December 31, 2012
	(In millions)	
Borrowings under the senior secured credit facility	$ 975.0	$ 487.5
Capital leases	0.1	0.1
Other debt	0.2	
Total	975.3	487.6
Less: current portion	62.8	56.3
Long-term portion	$ 912.5	$ 431.3

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

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

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

In July 2012, the Company used all $500.0 million of the borrowings under the Term Loan to pay down amounts outstanding under the Company s revolving credit facility. The Company incurred approximately $4.5 million of debt issuance costs in connection with the Term Loan. The debt issuance costs are recorded as deferred financing costs on the Company s consolidated balance sheet and will be amortized over the life of the Term Loan. On March 31, 2013 and December 31, 2012, the weighted average interest rate for borrowings under the Credit Facility, including borrowings under the Term Loan, was 1.94% and 1.96%, 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 March 31, 2013 and December 31, 2012, the Company was compliant with its debt covenants under the Credit Facility. The fair value of the outstanding borrowings on the Company s revolving credit facility and Term Loan approximated their carrying values as of March 31, 2013, due to their variable interest rates which reprice frequently and represent floating market rates. The fair value of the outstanding borrowings on the Company s revolving credit facility and Term Loan are determined by utilizing Level 2 inputs as defined in Note 12, *Fair Value Measurements*, such as observable market interest rates and yield curves.

During the three months ended March 31, 2013, the Company borrowed an aggregate amount of $513.0 million and paid a total amount of $25.5 million under the Credit Facility. As of March 31, 2013 and December 31, 2012, the U.S. dollar amount outstanding under the Credit Facility was $975.0 million and $487.5 million, respectively. Of the $975.0 million U.S. dollar amount outstanding under the Credit Facility as of March 31, 2013, $475.0 million was outstanding on the Term Loan and $500.0 million was outstanding on the revolving credit facility. 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 March 31, 2013 and December 31, 2012 under the Credit Facility.

As of March 31, 2013, the aggregate annual maturities of the Credit Facility were expected to be $43.8 million for 2013, $81.2 million for 2014, $100.0 million for 2015, and $750.0 million for 2016.

Interest expense was $6.8 million and $2.9 million for the three months ended March 31, 2013 and 2012, respectively.

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

Certain of the Company s subsidiaries have been subject to tax audits by governmental authorities in their respective countries. In certain of these tax audits, governmental authorities are proposing that significant amounts of additional taxes and related interest and penalties are due. The Company and its tax advisors believe that there are substantial defenses to governmental allegations that additional taxes are owed, and the Company is vigorously contesting the additional proposed taxes and related charges. On May 7, 2010, the Company received an assessment from the Mexican Tax Administration Service in an amount equivalent to approximately $93 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. At a meeting on April 4, 2013, the Mexican Tax Administration Service indicated that they anticipate assessing the Company for the period January 2, 2007 through September 14, 2007 for VAT related matters. The Company intends to file an administrative appeal disputing any assessment. The Company has not recognized a loss as the Company does not believe a loss is probable.

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.

Table of Contents

The Company received an assessment from the Spanish Tax Authority in an amount equivalent to approximately $4.1 million translated at the period ended spot rate, for withholding taxes, interest and penalties related to payments to Spanish distributors for the 2003-2004 periods. The Company appealed the assessment to the National Appellate Court (Audiencia Nacional). Based on the ruling of the National Appellate Court, substantially all of the assessment was nullified. The Company began withholding taxes on payments to Spanish 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 $6.9 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. The Company has not recognized a loss as the Company does not believe a loss is probable.

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

6. Segment Information

The Company is a nutrition company that sells a wide range of weight management products, nutritional supplements and personal care products. 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 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 March 31, 2013, 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:

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
	(In millions)	
Net Sales:		
Primary Reporting Segment		
United States	$ 216.2	$ 204.5
Mexico	132.9	117.1
South Korea	110.0	93.1
Others	596.0	492.6
Total Primary Reporting Segment	1,055.1	907.3
China	68.5	56.9
Total Net Sales	$ 1,123.6	$ 964.2

	Three Months Ended March 31, 2013	March 31, 2012
	(In millions)	
Contribution Margin(1)(2):		
Primary Reporting Segment		
United States	$ 94.7	$ 95.4
Mexico	58.6	43.9
South Korea	55.2	42.0
Others	264.7	218.1
Total Primary Reporting Segment	473.2	399.4
China	60.5	51.2
Total Contribution Margin	$ 533.7	$ 450.6
Selling, general and administrative expenses(2)	364.7	296.4
Interest expense, net	5.4	1.4
Income before income taxes	163.6	152.8
Income taxes	44.7	44.8
Net Income	$ 118.9	$ 108.0
Net sales by product line:		
Weight Management	$ 711.6	$ 601.8
Targeted Nutrition	256.9	224.9
Energy, Sports and Fitness	58.3	48.1
Outer Nutrition	38.2	36.7
Literature, promotional and other(3)	58.6	52.7
Total Net Sales	$ 1,123.6	$ 964.2
Net sales by geographic region:		
North America	$ 221.5	$ 210.7
Mexico	132.9	117.1
South and Central America	219.4	165.5
EMEA	169.5	154.0
Asia Pacific	311.8	260.0
China	68.5	56.9
Total Net Sales	$ 1,123.6	$ 964.2

(1) Contribution margin consists of net sales less cost of sales and royalty overrides. See Part I, Item 2 *Management s Discussion and Analysis of Financial Condition and Results of Operations* in this Amendment for a description of net sales, cost of sales and royalty overrides.

(2) Service fees to China independent service providers totaling $31.4 million and $25.8 million for the three months ended March 31, 2013 and 2012, 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 March 31, 2013 and December 31, 2012, total assets for the Company s Primary Reporting Segment were $1,979.5 million and $1,607.2 million, respectively. Total assets for the China segment were $129.7 million and $116.9 million as of March 31, 2013 and December 31, 2012, respectively.

7. Share-Based Compensation

The Company has share-based compensation plans, which are more fully described in Note 9, *Share-Based Compensation*, to the Consolidated Financial Statements in the 2012 10-K. During the three months ended March 31, 2013, the Company granted stock awards subject to continued service, consisting of stock appreciation rights, or SARs, and stock units with vesting terms fully described in the 2012 10-K. There were no stock options granted during the three months ended March 31, 2013.

Table of Contents

For the three months ended March 31, 2013 and 2012, share-based compensation expense amounted to $7.9 million and $7.2 million, respectively. As of March 31, 2013, the total unrecognized compensation cost related to all non-vested stock awards was $43.2 million and the related weighted-average period over which it is expected to be recognized is approximately 1.4 years.

The following tables summarize the activity under all share-based compensation plans for the three months ended March 31, 2013:

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, 2012(2) (3)	11,333	$ 28.62	5.9 years	$ 119.1
Granted	46	$ 34.05		
Exercised	(9)	$ 10.34		
Forfeited	(9)	$ 44.71		
Outstanding at March 31, 2013(2) (3)	11,361	$ 28.65	5.6 years	$ 151.6
Exercisable at March 31, 2013(2)	6,235	$ 17.83	3.9 years	$ 126.8

(1) The intrinsic value is the amount by which the current market value of the underlying stock exceeds the exercise price of the stock awards.
(2) Includes 1.5 million market condition SARs.
(3) Includes 0.9 million market and performance condition SARs.

The weighted-average grant date fair value of SARs granted during the three months ended March 31, 2013 and 2012 was $11.15 and $25.23, respectively. The total intrinsic value of stock options and SARs exercised during the three months ended March 31, 2013 and 2012 was $0.3 million and $69.6 million, respectively.

Incentive Plan and Independent Directors Stock Units	**Shares (In thousands)**	**Weighted Average Grant Date Fair Value**
Outstanding and nonvested December 31, 2012	321.6	$ 11.70
Granted	7.6	$ 35.63
Vested	(130.5)	$ 8.16
Forfeited		

Outstanding and nonvested at March 31, 2013	198.7	$ 14.93

The total vesting date fair value of stock units which vested during the three months ended March 31, 2013 and 2012, was $4.3 million and $18.5 million, respectively.

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 March 31, 2013, and December 31, 2012, the Company had $26.0 million and $25.9 million, respectively, of unrealized excess tax benefits.

8. Income Taxes

Income taxes were $44.7 million for the three months ended March 31, 2013, as compared to $44.8 million for the same period in 2012. The effective income tax rate was 27.3% for the three months ended March 31, 2013, as compared to 29.3% for the same period in 2012. The decrease in the effective tax rate for the three months ended March 31, 2013, as compared to the same period in 2012, was primarily due to an increase of net benefits from discrete events and the impact of changes in the geographic mix of the Company s income.

As of March 31, 2013, the total amount of unrecognized tax benefits, including related interest and penalties was $49.0 million. If the total amount of unrecognized tax benefits was recognized, $39.8 million of unrecognized tax benefits, $5.9 million of interest and $1.7 million of penalties would impact the effective tax rate.

Table of Contents

The Company believes that it is reasonably possible that the amount of unrecognized tax benefits could decrease by up to approximately $28.3 million within the next twelve months. Of this possible decrease, $26.1 million would be due to the settlement of audits or resolution of administrative or judicial proceedings. The remaining possible decrease of $2.2 million would be due to the expiration of statute of limitations in various jurisdictions.

9. Derivative Instruments and Hedging Activities

Interest Rate Risk Management

The Company 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 March 31, 2013, the maximum length of time over which the Company is hedging certain of these exposures is approximately four 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 three months ended March 31, 2013 and 2012, the ineffective portion relating to these hedges was immaterial and the hedges remained effective as of March 31, 2013 and December 31, 2012. 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 condensed consolidated statements of income. The fair value of the interest rate swap agreements are based on third-party quotes. At March 31, 2013 and December 31, 2012, the Company recorded the interest rate swaps as liabilities at their fair value of $1.2 million and $2.0 million, respectively.

Foreign Currency Instruments

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

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

As of March 31, 2013 and December 31, 2012, the aggregate notional amounts of all foreign currency contracts outstanding designated as cash flow hedges were approximately $249.8 million and $256.9 million, respectively. At March 31, 2013, these outstanding contracts were expected to mature over the next twelve months. The Company s derivative financial instruments are recorded on the condensed consolidated balance sheet at fair value based on third-party quotes. As of March 31, 2013, the Company recorded assets at fair value of $2.7 million and liabilities at fair value of $9.6 million relating to all outstanding foreign currency contracts designated as cash-flow hedges. 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. The Company assesses hedge effectiveness and measures hedge ineffectiveness at least quarterly. During the three months ended March 31, 2013 and 2012, the ineffective portion relating to these hedges was immaterial and the hedges remained effective as of March 31, 2013 and December 31, 2012.

Table of Contents

As of March 31, 2013 and December 31, 2012, the majority of the Company s outstanding foreign currency forward contracts had maturity dates of less than twelve months, with the majority of freestanding derivatives expiring within one month as of March 31, 2013 and December 31, 2012. There were no foreign currency option contracts outstanding as of March 31, 2013 and December 31, 2012. See Part I, Item 3 *Quantitative and Qualitative Disclosures About Market Risk* in the Original 10-Q for foreign currency instruments outstanding as of March 31, 2013, where the Company had aggregate notional amounts of approximately $549.9 million of foreign currency contracts, inclusive of freestanding contracts and contracts designated as cash flow hedges.

Gains and Losses on Derivative Instruments

The following table summarizes gains (losses) relating to derivative instruments recorded in other comprehensive income (loss) during the three months ended March 31, 2013 and 2012:

	Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss) For the Three Months Ended	
	March 31, 2013	**March 31, 2012**
	(In millions)	
Derivatives designated as hedging instruments:		
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	$ (4.1)	$ (1.7)
Interest rate swaps		$ (0.4)

The following table summarizes gains (losses) relating to derivative instruments recorded to income during the three months ended March 31, 2013 and 2012:

	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income For the Three Months Ended	
		March 31, 2013	**March 31, 2012**
		(In millions)	
Derivatives designated as hedging instruments:			
Foreign exchange currency contracts relating to inventory hedges and intercompany management fee hedges (1)	Selling, general and administrative expenses	$ (1.1)	$ 0.1
Derivatives not designated as hedging instruments:			
Foreign exchange currency contracts	Selling, general and administrative expenses	$ (8.7)	$ (10.8)

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

The following table summarizes gains (losses) relating to derivative instruments reclassified from accumulated other comprehensive loss into income during the three months ended March 31, 2013 and 2012:

	Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)	**Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income For the Three Months Ended**	
		March 31, 2013	**March 31, 2012**
		(In millions)	
Derivatives designated as hedging instruments:			
Foreign exchange currency contracts relating to inventory hedges	Cost of sales	$ (1.3)	
Foreign exchange currency contracts relating to intercompany management fee hedges	Selling, general and administrative expenses	$ (0.1)	$ 1.2
Interest rate contracts	Interest expense, net	$ (0.9)	$ (0.9)

17

The Company reports its derivatives at fair value as either assets or liabilities within its condensed consolidated balance sheet. See Note 12, *Fair Value Measurements*, for information on derivative fair values and their condensed consolidated balance sheet location as of March 31, 2013 and December 31, 2012.

10. Shareholders Equity

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, restrictions imposed by the Credit Facility and the terms of any other indebtedness that may be outstanding, cash requirements, future prospects and other factors deemed relevant by its board of directors. The Credit Facility permits payments of dividends as long as no default or event of default exists and the consolidated leverage ratio specified in the Credit Facility is not exceeded.

On February 19, 2013, the Company announced that its board of directors approved a cash dividend of $0.30 per common share in an aggregate amount of $30.9 million that was paid to shareholders on March 19, 2013. The aggregate amount of dividends declared and paid during the three months ended March 31, 2013 and 2012 were $30.9 million and $35.2 million, respectively.

Share Repurchases

On July 30, 2012, the Company announced that its board of directors authorized a new $1 billion share repurchase program that will expire on June 30, 2017. 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.

During the three months ended March 31, 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. As of March 31, 2013, the remaining authorized capacity under the Company s share repurchase program was $787.6 million.

The Company reflects the aggregate purchase price of its 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 Company s share repurchase program described above.

Accumulated Other Comprehensive Income (Loss)

The following table summarizes changes in accumulated other comprehensive income (loss) during the three months ended March 31, 2013:

	Changes in Accumulated Other Comprehensive Income (Loss) by Component Three Months Ended March 31, 2013		
	Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on Derivatives (In millions)	Total
Beginning Balance	$ (28.8)	$ (2.9)	$ (31.7)
Other comprehensive income (loss) before reclassifications, net of tax	(8.7)	(2.9)	(11.6)
Amounts reclassified from accumulated other comprehensive income (loss) to income, net of tax(1)		1.6	1.6
Total other comprehensive income (loss), net of reclassifications	(8.7)	(1.3)	(10.0)
Ending balance	$ (37.5)	$ (4.2)	$ (41.7)

(1) See Note 9, *Derivative Instruments and Hedging Activities*, for information regarding the location in the condensed consolidated statements of income of gains (losses) reclassified from accumulated other comprehensive income (loss) into income during the three months ended March 31, 2013.

Table of Contents

Other comprehensive income (loss) before reclassifications was net of tax benefits of $0.3 million and $1.2 million for foreign currency translation adjustments and unrealized gain (loss) on derivatives, respectively, for the three months ended March 31, 2013. Amounts reclassified from accumulated other comprehensive income (loss) to income was net of tax expense of $0.7 million for unrealized gain (loss) on derivatives for the three months ended March 31, 2013.

11. 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.

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

	For the Three Months Ended March 31,	
	2013	2012
	(in thousands)	
Weighted average shares used in basic computations	104,121	116,191
Dilutive effect of exercise of equity grants outstanding	3,947	6,022
Dilutive effect of warrants		160
Weighted average shares used in diluted computations	108,068	122,373

There were an aggregate of 4.2 million and 1.8 million of equity grants that were outstanding during the three months ended March 31, 2013 and 2012, respectively, consisting of stock options, SARs, and stock units, but were not included in the computation of diluted earnings per share because their effect would be anti-dilutive.

12. 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.

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 March 31, 2013, and December 31, 2012:

Table of Contents

Fair Value Measurements at Reporting Date

	Derivative Balance Sheet Location	Significant Other Observable Inputs (Level 2) Fair Value at March 31, 2013	Significant Other Observable Inputs (Level 2) Fair Value at December 31, 2012
		(in millions)	
ASSETS:			
Derivatives designated as cash flow hedging instruments:			
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	Prepaid expenses and other current assets	$ 2.7	$ 0.5
Derivatives not designated as cash flow hedging instruments:			
Foreign exchange currency contracts	Prepaid expenses and other current assets	$ 0.3	$ 0.7
		$ 3.0	$ 1.2
LIABILITIES:			
Derivatives designated as cash flow hedging instruments:			
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	Accrued expenses	$ 9.6	$ 3.3
Interest rate swaps	Accrued expenses	$ 1.2	$ 2.0
Derivatives not designated as hedging instruments:			
Foreign exchange currency contracts	Accrued expenses	$ 2.1	$ 1.3
		$ 12.9	$ 6.6

The Company s deferred compensation plan assets consist of Company owned life insurance policies. As these policies are recorded at their cash surrender value, they are not required to be included in the fair value table above. See Note 6, *Employee Compensation Plans*, to the Company s 2012 10-K for a further description of its deferred compensation plan assets.

The following tables summarize the offsetting of the fair values of the Company s derivative assets and derivative liabilities for presentation in the Company s condensed consolidated balance sheet at March 31, 2013 and December 31, 2012:

	Offsetting of Derivative Assets		
	Gross Amounts of Recognized Assets	**Gross Amounts Offset in the Balance Sheet**	**Net Amounts of Assets Presented in the Balance Sheet**
		(In millions)	
March 31, 2013			
Foreign exchange currency contracts	$ 3.0	$ (2.2)	$ 0.8
Total	$ 3.0	$ (2.2)	$ 0.8
December 31, 2012			
Foreign exchange currency contracts	$ 1.2	$ (1.2)	
Total	$ 1.2	$ (1.2)	

20

Table of Contents

Offsetting of Derivative Liabilities

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheet (In millions)	Net Amounts of Liabilities Presented in the Balance Sheet
March 31, 2013			
Foreign exchange currency contracts	$ 11.7	$ (2.2)	$ 9.5
Interest rate swaps	1.2		1.2
Total	$ 12.9	$ (2.2)	$ 10.7
December 31, 2012			
Foreign exchange currency contracts	$ 4.6	$ (1.2)	$ 3.4
Interest rate swaps	2.0		2.0
Total	$ 6.6	$ (1.2)	$ 5.4

The Company offsets the fair value of its derivative assets and derivative liabilities in its condensed consolidated balance sheet to the extent it maintains master netting arrangements with related financial institutions. The Company offsets all recorded assets and liabilities subject to master netting arrangements on its condensed consolidated balance sheet. As of March 31, 2013 and December 31, 2012, no collateralization was required for the Company s derivative assets and derivative liabilities.

13. Professional Fees and Other Expenses

In late 2012, a hedge fund manager publicly raised allegations regarding the legality of the Company s network marketing program and announced that the hedge fund manager had taken a significant short position regarding the Company s common shares, leading to intense public scrutiny and significant stock price volatility. The Company believes that the hedge fund manager s allegations are inaccurate and misleading. The Company has engaged legal and advisory firms to assist with responding to the allegations and to perform other related services in connection to these recent events. The Company recognizes the related expenses as a part of selling, general & administrative expenses within its consolidated statement of income. For the three months ended March 31, 2013, the Company recorded approximately $9.5 million of professional fees and other expenses related to this matter.

Of the approximately $9.5 million in expenses incurred during the three months ended March 31, 2013 discussed above, approximately $1.5 million was recognized for advisory retainer fees. The minimum guaranteed retainer fees was approximately $8.5 million as of March 31, 2013 and the expense recognition of these fees could accelerate based on certain conditions.

The Company also had a cash settlement liability award, or the Liability Award, outstanding as of March 31, 2013, which is tied to the Company s stock price and which only vests if certain conditions are met relating to the above matter. The fair value of the Liability Award will be revalued each quarter until settlement and the Company will recognize and adjust the expense over the expected requisite service period. The expense recognized during the three months ended March 31, 2013, relating to the Liability Award was approximately $1.0 million, and is included in the approximately $9.5 million expense described above. The remaining unrecognized expense relating to the Liability Award was approximately $4.0 million as of March 31, 2013, based on the fair value of the Liability Award as of that date. The recognition of the unrecognized expense relating to the Liability Award could accelerate and change based on certain conditions.

14. Subsequent Events

On April 8, 2013, KPMG LLP, or KPMG, notified the Company that KPMG was resigning, effective immediately, as the Company s independent accountant. KPMG stated it had concluded it was not independent because of 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 alleged 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.

Table of Contents

As a result of the alleged insider trading activity by its now former partner and KPMG s resulting resignation on April 8, 2013, KPMG notified the Company its independence has 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. See the Explanatory Note within this Amendment for additional information regarding these events as they pertain to the engagement of PwC as the Company s independent registered public accounting firm and PwC s re-audit reports of the periods referenced above.

On April 29, 2013, the Company announced that its board of directors approved a cash dividend of $0.30 per common share, payable on May 28, 2013 to shareholders of record as of May 14, 2013.

Table of Contents

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

Overview

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 March 31, 2013, we sold our products to and through a network of 3.6 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 March 31, 2013, we sold our products in 88 countries.

Our products are grouped in four principal categories: weight management, targeted nutrition, energy, sports & fitness and Outer Nutrition, along with literature and promotional items. Our products are often sold through a series of related products and literature designed to simplify weight management and nutrition for consumers and maximize our 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 weight management, nutrition and wellness-related products along with the global increase in under employment and unemployment which can affect the recruitment and retention of 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.

Table of Contents

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 more expensive products.

	Three Months Ended March 31,		
	2013	**2012**	**% Change**
	(Volume points in millions)		
North America	309.0	298.4	3.6%
Mexico	206.3	191.4	7.8%
South & Central America	219.8	164.7	33.5%
EMEA	161.3	145.9	10.6%
Asia Pacific (excluding China)	320.0	273.8	16.9%
China	47.6	40.9	16.4%
Worldwide	1,264.0	1,115.1	13.4%

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.

	Three Months Ended March 31,		
	2013	**2012**	**% Change**
North America	68,352	62,532	9.3%
Mexico	60,216	52,674	14.3%
South & Central America	52,049	40,614	28.2%
EMEA	46,094	41,332	11.5%
Asia Pacific (excluding China)	68,690	55,706	23.3%
China	11,864	9,531	24.5%
Worldwide(1)	296,916	252,321	17.7%

(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)	**2013**	**2012**
	(In thousands)	
January 1 total sales leaders	583.1	501.3
January & February new sales leaders	37.1	34.8
Demoted sales leaders (did not re-qualify)	(182.8)	(151.3)
Other sales leaders (resigned, etc)	(1.3)	(0.8)
End of February total sales leaders	436.1	384.0

Table of Contents

The distributor statistics below further highlight the calculation for retention.

Sales Leaders Retention (Excluding China)	2013	2012
	(In thousands)	
Sales leaders needed to re-qualify	379.6	314.9
Demoted sales leaders (did not re-qualify)	(182.8)	(151.3)
Total re-qualified	196.8	163.6
Retention rate	51.8%	52.0%

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	
	2013	2012	2013	2012
North America	86,469	79,150	54.7%	51.1%
Mexico	78,453	67,959	57.6%	59.2%
South & Central America	79,351	65,653	53.6%	55.7%
EMEA	57,071	55,121	60.7%	61.5%
Asia Pacific (excluding China)	134,714	116,158	40.1%	40.2%
Total Sales Leaders	436,058	384,041	51.8%	52.0%
China	30,304	26,262		
Worldwide Total Sales Leaders	466,362	410,303		

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

We provide 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. See *Critical Accounting Policies* below for further discussion 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

Table of Contents

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 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 and promotional products; and

- other discretionary incentive cash bonuses to qualifying distributors.

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

Because of local country regulatory constraints, we may be required to modify our 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. Foreign currency exchange rates can fluctuate significantly. From time to time, we enter into foreign exchange forward and option contracts to partially mitigate our foreign currency exchange risk as discussed in further detail in Part I, Item 3 *Quantitative and Qualitative Disclosures about Market Risk* in the Original 10-Q.

Table of Contents

Summary Financial Results

Net sales for the three months ended March 31, 2013 increased 16.5% to $1,123.6 million as compared to $964.2 million for the same period in 2012. In local currency, net sales for the three months ended March 31, 2013 increased 17.5% as compared to the same period in 2012. 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 three months ended March 31, 2013 increased 10.1% to $118.9 million, or $1.10 per diluted share, as compared to $107.9 million, or $0.88 per diluted share, for the same period in 2012. The increase for the three months ended March 31, 2013 was primarily due to higher contribution margin driven by the sales growth discussed above partially offset by higher selling, general and administrative expenses to support the growth of our business and higher interest expense.

Net income for the three months ended March 31, 2013 included a $15.1 million pre-tax unfavorable impact ($10.5 million post-tax) related to the Venezuela Bolivar devaluation (See *Liquidity and Capital Resources Working Capital and Operating Activities* below for further discussion of currency exchange rate issues in Venezuela) and an approximately $9.5 million pre-tax unfavorable impact ($8.0 million post-tax) related to legal, advisory services and other expenses for the Company s response to allegations and other negative information put forward in the marketplace by a hedge fund manager which started in late 2012 (See *Selling, General and Administrative Expenses* below for further discussion). The income tax impact of the expenses discussed above is based on forecasted items affecting the Company s 2013 full year effective tax rate. Adjustments to forecasted items unrelated to these expenses may have an effect on the income tax impact of these items in subsequent periods.

Results of Operations

Our results of operations for the periods below are not necessarily indicative of results of operations for the full year or future periods, which depend upon numerous factors, including our ability to recruit new 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:

	Three Months Ended	
	March 31, 2013	**March 31, 2012**
Operations:		
Net sales	100.0%	100.0%
Cost of sales	20.1	20.3
Gross profit	79.9	79.7
Royalty overrides(1)	32.4	32.9
Selling, general and administrative expenses(1)	32.5	30.8
Operating income	15.0	16.0

Interest expense, net	0.4	0.2
Income before income taxes	14.6	15.8
Income taxes	4.0	4.6
Net income	10.6%	11.2%

(1) 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.

Table of Contents

Net Sales

The following chart reconciles retail sales to net sales:

Sales by Geographic Region

	Three Months Ended March 31,										
	2013					2012					
	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	Change in Net Sales
						(In millions)					
North America	$ 350.0	$ (166.7)	$ 183.3	$ 38.2	$ 221.5	$ 333.3	$ (158.2)	$ 175.1	$ 35.6	$ 210.7	5.1%
Mexico	215.0	(105.1)	109.9	23.0	132.9	189.3	(92.4)	96.9	20.2	117.1	13.5%
South & Central America	343.3	(161.5)	181.8	37.6	219.4	272.3	(130.1)	142.2	23.3	165.5	32.6%
EMEA	274.7	(132.5)	142.2	27.3	169.5	248.8	(120.0)	128.8	25.2	154.0	10.1%
Asia Pacific	486.4	(220.4)	266.0	45.8	311.8	406.1	(184.3)	221.8	38.2	260.0	19.9%
China	79.7	(11.3)	68.4	0.1	68.5	67.3	(10.4)	56.9		56.9	20.4%
Worldwide	$ 1,749.1	$ (797.5)	$ 951.6	$ 172.0	$ 1,123.6	$ 1,517.1	$ (695.4)	$ 821.7	$ 142.5	$ 964.2	16.5%

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 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 encourage 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 three months ended March 31, 2013 as compared to the same period in 2012, 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.

North America

The North America region reported net sales of $221.5 million for the three months ended March 31, 2013. Net sales increased $10.8 million, or 5.1%, for the three months ended March 31, 2013, as compared to the same period in 2012. In local currency, net sales increased 5.1% for the three months ended March 31, 2013, as compared to the same period in 2012. The overall increase in net sales in the region was primarily a result of net sales growth in the U.S. of $11.8 million, or 5.8%, for the three months ended March 31, 2013, as compared to the same period in 2012.

In the U.S. we continue to see success from consistent execution of daily consumption DMOs, especially the Nutrition Club. The U.S. also had a 2% price increase in March 2012 which contributed to the increase in sales. The success of these DMOs has resulted in higher levels of distributor engagement and momentum as reflected by record sales leader retention of 54.7% in 2013 compared to 51.0% in 2012.

Average active sales leaders in the region increased 9.3% for the three months ended March 31, 2013 as compared to the same period in 2012. Average active sales leaders in the U.S. increased 9.2% for the three months ended March 31, 2013, as compared to the same period in 2012.

In February 2013, the region hosted a series of trainings in nine cities with approximately 8,500 attendees.

Mexico

The Mexico region reported net sales of $132.9 million for the three months ended March 31, 2013. Net sales for the three months ended March 31, 2013 increased $15.8 million, or 13.5%, as compared to the same period in 2012. In local currency, net sales for the three months ended March 31, 2013 increased 10.5%, as compared to the same period in 2012. The fluctuation of foreign currency rates had a favorable impact of $3.5 million on net sales for the three months ended March 31, 2013.

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 by many distributors from home clubs to commercial clubs, which are able to generate higher volumes of sales through the servicing of more customers and longer operating hours. Mexico also had a 1% price increase in December 2012 and in February 2013 which contributed to the increase in net sales. Sales leader retention in 2013 was 57.6% compared to 59.2% in 2012.

Average active sales leaders in Mexico increased 14.3% for the three months ended March 31, 2013, as compared to the same period in 2012.

South and Central America

The South and Central America region reported net sales of $219.4 million for the three months ended March 31, 2013. Net sales increased $53.9 million, or 32.6%, for the three months ended March 31, 2013, as compared to the same period in 2012. In local currency, net sales increased 40.5% for the three months ended March 31, 2013, as compared to the same period in 2012. The fluctuation of foreign currency rates had a $13.0 million unfavorable impact on net sales for the three months ended March 31, 2013, which excludes the Venezuela devaluation as discussed below. The increase in net sales for the three months ended March 31, 2013 was due to growth in most of the countries in the region led by Venezuela and Brazil. This growth was primarily driven by the adoption and expansion of the Nutrition Club and other daily consumption DMOs throughout the region.

Net sales in Brazil increased $14.7 million, or 17.6%, for the three months ended March 31, 2013, as compared to the same period in 2012. In local currency, net sales increased 33.0% for the three months ended March 31, 2013, as compared to the same period in 2012. The increase in local currency net sales was primarily the result of the successful ongoing adoption of Nutrition Clubs and other daily consumption DMOs. We also had a price increase of approximately 4.0% in March 2013 which contributed to the increased sales. The fluctuation of foreign currency rates had a $12.9 million unfavorable impact on net sales in Brazil for the three months ended March 31, 2013. Sales leader retention in 2013 was 45.9% compared to 50.3% in 2012.

Net sales in Venezuela increased $27.1 million, or 110.8%, for the three months ended March 31, 2013, as compared to the same period in 2012. The overall sales growth was primarily due to increased distributor engagement and growth in the Nutrition Club DMO. We also had price increases of 15% in December 2012 which contributed to the increase in sales. The rate for which we remeasure sales in Venezuela was officially devalued from 5.3 Venezuelan Bolivars to U.S. dollar to 6.3 Venezuelan Bolivars to U.S. dollar during February 2013, and had a $6.1 million unfavorable impact on net sales in Venezuela for the three months ended March 31, 2013. See *Liquidity and Capital Resources Working Capital and Operating Activities* below for further discussion of currency exchange rate issues in Venezuela. Sales leader retention in 2013 was 68.9% compared to 55.8% in 2012.

Table of Contents

Average active sales leaders in the region increased 28.2% for the three months ended March 31, 2013, as compared to the same period in 2012.

In February 2013, the region hosted a regional Extravaganza in Bogota, Colombia with approximately 20,200 attendees.

EMEA

The EMEA region reported net sales of $169.5 million for the three months ended March 31, 2013. Net sales increased $15.5 million, or 10.1%, for the three months ended March 31, 2013, as compared to the same period in 2012. In local currency, net sales increased 10.1% for the three months ended March 31, 2013, as compared to the same period in 2012. The fluctuation of foreign currency rates had virtually no impact on net sales for the three months ended March 31, 2013. The increase in net sales for the three months ended March 31, 2013 was primarily driven by net sales growth in Russia, United Kingdom and Spain.

Net sales in Russia increased $6.1 million, or 27.8%, for the three months ended March 31, 2013, as compared to the same period in 2012. In local currency, net sales increased 29.0% for the three months ended March 31, 2013, as compared to the same period in 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. The fluctuation of foreign currency rates had a $0.2 million unfavorable impact on net sales in Russia for the three months ended March 31, 2013. Sales leader retention for 2013 was 75.8% compared to 76.8% in 2012.

Net sales in Italy decreased $0.5 million, or 1.9%, for the three months ended March 31, 2013 as compared to the same period in 2012. In local currency, net sales decreased 2.8% for the three months ended March 31, 2013, as compared to the same period in 2012. Management believes that the market may be beginning to embrace daily consumption DMOs which generally cause short to medium term declines in the business. The fluctuation of foreign currency rates had a $0.2 million favorable impact on net sales in Italy for the three months ended March 31, 2013. Sales leader retention for 2013 was 57.0% compared to 57.1% in 2012.

Net sales in Spain increased $2.0 million, or 16.5% for the three months ended March 31, 2013, as compared to the same period in 2012. In local currency, net sales in Spain increased 15.1% for the three months ended March 31, 2013, as compared to the same period in 2012. 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. The fluctuation of foreign currency rates had a $0.2 million favorable impact on net sales in Spain for the three months ended March 31, 2013. Sales leader retention for 2013 was 64.4% compared to 68.9% in 2012.

Average active sales leaders in the region increased 11.5% for the three months ended March 31, 2013, as compared to the same period in 2012.

Asia Pacific

The Asia Pacific region, which excludes China, reported net sales of $311.8 million for the three months ended March 31, 2013. Net sales increased $51.8 million, or 19.9%, for the three months ended March 31, 2013, as compared to the same period in 2012. In local currency, net sales increased 20.1% for the three months ended March 31, 2013, as compared to the same period in 2012. The fluctuation of foreign currency rates had an unfavorable impact of $0.4 million on net sales for the three months ended March 31, 2013. The increase in net sales for the three months ended March 31, 2013 reflected growth in almost all the countries in the region led by South Korea, Indonesia and Malaysia.

Net sales in South Korea increased $16.9 million, or 18.1%, for the three months ended March 31, 2013, as compared to the same period in 2012. In local currency, net sales increased 13.4% for the three months ended March 31, 2013, as compared to the same period in 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. The fluctuation of foreign currency rates had a favorable impact on net sales of $4.4 million for the three months ended March 31, 2013. Sales leader retention in 2013 was 34.6% compared to 36.3% in 2012.

Net sales in India increased $4.9 million, or 14.0%, for the three months ended March 31, 2013, as compared to the same period in 2012. In local currency, net sales increased 22.9% for the three months ended March 31, 2013, as compared to the same period in 2012. The increase in net sales for the three months ended March 31, 2013 was primarily driven by increased product access and the successful adoption of the daily consumption DMOs, especially the Nutrition Club. The fluctuation of foreign currency rates had an unfavorable impact on net sales of $3.1 million for the three months ended March 31, 2013. Sales leader retention in 2013 was 27.5% compared to 34.6% in 2012.

Net sales in Taiwan increased $5.5 million, or 15.9%, for the three months ended March 31, 2013, as compared to the same period in 2012. In local currency, net sales increased 14.7% for the three months ended March 31, as compared to the same period in 2012. The fluctuation of foreign currency rates had a favorable impact on net sales of $0.4 million for the three months ended March 31, 2013. The improvement in year-over-year sales growth is an indication that the strategic steps taken to address distributor business training practices around Nutrition Clubs since fourth quarter 2010 are proving successful. Sales leader retention in 2013 was 52.4% compared to 44.1% in 2012.

Table of Contents

Net sales in Malaysia increased $9.7 million, or 35.1%, for the three months ended March 31, 2013, as compared to the same period in 2012. In local currency, net sales increased 36.2% for the three months ended March 31, 2013, as compared to the same period in 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 activity in Nutrition Clubs. The fluctuation of foreign currency rates had an unfavorable impact on net sales of $0.3 million for the three months ended March 31, 2013. Sales leader retention in 2013 was 51.7% compared to 42.9% in 2012.

Net sales in Indonesia increased $11.8 million, or 57.0%, for the three months ended March 31, 2013, as compared to the same period in 2012. In local currency, net sales increased 68.0% for the three months ended March 31, 2013, as compared to the same period in 2012. The primary catalyst driving the sales increase in Indonesia was the growth in Nutrition Clubs. The fluctuation of foreign currency rates had an unfavorable impact on net sales of $2.3 million for the three months ended March 31, 2013. Sales leader retention in 2013 was 52.4% compared to 51.8% in 2012.

Average active sales leaders in the region increased 23.3% for the three months ended March 31, 2013, as compared to the same period in 2012.

China

Net sales in China were $68.5 million for the three months ended March 31, 2013. Net sales increased $11.6 million, or 20.4%, for the three months ended March 31, 2013, as compared to the same period in 2012. In local currency, net sales increased 18.5% for the three months ended March 31, 2013, as compared to the same period in 2012. The increase in net sales was driven by the continuing adoption and acculturation of daily consumption DMOs. The fluctuation of foreign currency rates had a favorable impact of $0.9 million on net sales for the three months ended March 31, 2013.

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 24.5% for the three months ended March 31, 2013, as compared to the same period in 2012. 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.

As of March 31, 2013, we were operating in 67 retail stores in 29 provinces in China. As of March 31, 2013, we had direct selling licenses to 24 out of the 29 provinces in which we were operating. We continue to seek additional provincial licenses where appropriate.

Sales by Product Category

Three Months Ended March 31,										
2013					2012					
Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	Retail Sales	Distributor Allowance	Product Sales	Shipping & Handling Revenues	Net Sales	% Change in Net Sales
(In millions)										

Weight Management	$ 1,135.0	$ (534.9)	$ 600.1	$ 111.5	$ 711.6	$ 971.7	$ (461.1)	$ 510.6	$ 91.2	$ 601.8	18.2%
Targeted Nutrition	409.5	(193.0)	216.5	40.4	256.9	363.0	(172.2)	190.8	34.1	224.9	14.2%
Energy, Sports and Fitness	93.0	(43.8)	49.2	9.1	58.3	77.7	(36.9)	40.8	7.3	48.1	21.2%
Outer Nutrition	60.9	(28.7)	32.2	6.0	38.2	59.2	(28.1)	31.1	5.6	36.7	4.1%
Literature, Promotional and Other	50.7	2.9	53.6	5.0	58.6	45.5	2.9	48.4	4.3	52.7	11.2%
Total	$ 1,749.1	$ (797.5)	$ 951.6	$ 172.0	$ 1,123.6	$ 1,517.1	$ (695.4)	$ 821.7	$ 142.5	$ 964.2	16.5%

Net sales for all product categories increased for the three months ended March 31, 2013 as compared to the same period in 2012. The growth factors described in the above discussions of the individual geographic regions apply generally to all product categories.

31

Gross Profit

Gross profit was $897.7 million for the three months ended March 31, 2013, as compared to $768.0 million for the same period in 2012. As a percentage of net sales, gross profit for the three months ended March 31, 2013 increased to 79.9% as compared to 79.7% for the same period in 2012, or a favorable net increase of 20 basis points. The net 20 basis point increase for the three months ended March 31, 2013, as compared to the same period in 2012, was primarily due to retail price increases and net product cost savings offset by the unfavorable impact of foreign currency fluctuations and inventory write-downs.

Royalty Overrides

Royalty overrides were $364.0 million for the three months ended March 31, 2013, as compared to $317.5 million for the same period in 2012. Royalty overrides as a percentage of net sales was 32.4% for the three months ended March 31, 2013, as compared to 32.9% for the same period in 2012. Generally, this ratio varies slightly from period to period due to changes in the mix of products and countries because full royalty overrides are not paid on certain products and in certain countries. Compensation to our independent service providers in China is included in selling, general and administrative expenses as opposed to royalty overrides where it is included for all other 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 $364.7 million for the three months ended March 31, 2013, as compared to $296.4 million for the same period in 2012. Selling, general and administrative expenses as a percentage of net sales were 32.5% and 30.8% for the three months ended March 31, 2013 and 2012, respectively.

The increase in selling, general and administrative expenses for the three months ended March 31, 2013 included $13.8 million in higher salaries, bonuses and benefits; $11.9 million in higher professional fees, excluding China independent service providers, and including approximately $8.4 million of legal and advisory service fees associated with our response to allegations and other negative information put forward by a hedge fund manager; higher variable expenses related to sales growth including $12.2 million in higher distributor promotion, event costs, and advertising expense; $5.6 million in higher expenses related to China independent service providers; $4.2 million in higher non-income tax expenses such as value added tax and sales tax and $6.6 million in higher net foreign exchange loss, which included a $15.1 million net foreign exchange loss related to the remeasurement of the Company s bolivar denominated monetary assets and liabilities resulting from the Venezuela Bolivar devaluation (See *Liquidity and Capital Resources Working Capital and Operating Activities*, for further discussion of currency exchange rate issues 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 our common shares, leading to intense public scrutiny and significant stock price volatility. We have engaged legal and advisory services firms to assist with responding to the allegations and to perform other related services in connection to these recent events. For the three months ended March 31, 2013, we recorded approximately $9.5 million of expenses related to this matter, which includes approximately $8.4 million of legal and advisory service fees. We expect to continue to incur expenses related to this matter over the next several periods and the expenses are expected to vary from period to period.

Net Interest Expense

Net interest expense is as follows:

Net Interest Expense	**Three Months Ended March 31, 2013**	**March 31, 2012**
	(In millions)	
Interest expense	$ 6.8	$ 2.9
Interest income	(1.4)	(1.5)
Net interest expense	$ 5.4	$ 1.4

The increase in net interest expense for the three months ended March 31, 2013, as compared to the same period in 2012, was primarily due to higher outstanding balances on our Credit Facility discussed below.

Income Taxes

Income taxes were $44.7 million for the three months ended March 31, 2013, as compared to $44.8 million for the same period in 2012. The effective income tax rate was 27.3% for the three months ended March 31, 2013, as compared to 29.3% for the same period in 2012. The decrease in the effective tax rate for the three months ended March 31, 2013, as compared to the same period in 2012, was primarily due to an increase of net benefits from discrete events and the impact of changes in the geographic mix of the Company s income.

Liquidity and Capital Resources

We have historically met our working capital and capital expenditure requirements, including funding for expansion of operations, through net cash flows provided by operating activities. Variations in sales of our products 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. Even with these restrictions, we believe we will have sufficient resources, including cash flow from operating activities, to meet debt service obligations in a timely manner and be able to continue to meet our objectives.

Our existing debt has not resulted from the need to fund our normal operations, but instead has 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 $2.2 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 $195.2 million of undrawn capacity as of March 31, 2013. 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.

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.

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. As of March 31, 2013, the US dollar amount outstanding under the pooling arrangement was $0.2 million. We did not owe any amounts to this financial institution under the pooling arrangement as of December 31, 2012.

For the three months ended March 31, 2013, we generated $137.6 million of operating cash flow, as compared to $120.4 million for the same period in 2012. The increase in cash generated from operations was primarily due to an increase in operating income of $14.8 million driven by a 16.5% growth in net sales for the three months ended March 31, 2013 as compared to the same period in 2012.

Capital expenditures, including capital leases, for each of the three months ended March 31, 2013 and 2012 were $24.9 million. The majority of these expenditures represented investments in management information systems, initiatives to develop web-based distributor tools, 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 during December 2012.

In March 2013, Herbalife hosted its annual global Herbalife Summit event in Paris, France where President Team members from around the world met and shared best practices, conducted leadership training and Herbalife management awarded distributors $61.7 million of Mark Hughes bonus payments related to 2012 performance.

On March 9, 2011, we entered into a $700 million senior secured revolving credit facility, or the Credit Facility, with a syndicate of financial institutions as lenders and terminated our prior senior secured credit facility, or 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.

Table of Contents

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 March 31, 2013 and December 31, 2012, the weighted average interest rate for borrowings under the Credit Facility, including borrowings under the Term Loan, was 1.94% and 1.96%, respectively.

The Credit Facility requires us to comply with a leverage ratio and a coverage ratio. In addition, the Credit Facility contains customary covenants, including covenants that limit or restrict our ability to incur liens, incur indebtedness, make investments, dispose of assets, make certain restricted payments, pay dividends, repurchase our common shares, merge or consolidate and enter into certain transactions with affiliates. As of March 31, 2013 and December 31, 2012, we were in compliance with the debt covenants under the Credit Facility.

During the three months ended March 31, 2013, we borrowed $513.0 million and paid a total of $25.5 million under the Credit Facility. Our borrowings primarily related to the $162.4 million in repurchases of our common stock during the three months ended March 31, 2013. The remaining outstanding borrowings have generated an increase in our cash and cash equivalents, which provides us with greater flexibility to execute strategic initiatives and to be opportunistically responsive to future events. As of March 31, 2013 and December 31, 2012, the U.S. dollar amount outstanding under the Credit Facility was $975.0 million and $487.5 million, respectively. Of the $975.0 million U.S. dollar amount outstanding under the Credit Facility as of March 31, 2013, $475.0 million was outstanding on the Term Loan and $500.0 million was outstanding on the revolving credit facility. 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 March 31, 2013 and December 31, 2012 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.

As discussed further in Note 14, *Subsequent Events*, to the Condensed Consolidated Financial Statements, our independent accounting firm, KPMG, resigned and has withdrawn their audit opinions for the years ended December 31, 2012, 2011 and 2010. Although our Credit Facility is currently not impacted, there is a possibility that this may impact our ability to obtain additional financing, if needed, from additional banks as audited financial statements are generally required in order to obtain additional financing. We believe we will have adequate cash flows from operations and continue to have access to our Credit Facility in order to continue executing our current business objectives. See the Explanatory Note of this Amendment for an update on this matter.

Off-Balance Sheet Arrangements

At March 31, 2013 and December 31, 2012, we had no material off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Dividends

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

On February 19, 2013, we announced that our board of directors approved a cash dividend of $0.30 per common share in an aggregate amount of $30.9 million that was paid to shareholders on March 19, 2013. The aggregate amount of dividends declared and paid during the three months ended March 31, 2013 and 2012 were $30.9 million and $35.2 million, respectively.

Share Repurchases

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

Table of Contents

During the three months ended March 31, 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. As of March 31, 2013, the remaining authorized capacity under our share repurchase program was $787.6 million.

Working Capital and Operating Activities

As of March 31, 2013 and December 31, 2012, we had positive working capital of $623.9 million and $221.7 million, respectively, or an increase of $402.2 million. This increase was primarily related to the increase in our cash and cash equivalents, decreases in our royalty overrides and accrued compensation partially offset by increases in our accrued expenses, income taxes payable and current portion of long-term debt.

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 Part I, Item 3 *Quantitative and Qualitative Disclosures about Market Risk* in the Original 10-Q.

Venezuela

Currency Restrictions

Currency restrictions enacted by the Venezuelan government have become more restrictive and have impacted the ability of our subsidiary in Venezuela, Herbalife Venezuela, to timely obtain U.S. dollars in exchange for Venezuelan Bolivars, or Bolivars, at the official foreign exchange rate 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 rate remains uncertain.

In February 2013, the Venezuela government announced that it devalued its Bolivar currency and will eliminate the SITME regulated system. The SITME 5.3 Bolivars per U.S. dollar rate was eliminated and the CADIVI rate has been devalued from 4.3 Bolivars to 6.3 Bolivars per U.S. dollar. This new CADIVI rate is approximately 16% less favorable than the previously published 5.3 SITME rate. We recognized approximately $15.1 million of net foreign exchange losses within our consolidated statement of income for the three months ended March 31, 2013, as a result of remeasuring our Bolivar denominated monetary assets and liabilities at this new CADIVI rate of 6.3 Bolivars per U.S. dollar. The majority of these foreign exchange losses related to the approximately $16.9 million devaluation of Herbalife Venezuela s Bolivar denominated cash and cash equivalents. In March 2013, the Venezuelan government also announced they will introduce an additional complimentary exchange mechanism known as SICAD. It is currently unknown whether Herbalife Venezuela will be able to access this new exchange mechanism and the Company is currently assessing and monitoring the restrictions and exchange rates relating to this alternative mechanism.

During the three months ended March 31, 2013, we also recognized $0.7 million of foreign exchange losses as a result of exchanging Bolivars for U.S. dollars using alternative legal exchange mechanisms that were approximately 75%

less favorable than the new CADIVI rate. During the three months ended March 31, 2013, we have exchanged 5.6 million Bolivars for $0.2 million U.S. dollars using these alternative legal exchange mechanisms. As of March 31, 2013, Herbalife Venezuela s net monetary assets and liabilities denominated in Bolivars were approximately $89.5 million, and included approximately $102.3 million in Bolivar denominated cash and cash equivalents. The majority of these Bolivar denominated assets and liabilities were remeasured at the CADIVI rate. We remeasure our Bolivars at the official published CADIVI rate given the limited availability of alternative exchange mechanisms and the uncertainty in the effective exchange rate for alternative exchange mechanisms. These remeasured amounts, including cash and cash equivalents, being reported on our condensed consolidated balance sheet using the published CADIVI rate 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 CADIVI, 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

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. Therefore, we continue to consolidate Herbalife Venezuela in our consolidated financial statements.

We plan to utilize the 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, SICAD, and other alternative legal exchange mechanisms when they are made available to us. As discussed above, these alternative legal exchange mechanisms could cause us to recognize significant foreign exchange losses if they are less favorable than the CADIVI 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 CADIVI rate or using unfavorable alternative legal exchange mechanisms to exchange Bolivars to U.S. dollars, if the exchange rate was approximately 75% less favorable than the current 6.3 CADIVI rate and this unfavorable exchange rate was used to convert our Bolivar denominated cash and cash equivalents as of March 31, 2013, our $102.3 million in Bolivar denominated cash and cash equivalents as of March 31, 2013 would be reduced by $76.5 million and result in a corresponding foreign exchange loss to our operating profit. This 75% less favorable exchange rate is not necessarily representative of exchange rates which could be available to us for future exchanges, but is used for our sensitivity analysis above as it represents the actual weighted average rate that we received when using alternative exchange mechanisms during the three months ended March 31, 2013. If Herbalife Venezuela s ongoing operations were subject to the 75% less favorable exchange rate, Herbalife Venezuela would operate at a loss and this could have a significant negative impact to our consolidated financial statements. Our ability to access the CADIVI 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.

Herbalife Venezuela s net sales represented approximately 4% and 3% of our consolidated net sales for the three months ended March 31, 2013 and 2012, respectively, and its total assets represented approximately 6% and 7% of our consolidated total assets as of March 31, 2013 and December 31, 2012, respectively. As of March 31, 2013 and December 31, 2012, the majority of Herbalife Venezuela s total assets consisted of Bolivar denominated cash and cash equivalents.

See the 2012 10-K for further information on Herbalife Venezuela and Venezuela s highly inflationary economy.

Subsequent Events

See Note 14, *Subsequent Events*, to the Condensed Consolidated Financial Statements included in Item 1 of Part I of this Amendment, for information regarding subsequent events.

Contingencies

See Note 5, *Contingencies*, to the Condensed Consolidated Financial Statements included in Item 1 of Part I of this Amendment, for information on our contingencies as of March 31, 2013.

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. 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 consume and sell Herbalife products to retail consumers or other distributors. As of March 31, 2013, 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 the buyback program period of up to 12 months following the original sale. The buyback program has certain terms and conditions that may vary by market, but generally permits the return of unopened and marketable condition products or sales materials purchased within the prior twelve month period, in exchange for a refund of the net price paid for the product. Historically, product returns and buybacks have not been significant. Product returns and buybacks were approximately 0.3% of product sales for the three months ended March 31, 2013 and 2012.

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 $23.7 million and $18.0 million to present them at their lower of cost or market in our consolidated balance sheets as of March 31, 2013 and December 31, 2012, respectively.

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

March 31, 2013 and December 31, 2012, we had goodwill of approximately $105.5 million and marketing related intangible assets of approximately $310.0 million. No marketing related intangibles or goodwill impairment was recorded during the three months ended March 31, 2013 and 2012.

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

Table of Contents

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

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

New Accounting Pronouncements

See discussion under Note 2, *Significant Accounting Policies,* to the Condensed Consolidated Financial Statements included in Item 1 of Part I of this Amendment, for information on new accounting pronouncements.

Item 4. *Controls And Procedures*

Evaluation of Disclosure Controls and Procedures. Our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of the end of the period covered by the Original 10-Q. Based on such evaluation, and notwithstanding the Prior Period Errors disclosed in Note 2, *Significant Accounting Policies,* to the Condensed Consolidated Financial Statements, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of March 31, 2013.

Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

FORWARD-LOOKING STATEMENTS

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

Table of Contents

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.

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

Forward-looking statements in this Quarterly Report on Form 10-Q/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.

Table of Contents

PART II. OTHER INFORMATION

Item 6. *Exhibits*

(a) Exhibit Index:

EXHIBIT INDEX

Exhibit Number	Description	Reference
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)
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		(a)

	Indemnity Agreement, dated as of February 9, 2004, among WH Capital Corporation and Brett R. Chapman	
10.14#	First Amendment to Amended and Restated WH Holdings (Cayman Islands) Ltd. Stock Incentive Plan, dated November 5, 2003	(a)

Exhibit Number	Description	Reference
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	(j)
10.22#	Form of 2004 Herbalife Ltd. 2004 Stock Incentive Plan Non-Employee Director Stock Option Agreement	(j)
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	(n)
10.25#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement	(n)
10.26#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Michael O. Johnson	(n)
10.27#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Michael O. Johnson	(n)
10.28#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Messrs. Richard P. Goudis and Brett R. Chapman	(n)
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	(n)
10.30#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Mr. Michael O. Johnson	(q)
10.31#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Mr. Michael O. Johnson	(q)

10.32#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement applicable to Messrs. Brett R. Chapman and Richard Goudis	(q)
10.33#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement applicable to Messrs. Brett R. Chapman and Richard Goudis	(q)
10.34#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement	(q)
10.35#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement	(q)
10.36#	Herbalife Ltd. Employee Stock Purchase Plan	(s)
10.37#	Employment Agreement dated as of March 27, 2008 between Michael O. Johnson and Herbalife International of America, Inc.	(s)

Exhibit Number	Description	Reference
10.38#	Stock Unit Award Agreement by and between Herbalife Ltd. and Michael O. Johnson, dated March 27, 2008.	(s)
10.39#	Stock Appreciation Right Award Agreement by and between Herbalife Ltd. and Michael O. Johnson, dated March 27, 2008.	(s)
10.40#	Stock Appreciation Right Award Agreement by and between Herbalife Ltd. and Michael O. Johnson, dated March 27, 2008.	(s)
10.41#	Amendment to Herbalife International Inc. 401K Profit Sharing Plan and Trust	(g)
10.42#	Form of Independent Directors Stock Appreciation Right Award Agreement	(h)
10.43#	Herbalife Ltd. Amended and Restated Independent Directors Deferred Compensation and Stock Unit Plan	(h)
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.	(i)
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.	(l)
10.46#	Amended and Restated Employment Agreement by and between Brett Chapman and Herbalife International of America, Inc., dated as of June 1, 2010.	(k)
10.47#	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.	(l)
10.48#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement	(j)
10.49#	Amended and Restated Non-Management Directors Compensation Plan	(j)
10.50#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Non-Employee Directors Stock Appreciation Right Award Agreement	(j)
10.51#	Severance Agreement by and between John DeSimone and Herbalife International of America, Inc., dated as of February 23, 2011.	(m)
10.52#	Amended and Restated Severance Agreement, dated as of February 23, 2011, by Desmond Walsh and Herbalife International of America, Inc.	(m)
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.	(n)
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.	(q)

10.55#	Amendment to Amended and Restated Herbalife Ltd. 2005 Stock Incentive Plan	(o)
10.56#	Stock Appreciation Right Award Agreement, dated August 4, 2011, by and between Herbalife Ltd. and Michael O. Johnson	(p)
10.57	Confirmation between Merrill Lynch International and Herbalife Ltd.	(q)
10.58	Support Agreement, dated February 28, 2013, by and between Carl C. Icahn, Herbalife Ltd., Icahn Partners Master Fund LP, Icahn Partners Master Fund II LP, Icahn Partners Master Fund III LP, Icahn Offshore LP, Icahn Partners LP, Icahn Onshore LP, Beckton Corp., Hopper Investments LLC, Barberry Corp., High River Limited Partnership, Icahn Capital LP, IPH GP LLC, Icahn Enterprises Holdings L.P., and Icahn Enterprises G.P. Inc.	(r)
31.1	Rule 13a-14(a) Certification of Chief Executive Officer	*

Table of Contents

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

* Filed herewith.

\# Management contract or compensatory plan or arrangement.

(a) Previously filed on October 1, 2004 as an Exhibit to the Company s registration statement on Form S-1 (File No. 333-119485) and is incorporated herein by reference.

(b) Previously filed on 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 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.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

(r) Previously filed on March 1, 2013 as an Exhibit to the Company s Current Report on Form 8-K and is incorporated herein by reference.

(s) Previously filed on April 29, 2013 as an Exhibit to the Original 10-Q and is incorporated herein by reference.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HERBALIFE LTD.

By: /s/ JOHN G. DESIMONE

John G. DeSimone

Chief Financial Officer

Dated: December 16, 2013

44