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

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2020

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 NUTRITION LTD.

(Exact name of registrant as specified in its charter)

Cayman Islands *(State or other jurisdiction of incorporation or organization)*	**98-0377871** *(I.R.S. Employer Identification No.)*
P.O. Box 309GT **Ugland House, South Church Street** **Grand Cayman, Cayman Islands** *(Address of principal executive offices)*	**KY1-1106** *(Zip code)*

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

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

Title of each class:	**Trading Symbol(s):**	**Name of each exchange on which registered:**
Common Shares, par value $0.0005 per share	HLF	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Number of shares of registrant's common shares outstanding as of October 29, 2020 was 131,616,026.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

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

	September 30, 2020	December 31, 2019
	(in millions, except share and par value amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,034.6	$ 839.4
Receivables, net of allowance for doubtful accounts	109.3	79.7
Inventories	434.1	436.2
Prepaid expenses and other current assets	154.1	132.9
Total current assets	1,732.1	1,488.2
Property, plant, and equipment, at cost, net of accumulated depreciation and amortization	369.7	371.5
Operating lease right-of-use assets	185.2	189.5
Marketing-related intangibles and other intangible assets, net	310.1	310.1
Goodwill	88.7	91.5
Other assets	235.4	227.8
Total assets	$ 2,921.2	$ 2,678.6
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 102.6	$ 81.6
Royalty overrides	339.8	294.1
Current portion of long-term debt	24.9	24.1
Other current liabilities	625.4	564.6
Total current liabilities	1,092.7	964.4
Long-term debt, net of current portion	2,403.7	1,778.9
Non-current operating lease liabilities	171.3	169.9
Other non-current liabilities	166.4	155.4
Total liabilities	3,834.1	3,068.6
Commitments and contingencies		
Shareholders' deficit:		
Common shares, $0.0005 par value; 2.0 billion shares authorized; 121.5 million (2020) and 137.4 million (2019) shares outstanding	0.1	0.1
Paid-in capital in excess of par value	335.8	366.6
Accumulated other comprehensive loss	(229.7)	(212.5)
Accumulated deficit	(690.2)	(215.3)
Treasury stock, at cost, 10.0 million (2020) and 10.0 million (2019) shares	(328.9)	(328.9)
Total shareholders' deficit	(912.9)	(390.0)
Total liabilities and shareholders' deficit	$ 2,921.2	$ 2,678.6

See the accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(in millions, except per share amounts)			
Net sales	$ 1,521.8	$ 1,244.5	$ 4,131.1	$ 3,656.8
Cost of sales	322.7	243.4	841.2	728.2
Gross profit	1,199.1	1,001.1	3,289.9	2,928.6
Royalty overrides	463.1	363.8	1,251.2	1,090.1
Selling, general, and administrative expenses	529.7	500.1	1,559.5	1,412.5
Other operating income	(0.6)	(6.4)	(13.0)	(33.7)
Operating income	206.9	143.6	492.2	459.7
Interest expense, net	35.2	31.6	89.0	104.0
Other income, net	—	(1.3)	—	(15.7)
Income before income taxes	171.7	113.3	403.2	371.4
Income taxes	33.6	31.8	104.4	117.1
Net income	$ 138.1	$ 81.5	$ 298.8	$ 254.3
Earnings per share:				
Basic	$ 1.07	$ 0.59	$ 2.21	$ 1.85
Diluted	$ 1.04	$ 0.58	$ 2.17	$ 1.79
Weighted-average shares outstanding:				
Basic	129.2	137.4	135.0	137.3
Diluted	132.5	140.0	137.8	142.3

See the accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(in millions)			
Net income	$ 138.1	$ 81.5	$ 298.8	$ 254.3
Other comprehensive income (loss):				
Foreign currency translation adjustment, net of income taxes of $0.7 and $(0.1) for the three months ended September 30, 2020 and 2019, respectively, and $(4.1) and $(1.1) for the nine months ended September 30, 2020 and 2019, respectively	19.5	(24.0)	(20.4)	(18.7)
Unrealized (loss) gain on derivatives, net of income taxes of $(0.1) and $— for the three months ended September 30, 2020 and 2019, respectively, and $(0.4) and $— for the nine months ended September 30, 2020 and 2019, respectively	(3.1)	—	3.2	(1.9)
Total other comprehensive income (loss)	16.4	(24.0)	(17.2)	(20.6)
Total comprehensive income	$ 154.5	$ 57.5	$ 281.6	$ 233.7

See the accompanying notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended	
	September 30, 2020	September 30, 2019
	(in millions)	
Cash flows from operating activities:		
Net income	$ 298.8	$ 254.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	74.3	73.4
Share-based compensation expenses	37.9	29.7
Non-cash interest expense	19.7	37.5
Deferred income taxes	10.5	8.0
Inventory write-downs	10.6	17.9
Foreign exchange transaction loss	14.3	4.0
Other	2.1	(10.4)
Changes in operating assets and liabilities:		
Receivables	(37.6)	(35.7)
Inventories	(26.6)	(63.5)
Prepaid expenses and other current assets	(31.0)	2.7
Accounts payable	22.6	(2.9)
Royalty overrides	55.3	5.9
Other current liabilities	74.2	(18.0)
Other	(9.0)	(2.0)
Net cash provided by operating activities	516.1	300.9
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(75.6)	(79.5)
Other	0.1	—
Net cash used in investing activities	(75.5)	(79.5)
Cash flows from financing activities:		
Borrowings from senior secured credit facility, net of discount	30.2	—
Principal payments on senior secured credit facility and other debt	(15.9)	(17.4)
Repayment of convertible senior notes	—	(675.0)
Proceeds from senior notes	600.0	—
Debt issuance costs	(7.8)	—
Share repurchases	(844.2)	(9.9)
Other	2.6	2.5
Net cash used in financing activities	(235.1)	(699.8)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(10.1)	(13.4)
Net change in cash, cash equivalents, and restricted cash	195.4	(491.8)
Cash, cash equivalents, and restricted cash, beginning of period	847.5	1,215.0
Cash, cash equivalents, and restricted cash, end of period	$ 1,042.9	$ 723.2

See the accompanying notes to unaudited condensed consolidated financial statements.

1. Organization

Herbalife Nutrition Ltd., a Cayman Islands exempted company with limited liability, was incorporated on April 4, 2002. Herbalife Nutrition Ltd. (and together with its subsidiaries, the "Company" or "Herbalife") is a global nutrition company that sells weight management; targeted nutrition; energy, sports, and fitness; and outer nutrition products to and through a network of independent members, or Members. In China, the Company sells its products to and through independent service providers, sales representatives, and sales officers to customers and preferred customers, as well as through Company-operated retail platforms when necessary. The Company sells its products in six geographic regions: North America; Mexico; South and Central America; EMEA, which consists of Europe, the Middle East, and Africa; Asia Pacific (excluding China); and China.

2. Significant Accounting Policies

Basis of Presentation

The unaudited condensed consolidated interim financial information of the Company has been prepared in accordance with Article 10 of the Securities and Exchange Commission's, or the SEC, Regulation S-X. Accordingly, as permitted by Article 10 of the SEC's Regulation S-X, it does not include all of the information required by generally accepted accounting principles in the U.S., or U.S. GAAP, for complete financial statements. The condensed consolidated balance sheet as of December 31, 2019 was derived from the audited financial statements at that date and does not include all the disclosures required by U.S. GAAP, as permitted by Article 10 of the SEC's Regulation S-X. The Company's unaudited condensed consolidated financial statements as of September 30, 2020 and for the three and nine months ended September 30, 2020 and 2019 include Herbalife Nutrition Ltd. 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 September 30, 2020 and for the three and nine months ended September 30, 2020 and 2019. 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, 2019, or the 2019 10-K. Operating results for the three and nine months ended September 30, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020.

Recently Adopted Pronouncements

In June 2016, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU changes the impairment model for most financial assets, requiring the use of an expected loss model which requires entities to estimate the lifetime expected credit loss on financial assets measured at amortized cost. Such credit losses will be recorded as an allowance to offset the amortized cost of the financial asset, resulting in a net presentation of the amount expected to be collected on the financial asset. In addition, credit losses relating to available-for-sale debt securities will now be recorded through an allowance for credit losses rather than as a direct write-down to the security. The amendments in this update are effective for reporting periods beginning after December 15, 2019, with early adoption permitted for reporting periods beginning after December 15, 2018. The adoption of this guidance during the first quarter of 2020 did not have a material impact on the Company's condensed consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This ASU simplifies the test for goodwill impairment by removing Step 2 from the goodwill impairment test. Companies will now perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value not to exceed the total amount of goodwill allocated to that reporting unit. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments in this update are effective for goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted for goodwill impairment tests performed after January 1, 2017. The adoption of this guidance during the first quarter of 2020 did not have a material impact on the Company's condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU modifies the disclosure requirements on fair value measurements in Topic 820 based on the consideration of costs and benefits to promote the appropriate exercise and discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The amendments in this update are effective for reporting periods beginning after December 15, 2019, with early adoption permitted. The adoption of this guidance during the first quarter of 2020 did not have a material impact on the Company's condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU clarifies the accounting for implementation costs of a hosting arrangement that is a service contract and aligns that accounting, regardless of whether the arrangement conveys a license to the hosted software. The amendments in this update are effective for reporting periods beginning after December 15, 2019, with early adoption permitted. The Company adopted the guidance with an initial application date of January 1, 2020 with prospective application to implementation costs incurred after January 1, 2020. The adoption of this guidance during the first quarter of 2020 did not have a material impact on the Company's condensed consolidated financial statements.

In November 2019, the FASB issued ASU No. 2019-08, *Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer*. This ASU clarifies the accounting for measuring share-based payment awards granted to a customer. The amendments in this update are effective for reporting periods beginning after December 15, 2019, with early adoption permitted. The adoption of this guidance during the first quarter of 2020 did not have a material impact on the Company's condensed consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU provides optional guidance for a limited period of time to ease the potential burden in accounting for or recognizing the effects of reference rate reform on financial reporting. The amendments in this update are effective as of March 12, 2020 through December 31, 2022. The adoption of this guidance during the first quarter of 2020 did not have a material impact on the Company's condensed consolidated financial statements.

New Accounting Pronouncements

In August 2018, the FASB issued ASU No. 2018-14, *Compensation — Retirement Benefits — Defined Benefit Plans — General (Subtopic 715-20): Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans*. This ASU removes disclosures that are no longer considered cost beneficial, clarifies the specific requirements of disclosures, and adds disclosure requirements identified as relevant. The amendments in this update are effective for reporting periods beginning after December 15, 2020, with early adoption permitted. The Company is evaluating the potential impact of this adoption on its condensed consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This ASU simplifies the accounting for income taxes by eliminating some exceptions to the general approach in ASC Topic 740, *Income Taxes*, and clarifies certain aspects of the existing guidance to promote more consistent application, among other things. The amendments in this update are effective for reporting periods beginning after December 15, 2020, with early adoption permitted. The Company is evaluating the potential impact of this adoption on its condensed consolidated financial statements.

In August 2020, the FASB issued ASU No. 2020-06, *Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*. This ASU simplifies the accounting for convertible instruments by eliminating certain accounting models, resulting in fewer embedded conversion features being separately recognized from the host contract, and also amends the guidance for derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusions. Additionally, the amendments in this ASU affect the diluted EPS calculation for convertible instruments. It will require that the effect of potential share settlement be included in the diluted EPS calculation when a convertible instrument may be settled in cash or shares; the if-converted method as opposed to the treasury stock method would be required to calculate diluted EPS for these types of convertible instruments. The amendments in this update are effective for reporting periods beginning after December 15, 2021, with early adoption permitted. The Company is evaluating the potential impact of this adoption on its condensed consolidated financial statements.

Revenue Recognition

The Company's net sales consist of product sales. In general, the Company's performance obligation is to transfer its products to its Members. The Company generally recognizes revenue when product is delivered to its Members. For China independent service providers and for third-party importers utilized in certain other countries where sales historically have not been material, the Company recognizes revenue based on the Company's estimate of when the service provider or third-party importer sells the products because the Company is deemed to be the principal party of these product sales due to the additional selling and operating requirements relating to pricing of products, conducting business with physical locations, and other selling and marketing activities required of the service providers and third-party importers.

The Company's Members, excluding its China independent service providers, may receive distributor allowances, which are comprised of discounts, rebates, and wholesale commission payments from the Company. Distributor allowances resulting from the Company's sales of its products to its Members are recorded against net sales because the distributor allowances represent discounts from the suggested retail price.

The Company compensates its sales leader Members with royalty overrides for services rendered, relating to the development, retention, and management of their sales organizations. Royalty overrides are payable based on achieved sales volume. Royalty overrides are classified as an operating expense reflecting the services provided to the Company. The Company compensates its China independent service providers and third-party importers utilized in certain other countries for providing marketing, selling, and customer support services. As the Company is the principal party of the product sales as described above, the service fees payable to China independent service providers and the compensation received by third-party importers for the services they provide, which represents the discount provided to them, are recorded in selling, general, and administrative expenses within the Company's condensed consolidated statements of income.

The Company recognizes revenue when it delivers products to its United States Members; distributor allowances, inclusive of discounts and wholesale commissions, are recorded as a reduction to net sales; and royalty overrides are classified as an operating expense.

Shipping and handling services relating to product sales are recognized as fulfillment activities on the Company's performance obligation to transfer products and are therefore recorded within net sales as part of product sales and are not considered as separate revenues. Shipping and handling costs paid by the Company are included in cost of sales.

The Company presents sales taxes collected from customers on a net basis.

The Company generally receives the net sales price in cash or through credit card payments at the point of sale. Accounts receivable consist principally of credit card receivables arising from the sale of products to the Company's Members, and its collection risk is reduced due to geographic dispersion. Credit card receivables were $90.9 million and $56.0 million as of September 30, 2020 and December 31, 2019, respectively. Substantially all credit card receivables were current as of September 30, 2020 and December 31, 2019. The Company recorded $0.8 million and $1.2 million during the three months ended September 30, 2020 and 2019, respectively, and $2.1 million and $2.3 million during the nine months ended September 30, 2020 and 2019, respectively, in bad-debt expense related to allowances for the Company's receivables. As of September 30, 2020 and December 31, 2019, the Company's allowance for doubtful accounts was $2.7 million and $2.5 million, respectively. As of September 30, 2020 and December 31, 2019, the majority of the Company's total outstanding accounts receivable were current.

The Company records advance sales deposits when payment is received but revenue has not yet been recognized. In the majority of the Company's markets, advance sales deposits are generally recorded to income when the product is delivered to its Members. Additionally, advance sales deposits also include deferred revenues due to the timing of revenue recognition for products sold through China independent service providers. The estimated deferral period for advance sales deposits is generally within one week. During the nine months ended September 30, 2020, the Company recognized substantially all of the revenues that were included within advance sales deposits as of December 31, 2019 and any remaining such balance was not material as of September 30, 2020. Advance sales deposits are included in Other current liabilities on the Company's condensed consolidated balance sheets. See Note 13, *Detail of Certain Balance Sheet Accounts*, for further information.

In general, if a Member returns product to the Company on a timely basis, they may obtain replacement product from the Company for such returned products. In addition, in general the Company maintains a buyback program pursuant to which it will repurchase products sold to a Member who has decided to leave the business. Allowances for product returns, primarily in connection with the Company's buyback program, are provided at the time the sale is recorded. This accrual is based upon historical return rates for each country and the relevant return pattern, which reflects anticipated returns to be received over a period of up to 12 months following the original sale. Allowances for product returns were $3.9 million and $4.7 million as of September 30, 2020 and December 31, 2019, respectively.

The Company's products are grouped in five principal categories: weight management; targeted nutrition; energy, sports, and fitness; outer nutrition; and literature and promotional items. However, the effect of economic factors on the nature, amount, timing, and uncertainty of revenue recognition and cash flows are similar among all five product categories. The Company defines its operating segments through six geographic regions. The effect of economic factors on the nature, amount, timing, and uncertainty of revenue recognition and cash flows are similar among the geographic regions within the Company's Primary Reporting Segment. See Note 6, *Segment Information*, for further information on the Company's reportable segments and the Company's presentation of disaggregated revenue by reportable segment.

Distributor Compensation – U.S.

In the U.S., distributor compensation, including Royalty overrides, is capped if the Company does not meet an annual requirement as described in the consent order discussed in more detail in Note 5, *Contingencies*. On a periodic basis, the Company evaluates if this requirement will be achieved by year end to determine if a cap on distributor compensation will be required, and then determines the appropriate amount of distributor compensation expense, which may vary in each reporting period. As of September 30, 2020, the Company believes that the cap to distributor compensation will not be applicable for the current year.

Other Operating Income

To encourage local investment and operations, governments in various China provinces conduct grant programs. The Company applied for and received several such grants in China. Government grants are recorded into income when a legal right to the grant exists, there is a reasonable assurance that the grant proceeds will be received, and the substantive conditions under which the grants were provided have been met. Generally, these substantive conditions are the Company maintaining operations and paying certain taxes in the relevant province and obtaining government approval by completing an annual application process. The Company believes the continuing obligation with respect to the funds is a general requirement that they are used only for its business in China. The Company recognized government grant income related to its regional headquarters and distribution centers within China of approximately $0.6 million and $6.4 million during the three months ended September 30, 2020 and 2019, respectively, and approximately $13.0 million and $27.7 million during the nine months ended September 30, 2020 and 2019, respectively, in other operating income within its condensed consolidated statements of income. The Company intends to continue applying for government grants in China when programs are available; however, there is no assurance that the Company will receive grants in future periods.

During the nine months ended September 30, 2019, the Company also recognized $6.0 million in other operating income related to the finalization of insurance recoveries in connection with the flooding at one of its warehouses in Mexico during September 2017, which damaged certain of the Company's inventory stored within the warehouse. See Note 7, *Contingencies*, to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, or the 2018 10-K, for further discussion.

Other Income, Net

During the three months ended September 30, 2020, the Company did not recognize any other income, net. During the three months ended September 30, 2019, the Company recognized a gain of $1.3 million on the revaluation of the non-transferable contractual contingent value right, or CVR, provided for each share tendered in the October 2017 modified Dutch auction tender offer (See Note 8, *Shareholders' Deficit*, to the Consolidated Financial Statements included in the Company's 2019 10-K for further information on the CVR) in other income, net within its condensed consolidated statements of income.

During the nine months ended September 30, 2020, the Company did not recognize any other income, net. During the nine months ended September 30, 2019, the Company recognized a gain of $15.7 million on the revaluation of the CVR in other income, net within its condensed consolidated statements of income.

This non-cash income is included as a non-cash adjustment to net income in the Company's cash flows from operating activities within its condensed consolidated statements of cash flows.

Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Company's condensed consolidated balance sheets that sum to the total of the same such amounts shown in the Company's condensed consolidated statements of cash flows:

	September 30, 2020	December 31, 2019
	(in millions)	
Cash and cash equivalents	$ 1,034.6	$ 839.4
Restricted cash included in Prepaid expenses and other current assets	2.5	2.5
Restricted cash included in Other assets	5.8	5.6
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	$ 1,042.9	$ 847.5

The majority of the Company's consolidated restricted cash is held by certain of its foreign entities and consists of cash deposits that are required due to the business operating requirements in those jurisdictions.

COVID-19 Pandemic

During March 2020, the World Health Organization characterized the outbreak of coronavirus disease 2019, or COVID-19, as a pandemic. In response to the spread of COVID-19, certain government agencies and the Company itself have mandated various measures and recommended others, in each to protect the public and the Company's employees, which have disrupted certain areas of the Company's business including, but not limited to, distribution and selling activities. Despite the pandemic having a negative impact in certain of the Company's markets, the Company's consolidated net sales was higher for both the three and nine months ended September 30, 2020 as compared to the same periods in 2019 and its cash and cash equivalents as of September 30, 2020 increased as compared to December 31, 2019. The ultimate extent and magnitude of the impact of COVID-19 is not known and could have a material adverse impact to the Company's business and future financial condition and results of operations. Management has been and continues to actively monitor the impact of COVID-19 generally and on the Company.

The Company's condensed consolidated financial statements presented herein reflect the latest estimates and assumptions made by management that affect the reported amounts of assets and liabilities and related disclosures as of the date of the condensed consolidated financial statements and reported amounts of revenue and expenses during the reporting periods presented. The Company believes it has used reasonable estimates and assumptions to assess the fair values of its goodwill, marketing-related intangible assets, and long-lived assets; assessment of the annual effective tax rate; valuation of deferred income taxes; and the allowance for doubtful accounts. After reviewing historical and forward-looking information, the Company determined there were no impairments required relating to its goodwill, marketing-related intangible assets, and long-lived assets during the three and nine months ended September 30, 2020.

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) and net realizable value.

The following are the major classes of inventory:

	September 30, 2020	December 31, 2019
	(in millions)	
Raw materials	$ 75.2	$ 48.7
Work in process	6.8	6.6
Finished goods	352.1	380.9
Total	$ 434.1	$ 436.2

4. Long-Term Debt

Long-term debt consists of the following:

	September 30, 2020	December 31, 2019
	(in millions)	
Borrowings under senior secured credit facility, carrying value	$ 981.2	$ 965.3
2.625% convertible senior notes due 2024, carrying value of liability component	454.6	437.4
7.875% senior notes due 2025, carrying value	592.6	—
7.250% senior notes due 2026, carrying value	395.7	395.3
Other	4.5	5.0
Total	2,428.6	1,803.0
Less: current portion	24.9	24.1
Long-term portion	$ 2,403.7	$ 1,778.9

Senior Secured Credit Facility

On February 15, 2017, the Company entered into a $1,450.0 million senior secured credit facility, or the 2017 Credit Facility, consisting of a $1,300.0 million term loan B, or the 2017 Term Loan B, and a $150.0 million revolving credit facility, or the 2017 Revolving Credit Facility, with a syndicate of financial institutions as lenders. The 2017 Revolving Credit Facility was to mature on February 15, 2022 and the 2017 Term Loan B was to mature on February 15, 2023. The 2017 Credit Facility was amended, effective March 16, 2018, to make certain technical amendments in connection with the offering of the 2024 Convertible Notes, as defined below. The Company terminated the 2017 Credit Facility on August 16, 2018 and the $1,178.1 million outstanding was repaid in full. Prior to its termination, the 2017 Term Loan B most recently bore interest at either the eurocurrency rate plus a margin of 5.50% or the base rate plus a margin of 4.50%, and the 2017 Revolving Credit Facility most recently bore interest at either the eurocurrency rate plus a margin of either 4.50% or 4.75% or the base rate plus a margin of either 3.50% or 3.75%, based on the Company's consolidated leverage ratio. The eurocurrency rate was based on adjusted LIBOR and was subject to a floor of 0.75%. The base rate represented the highest of the Federal Funds Rate plus 0.50%, one-month adjusted LIBOR plus 1.00%, and the prime rate set by Credit Suisse, and was subject to a floor of 1.75%.

The 2017 Term Loan B was issued to the lenders at a 2% discount, or $26.0 million. The Company incurred approximately $22.6 million of debt issuance costs in connection with the 2017 Credit Facility. The debt issuance costs and the discount were recorded on the Company's condensed consolidated balance sheet and were being amortized over the life of the 2017 Credit Facility using the effective-interest method. The Company wrote off all remaining unamortized debt issuance costs and discount related to the 2017 Credit Facility upon its termination, which is included in the loss on extinguishment as described below.

On August 16, 2018, the Company entered into a $1.25 billion senior secured credit facility, or the 2018 Credit Facility, consisting of a $250.0 million term loan A, or the 2018 Term Loan A, a $750.0 million term loan B, or the 2018 Term Loan B, and a $250.0 million revolving credit facility, or the 2018 Revolving Credit Facility, with a syndicate of financial institutions as lenders. Prior to the amendment described below, the 2018 Term Loan A and 2018 Revolving Credit Facility both were to mature on August 16, 2023. The 2018 Term Loan B matures upon the earlier of: (i) August 18, 2025; or (ii) December 15, 2023 if the outstanding principal on the 2024 Convertible Notes, as defined below, exceeds $350.0 million and the Company exceeds certain leverage ratios as of that date. All obligations under the 2018 Credit Facility are unconditionally guaranteed by certain direct and indirect wholly-owned subsidiaries of Herbalife Nutrition Ltd. and secured by the equity interests of certain of Herbalife Nutrition Ltd.'s subsidiaries and substantially all of the assets of the domestic loan parties. Also on August 16, 2018, the Company issued $400 million aggregate principal amount of senior unsecured notes, or the 2026 Notes, as described below, and used the proceeds from the 2018 Credit Facility and the 2026 Notes to repay in full the $1,178.1 million outstanding under the 2017 Credit Facility. For accounting purposes, pursuant to FASB ASC Topic 470, *Debt*, or ASC 470, these transactions were accounted for as an extinguishment of the 2017 Credit Facility. The Company recognized a loss on extinguishment of $35.4 million as a result, which was recorded in other (income) expense, net within the Company's condensed consolidated statements of income during the year ended December 31, 2018.

The 2018 Term Loan B was issued to the lenders at a 0.25% discount, or $1.9 million. The Company incurred approximately $11.7 million of debt issuance costs in connection with the 2018 Credit Facility. The discount and debt issuance costs are recorded on the Company's condensed consolidated balance sheet and are being amortized over the life of the 2018 Credit Facility using the effective-interest method.

On December 12, 2019, the Company amended the 2018 Credit Facility which, among other things, reduced the interest rate for borrowings under the 2018 Term Loan B from either the eurocurrency rate plus a margin of 3.25% or the base rate plus a margin of 2.25% to either the eurocurrency rate plus a margin of 2.75% or the base rate plus a margin of 1.75%. The Company incurred approximately $1.2 million of debt issuance costs in connection with the amendment. For accounting purposes, pursuant to ASC 470, this transaction was accounted for as a modification of the 2018 Credit Facility. The debt issuance costs were recognized in interest expense, net within the Company's condensed consolidated statement of income during the year ended December 31, 2019.

On March 19, 2020, the Company amended the 2018 Credit Facility which, among other things, extended the maturity of both the 2018 Term Loan A and 2018 Revolving Credit Facility to the earlier of: (i) March 19, 2025 or (ii) September 15, 2023 if the outstanding principal on the 2024 Convertible Notes, as defined below, exceeds $350.0 million and the Company exceeds certain leverage ratios as of that date; increased borrowings under the 2018 Term Loan A from $234.4 million to a total of $264.8 million; increased the total available borrowing capacity under 2018 Revolving Credit Facility from $250.0 million to $282.5 million; and reduced the interest rate for borrowings under both the 2018 Term Loan A and 2018 Revolving Credit Facility from either the eurocurrency rate plus a margin of 3.00% or the base rate plus a margin of 2.00% to either the eurocurrency rate plus a margin of 2.50% or the base rate plus a margin of 1.50%. The Company incurred approximately $1.6 million of debt issuance costs in connection with the amendment. For accounting purposes, pursuant to ASC 470, this transaction was accounted for as a modification of the 2018 Credit Facility. Of the $1.6 million of debt issuance costs, approximately $1.1 million was recorded on the Company's condensed consolidated balance sheet and is being amortized over the life of the 2018 Credit Facility using the effective-interest method, and approximately $0.5 million was recognized in interest expense, net within the Company's condensed consolidated statement of income during the three months ended March 31, 2020.

Under the 2018 Credit Facility, borrowings under both the 2018 Term Loan A and 2018 Revolving Credit Facility bear interest at either the eurocurrency rate plus a margin of 2.50% or the base rate plus a margin of 1.50%. Borrowings under the 2018 Term Loan B bear interest at either the eurocurrency rate plus a margin of 2.75% or the base rate plus a margin of 1.75%. The eurocurrency rate is based on adjusted LIBOR and is subject to a floor of 0.00%. The base rate represents the highest of the Federal Funds Rate plus 0.50%, one-month adjusted LIBOR plus 1.00%, and the prime rate quoted by The Wall Street Journal, and is subject to a floor of 1.00%. The Company is required to pay a commitment fee on the 2018 Revolving Credit Facility of 0.35% per annum on the undrawn portion of the 2018 Revolving Credit Facility. Interest is due at least quarterly on amounts outstanding under the 2018 Credit Facility.

The 2018 Credit Facility requires the Company to comply with a leverage ratio. The 2018 Credit Facility also contains affirmative and negative covenants customary for financings of this type, including, among other things, limitations or prohibitions on repurchasing common shares, declaring and paying dividends and other distributions, redeeming and repurchasing certain other indebtedness, loans and investments, additional indebtedness, liens, mergers, asset sales and transactions with affiliates. In addition, the 2018 Credit Facility contains customary events of default. As of September 30, 2020 and December 31, 2019, the Company was in compliance with its debt covenants under the 2018 Credit Facility.

The 2018 Term Loan A and 2018 Term Loan B are payable in consecutive quarterly installments which began on December 31, 2018. In addition, beginning in 2020, the Company may be required to make mandatory prepayments towards the 2018 Term Loan B based on the Company's consolidated leverage ratio and annual excess cash flows as defined under the terms of the 2018 Credit Facility. The Company is also permitted to make voluntary prepayments. Amounts outstanding under the 2018 Term Loan A may be voluntarily prepaid without premium or penalty, subject to customary breakage fees in connection with the prepayment of a eurocurrency loan. Under the amended 2018 Credit Facility, amounts outstanding under the 2018 Term Loan B may be voluntarily prepaid without premium or penalty, subject to customary breakage fees in connection with the prepayment of a eurocurrency loan. These prepayments, if any, will be applied against remaining quarterly installments owed under the 2018 Term Loan A and 2018 Term Loan B in order of maturity with the remaining principal due upon maturity, unless directed otherwise by the Company. Based on the 2019 consolidated leverage ratio and excess cash flow calculation, both as defined under the terms of the 2018 Credit Facility, the Company was not required to make a mandatory prepayment in 2020 toward the 2018 Term Loan B.

As of September 30, 2020 and December 31, 2019, the weighted-average interest rate for borrowings under the 2018 Credit Facility was 3.55% and 5.52%, respectively.

During the nine months ended September 30, 2020, the Company repaid a total amount of $15.6 million on amounts outstanding under the 2018 Credit Facility. During the nine months ended September 30, 2019, the Company repaid a total amount of $15.0 million on amounts outstanding under the 2018 Credit Facility. As of September 30, 2020 and December 31, 2019, the U.S. dollar amount outstanding under the 2018 Credit Facility was $989.9 million and $975.0 million, respectively. Of the $989.9 million outstanding under the 2018 Credit Facility as of September 30, 2020, $254.9 million was outstanding under the 2018 Term Loan A and $735.0 million was outstanding under the 2018 Term Loan B. Of the $975.0 million outstanding under the 2018 Credit Facility as of December 31, 2019, $234.4 million was outstanding under the 2018 Term Loan A and $740.6 million was outstanding under the 2018 Term Loan B. There were no borrowings outstanding under the 2018 Revolving Credit Facility as of September 30, 2020 and December 31, 2019. There were no outstanding foreign currency borrowings under the 2018 Credit Facility as of September 30, 2020 and December 31, 2019.

During the three months ended September 30, 2020 and 2019, the Company recognized $8.0 million and $14.6 million, respectively, of interest expense relating to the 2018 Credit Facility, which included $0.1 million and $0.1 million, respectively, relating to non-cash interest expense relating to the debt discount and $0.5 million and $0.5 million, respectively, relating to amortization of debt issuance costs. During the nine months ended September 30, 2020 and 2019, the Company recognized $29.2 million and $44.5 million, respectively, of interest expense relating to the 2018 Credit Facility, which included $0.2 million and $0.2 million, respectively, relating to non-cash interest expense relating to the debt discount and $1.4 million and $1.3 million, respectively, relating to amortization of debt issuance costs.

The fair value of the outstanding borrowings on the 2018 Term Loan A is determined by utilizing over-the-counter market quotes for similar instruments, which are considered Level 2 inputs as described in Note 12, *Fair Value Measurements.* As of September 30, 2020 and December 31, 2019, the carrying value of the 2018 Term Loan A was $253.7 million and $233.2 million, respectively, and the fair value was approximately $251.6 million and $235.7 million, respectively. The fair value of the outstanding borrowings under the 2018 Term Loan B is determined by utilizing over-the-counter market quotes, which are considered Level 2 inputs as described in Note 12, *Fair Value Measurements*. As of September 30, 2020 and December 31, 2019, the carrying amount of the 2018 Term Loan B was $727.5 million and $732.1 million, respectively, and the fair value was approximately $725.4 million and $744.8 million, respectively.

Convertible Senior Notes due 2019

In February 2014, the Company initially issued $1 billion aggregate principal amount of convertible senior notes, or the 2019 Convertible Notes, in a private offering to qualified institutional buyers, pursuant to Rule 144A under the Securities Act of 1933, as amended. The Company granted an option to the initial purchasers to purchase up to an additional $150 million aggregate principal amount of 2019 Convertible Notes which was subsequently exercised in full in February 2014, resulting in a total issuance of $1.15 billion aggregate principal amount of 2019 Convertible Notes. The 2019 Convertible Notes were senior unsecured obligations which ranked effectively subordinate to any of the Company's existing and future secured indebtedness, including amounts outstanding under the 2018 Credit Facility, to the extent of the value of the assets securing such indebtedness. The 2019 Convertible Notes paid interest at a rate of 2.00% per annum payable semiannually in arrears on February 15 and August 15 of each year, beginning on August 15, 2014. Unless earlier repurchased or converted, the 2019 Convertible Notes matured on August 15, 2019. The Company could not redeem the 2019 Convertible Notes prior to their stated maturity date. Upon conversion, the 2019 Convertible Notes were to be settled in cash and, if applicable, the Company's common shares, based on the applicable conversion rate at such time. The 2019 Convertible Notes had an initial conversion rate of 23.1816 common shares per $1,000 principal amount of the 2019 Convertible Notes, or an initial conversion price of approximately $43.14 per common share.

The Company incurred approximately $26.6 million of issuance costs during the first quarter of 2014 relating to the issuance of the 2019 Convertible Notes. Of the $26.6 million issuance costs incurred, $21.5 million and $5.1 million were recorded as debt issuance costs and additional paid-in capital, respectively, in proportion to the allocation of the proceeds of the 2019 Convertible Notes. The $21.5 million of debt issuance costs recorded on the Company's condensed consolidated balance sheet were amortized over the contractual term of the 2019 Convertible Notes using the effective-interest method.

In February 2014, the $1.15 billion aggregate principal amount of the 2019 Convertible Notes were initially allocated between long-term debt, or liability component, and additional paid-in capital, or equity component, within the Company's condensed consolidated balance sheet at $930.9 million and $219.1 million, respectively. The liability component was measured using the nonconvertible debt interest rate. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the face value of the 2019 Convertible Notes as a whole. Since the Company was required to settle these 2019 Convertible Notes at face value at or prior to maturity, this liability component was accreted up to its face value resulting in additional non-cash interest expense being recognized within the Company's condensed consolidated statements of income while the 2019 Convertible Notes remained outstanding. The effective-interest rate on the 2019 Convertible Notes was approximately 6.2% per annum. The equity component was not to be remeasured as long as it continued to meet the conditions for equity classification.

In March 2018, the Company issued $550 million aggregate principal amount of new convertible senior notes due 2024, or 2024 Convertible Notes as described below, and subsequently used the proceeds, along with cash on hand, to repurchase $475.0 million of its existing 2019 Convertible Notes from a limited number of holders in privately negotiated transactions for an aggregate purchase price of $583.5 million, which included $1.0 million of accrued interest. For accounting purposes, pursuant to ASC 470, these transactions were accounted for as an extinguishment of 2019 Convertible Notes and an issuance of new 2024 Convertible Notes. The Company allocated the purchase price between the fair value of the liability component and the equity component of the 2019 Convertible Notes at $459.4 million and $123.0 million, respectively. As a result, the Company recognized $446.4 million as a reduction to long-term debt representing the carrying value of the liability component and $123.0 million as a reduction to additional paid-in capital representing the equity component of the repurchased 2019 Convertible Notes. The $13.1 million difference between the fair value and carrying value of the liability component of the repurchased 2019 Convertible Notes was recognized as a loss on extinguishment of debt as a result of the transaction and was recorded in other (income) expense, net within the Company's condensed consolidated statement of income during the year ended December 31, 2018. The accounting impact of the 2024 Convertible Notes is described in further detail below.

On August 15, 2019, the 2019 Convertible Notes matured and the Company repaid the $675.0 million outstanding principal in cash, as well as $6.7 million of accrued interest.

During the three months ended September 30, 2019, the Company recognized $5.4 million of interest expense relating to the 2019 Convertible Notes, which included $3.5 million relating to non-cash interest expense relating to the debt discount and $0.4 million relating to amortization of debt issuance costs. During the nine months ended September 30, 2019, the Company recognized $27.0 million of interest expense relating to the 2019 Convertible Notes, which included $17.0 million relating to non-cash interest expense relating to the debt discount and $1.7 million relating to amortization of debt issuance costs.

In conjunction with the issuance of the 2019 Convertible Notes, during February 2014, the Company paid approximately $685.8 million to enter into prepaid forward share repurchase transactions, or the Forward Transactions, with certain financial institutions, and paid approximately $123.8 million to enter into capped call transactions with respect to its common shares, or the Capped Call Transactions, with certain financial institutions. Subsequently, in conjunction with the repurchase of a portion of the 2019 Convertible Notes, during March 2018, the Company entered into agreements with the option counterparties to the Capped Call Transactions to terminate a portion of such existing transactions. See Note 10, *Shareholders' Deficit*, for additional discussion on the Forward Transactions and Capped Call Transactions entered into in conjunction with the issuance of these 2019 Convertible Notes.

Convertible Senior Notes due 2024

In March 2018, the Company issued $550 million aggregate principal amount of convertible senior notes, or the 2024 Convertible Notes, in a private offering to qualified institutional buyers, pursuant to Rule 144A under the Securities Act of 1933, as amended. The 2024 Convertible Notes are senior unsecured obligations which rank effectively subordinate to any of the Company's existing and future secured indebtedness, including amounts outstanding under the 2018 Credit Facility, to the extent of the value of the assets securing such indebtedness. The 2024 Convertible Notes pay interest at a rate of 2.625% per annum payable semiannually in arrears on March 15 and September 15 of each year, beginning on September 15, 2018. Unless redeemed, repurchased or converted in accordance with their terms prior to such date, the 2024 Convertible Notes mature on March 15, 2024. Holders of the 2024 Convertible Notes may convert their notes at their option under the following circumstances: (i) during any calendar quarter commencing after the calendar quarter ending June 30, 2018, if the last reported sale price of the Company's common shares for at least 20 trading days (whether or not consecutive) in a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter exceeds 130% of the conversion price for the 2024 Convertible Notes on each applicable trading day; (ii) during the five business-day period immediately after any five consecutive trading day period, or the measurement period, in which the trading price per $1,000 principal amount of 2024 Convertible Notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of the Company's common shares and the conversion rate for the 2024 Convertible Notes for each such day; (iii) if the Company calls the 2024 Convertible Notes for redemption; or (iv) upon the occurrence of specified corporate events. On and after December 15, 2023, holders may convert their 2024 Convertible Notes at any time, regardless of the foregoing circumstances. Upon conversion, the 2024 Convertible Notes will be settled, at the Company's election, in cash, the Company's common shares, or a combination thereof, based on the applicable conversion rate at such time. The 2024 Convertible Notes had an initial conversion rate of 16.0056 common shares per $1,000 principal amount of the 2024 Convertible Notes, or an initial conversion price of approximately $62.48 per common share. The conversion rate is subject to adjustment upon the occurrence of certain events and was 16.0352 common shares per $1,000 principal amount of the 2024 Convertible Notes, or a conversion price of approximately $62.36 per common share, as of September 30, 2020.

The Company incurred approximately $12.9 million of issuance costs during the first quarter of 2018 relating to the issuance of the 2024 Convertible Notes. Of the $12.9 million issuance costs incurred, $9.6 million and $3.3 million were recorded as debt issuance costs and additional paid-in capital, respectively, in proportion to the allocation of the proceeds of the 2024 Convertible Notes. The $9.6 million of debt issuance costs, which was recorded as an additional debt discount on the Company's condensed consolidated balance sheet, are being amortized over the contractual term of the 2024 Convertible Notes using the effective-interest method.

In March 2018, the $550 million aggregate principal amount of the 2024 Convertible Notes were initially allocated between long-term debt, or liability component, and additional paid-in-capital, or equity component, within the Company's condensed consolidated balance sheet at $410.1 million and $139.9 million, respectively. The liability component was measured using the nonconvertible debt interest rate. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the face value of the 2024 Convertible Notes as a whole. Since the Company must still settle these 2024 Convertible Notes at face value at or prior to maturity, this liability component will be accreted up to its face value resulting in additional non-cash interest expense being recognized within the Company's condensed consolidated statements of income while the 2024 Convertible Notes remain outstanding. The effective-interest rate on the 2024 Convertible Notes is approximately 8.4% per annum. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

As of September 30, 2020, the outstanding principal on the 2024 Convertible Notes was $550.0 million, the unamortized debt discount and debt issuance costs were $95.4 million, and the carrying amount of the liability component was $454.6 million, which was recorded to long-term debt within the Company's condensed consolidated balance sheet. As of December 31, 2019, the outstanding principal on the 2024 Convertible Notes was $550.0 million, the unamortized debt discount and debt issuance costs were $112.6 million, and the carrying amount of the liability component was $437.4 million, which was recorded to long-term debt within the Company's condensed consolidated balance sheet. The fair value of the liability component relating to the 2024 Convertible Notes was approximately $503.1 million and $508.6 million as of September 30, 2020 and December 31, 2019, respectively.

During the three months ended September 30, 2020 and 2019, the Company recognized $9.5 million and $9.0 million, respectively, of interest expense relating to the 2024 Convertible Notes, which included $5.5 million and $5.1 million, respectively, relating to non-cash interest expense relating to the debt discount and $0.4 million and $0.3 million, respectively, relating to amortization of debt issuance costs. During the nine months ended September 30, 2020 and 2019, the Company recognized $28.1 million and $26.7 million, respectively, of interest expense relating to the 2024 Convertible Notes, which included $16.2 million and $14.9 million, respectively, relating to non-cash interest expense relating to the debt discount and $1.1 million and $1.0 million, respectively, relating to amortization of debt issuance costs.

Senior Notes due 2025

In May 2020, the Company issued $600 million aggregate principal amount of senior notes, or the 2025 Notes, in a private offering in the United States to qualified institutional buyers, pursuant to Rule 144A under the Securities Act of 1933, as amended, and outside the United States pursuant to Regulation S under the Securities Act of 1933, as amended. The 2025 Notes are senior unsecured obligations which rank effectively subordinate to any of the Company's existing and future secured indebtedness, including amounts outstanding under the 2018 Credit Facility, to the extent of the value of the assets securing such indebtedness. The 2025 Notes pay interest at a rate of 7.875% per annum payable semiannually in arrears on March 1 and September 1 of each year, beginning on March 1, 2021. The 2025 Notes mature on September 1, 2025.

At any time prior to September 1, 2022, the Company may redeem all or part of the 2025 Notes at a redemption price equal to 100% of their principal amount, plus a "make whole" premium as of the redemption date, and accrued and unpaid interest to the redemption date. In addition, at any time prior to September 1, 2022, the Company may redeem up to 40% of the aggregate principal amount of the 2025 Notes with the proceeds of one or more equity offerings, at a redemption price equal to 107.875%, plus accrued and unpaid interest. Furthermore, at any time on or after September 1, 2022, the Company may redeem all or part of the 2025 Notes at the following redemption prices, expressed as percentages of principal amount, plus accrued and unpaid interest thereon to the redemption date, if redeemed during the twelve-month period beginning on September 1 of the years indicated below:

	Percentage
2022	103.938%
2023	101.969%
2024 and thereafter	100.000%

The 2025 Notes contain customary negative covenants, including, among other things, limitations or prohibitions on restricted payments, incurrence of additional indebtedness, liens, mergers, asset sales and transactions with affiliates. In addition, the 2025 Notes contain customary events of default.

The Company incurred approximately $7.9 million of issuance costs during the second quarter of 2020 relating to the issuance of the 2025 Notes. The $7.9 million of debt issuance costs, which was recorded as a debt discount on the Company's condensed consolidated balance sheet, are being amortized over the contractual term of the 2025 Notes using the effective-interest method.

As of September 30, 2020, the outstanding principal on the 2025 Notes was $600.0 million, the unamortized debt issuance costs were $7.4 million, and the carrying amount was $592.6 million, which was recorded to long-term debt within the Company's condensed consolidated balance sheet. The fair value of the 2025 Notes was approximately $646.1 million as of September 30, 2020 and was determined by utilizing over-the-counter market quotes and yield curves, which are considered Level 2 inputs as defined in Note 12, *Fair Value Measurements.*

During the three months ended September 30, 2020, the Company recognized $12.1 million of interest expense relating to the 2025 Notes, which included $0.3 million relating to amortization of debt issuance costs. During the nine months ended September 30, 2020, the Company recognized $16.4 million of interest expense relating to the 2025 Notes, which included $0.4 million relating to amortization of debt issuance costs.

Senior Notes due 2026

In August 2018, the Company issued $400 million aggregate principal amount of senior notes, or the 2026 Notes, in a private offering in the United States to qualified institutional buyers, pursuant to Rule 144A under the Securities Act of 1933, as amended, and outside the United States pursuant to Regulation S under the Securities Act of 1933, as amended. The 2026 Notes are senior unsecured obligations which rank effectively subordinate to any of the Company's existing and future secured indebtedness, including amounts outstanding under the 2018 Credit Facility, to the extent of the value of the assets securing such indebtedness. The 2026 Notes pay interest at a rate of 7.250% per annum payable semiannually in arrears on February 15 and August 15 of each year, beginning on February 15, 2019. The 2026 Notes mature on August 15, 2026.

At any time prior to August 15, 2021, the Company may redeem all or part of the 2026 Notes at a redemption price equal to 100% of their principal amount, plus a "make whole" premium as of the redemption date, and accrued and unpaid interest to the redemption date. In addition, at any time prior to August 15, 2021, the Company may redeem up to 40% of the aggregate principal amount of the 2026 Notes with the proceeds of one or more equity offerings, at a redemption price equal to 107.250%, plus accrued and unpaid interest. Furthermore, at any time on or after August 15, 2021, the Company may redeem all or part of the 2026 Notes at the following redemption prices, expressed as percentages of principal amount, plus accrued and unpaid interest thereon to the redemption date, if redeemed during the twelve-month period beginning on August 15 of the years indicated below:

	Percentage
2021	103.625%
2022	101.813%
2023 and thereafter	100.000%

The 2026 Notes contain customary negative covenants, including, among other things, limitations or prohibitions on restricted payments, incurrence of additional indebtedness, liens, mergers, asset sales and transactions with affiliates. In addition, the 2026 Notes contain customary events of default.

The Company incurred approximately $5.4 million of issuance costs during the third quarter of 2018 relating to the issuance of the 2026 Notes. The $5.4 million of debt issuance costs, which was recorded as a debt discount on the Company's condensed consolidated balance sheet, are being amortized over the contractual term of the 2026 Notes using the effective-interest method.

As of September 30, 2020, the outstanding principal on the 2026 Notes was $400.0 million, the unamortized debt issuance costs were $4.3 million, and the carrying amount was $395.7 million, which was recorded to long-term debt within the Company's condensed consolidated balance sheet. As of December 31, 2019, the outstanding principal on the 2026 Notes was $400.0 million, the unamortized debt issuance costs were $4.7 million, and the carrying amount was $395.3 million, which was recorded to long-term debt within the Company's condensed consolidated balance sheet. The fair value of the 2026 Notes was approximately $410.9 million and $424.1 million as of September 30, 2020 and December 31, 2019, respectively, and was determined by utilizing over-the-counter market quotes and yield curves, which are considered Level 2 inputs as defined in Note 12, *Fair Value Measurements.*

During the three months ended September 30, 2020 and 2019, the Company recognized $7.4 million and $7.3 million, respectively, of interest expense relating to the 2026 Notes, which included $0.1 million and $0.1 million, respectively, relating to amortization of debt issuance costs. During the nine months ended September 30, 2020 and 2019, the Company recognized $22.2 million and $22.1 million, respectively, of interest expense relating to the 2026 Notes, which included $0.4 million and $0.4 million, respectively, relating to amortization of debt issuance costs.

Valuation of 2019 Convertible Notes and 2024 Convertible Notes – Level 2 and Level 3 Inputs

In order to determine the initial value of the 2019 Convertible Notes and the 2024 Convertible Notes, the Company determined the fair value of the liability component of the 2019 Convertible Notes and the 2024 Convertible Notes using two valuation methods. The Company reviewed market data that was available for publicly traded, senior, unsecured nonconvertible corporate bonds issued by companies with similar credit ratings. Assumptions used in the estimate represent what market participants would use in pricing the liability component, including market yields and credit standing to develop the straight debt yield estimate. The Company also used a lattice model, which included inputs such as stock price, the Convertible Note trading price, volatility and dividend yield to estimate the straight debt yield. The Company combined the results of the two valuation methods to determine the fair value of the liability component of the 2019 Convertible Notes and the 2024 Convertible Notes. Most of these inputs are primarily considered Level 2 and Level 3 inputs. The Company used similar valuation approaches to determine the subsequent fair value of the liability component only for disclosure purposes, which includes using a lattice model and (1) reviewing market data relating to its 2025 Notes and 2026 Notes and comparable yield curves to determine its straight debt yield estimate, or (2) reviewing market data relating to publicly traded, senior, unsecured nonconvertible corporate bonds issued by companies with similar credit ratings in order to determine its straight debt yield estimate.

Total Debt

The Company's total interest expense was $37.0 million and $36.7 million for the three months ended September 30, 2020 and 2019, respectively, and $96.4 million and $121.5 million for the nine months ended September 30, 2020 and 2019, respectively, which was recognized within its condensed consolidated statements of income.

As of September 30, 2020, annual scheduled principal payments of debt were as follows:

	Principal Payments
	(in millions)
2020	$ 7.3
2021	22.8
2022	27.5
2023	27.5
2024	584.0
Thereafter	1,875.2
Total	$ 2,544.3

Certain vendors and government agencies may require letters of credit or similar guaranteeing arrangements to be issued or executed. As of September 30, 2020, the Company had $35.6 million of issued but undrawn letters of credit or similar arrangements, which included the Mexico Value Added Tax, or VAT, related letter of credit described in Note 5, *Contingencies*.

5. Contingencies

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

The matters described in this Note 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.

Tax Matters

The Mexican Tax Administration Service commenced audits of the Company's Mexican subsidiaries for the period from January to September 2007 and on May 10, 2013, the Company received an assessment related to that period. This assessment is subject to interest and inflationary adjustments. On July 11, 2013, the Company filed an administrative appeal disputing the assessment. On September 22, 2014, the Mexican Tax Administration Service denied the Company's administrative appeal. The Company commenced litigation in the Tax Court of Mexico in November 2014 to dispute the assertions made by the Mexican Tax Administration Service in the case. On January 16, 2018, the Tax Court of Mexico issued a verdict upholding the assessment issued by the Mexican Tax Administration Service. On April 16, 2018, the Company filed an appeal of this verdict, and in July 2019, the Circuit Court issued a written verdict upholding the assessment and the judgment of the Tax Court of Mexico. On August 12, 2019, the Company filed an appeal with the Supreme Court of Mexico. On October 16, 2019, the Supreme Court of Mexico refused to hear the Company's appeal. On October 21, 2019, the Company filed a petition with the Supreme Court of Mexico, asking them to reconsider their previous decision. On April 29, 2020, the Supreme Court of Mexico declined the Company's second petition and the adverse verdicts of the lower courts became final. The Company will pay the assessed amount in due course. The Company previously recognized a loss of $19.0 million in selling, general, and administrative expenses within the Company's condensed consolidated statement of income during the year ended December 31, 2019 and has a corresponding accrued liability within its condensed consolidated balance sheet as of September 30, 2020. The Company has an issued but undrawn letter of credit through a bank to guarantee payment of the tax assessment as required, and the letter of credit continued to remain effective as of September 30, 2020.

The Mexican Tax Administration Service has delayed processing VAT refunds for companies operating in Mexico and the Company believes that the process for its Mexico subsidiary to receive VAT refunds may be delayed. As of September 30, 2020, the Company had $ 21.8 million of Mexico VAT related assets, of which $ 18.4 million was within other assets and $3.4 million was within prepaid expenses and other current assets on its condensed consolidated balance sheet. This amount relates to VAT payments made over various periods and the Company believes these amounts are recoverable by refund or they may be applied against certain future tax liabilities. Effective January 1, 2019, a tax reform law changed the rules concerning possible use of VAT assets, specifically providing that, for VAT balances generated after December 31, 2018, those balances could not be offset against taxes other than VAT obligations currently due. The Company has not recognized any losses related to these VAT related assets as the Company does not believe a loss is probable.

The Company has received tax assessments for multiple years from the Federal Revenue Office of Brazil related to withholding/contributions based on payments to the Company's Members. The aggregate combined amount of all these assessments is equivalent to approximately $10.1 million, translated at the September 30, 2020 spot rate. The Company is currently litigating these assessments at the tax administrative level. The Company has not accrued a loss for the majority of the assessments because 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 is under examination in several Brazilian states related to ICMS and ICMS-ST taxation. Some of these examinations have resulted in assessments for underpaid tax that the Company has appealed. The State of São Paulo has audited the Company for the 2013 and 2014 tax years. During July 2016, for the State of São Paulo, the Company received an assessment in the aggregate amount of approximately $28.5 million, translated at the September 30, 2020 spot rate, relating to various ICMS issues for its 2013 tax year. In August 2016, the Company filed a first-level administrative appeal which was denied in February 2017. The Company filed a further appeal on March 9, 2017. On March 20, 2018, the Court held a hearing and a verdict was issued in June 2019, remanding the case back to the first-level administrative court. During August 2017, for the State of São Paulo, the Company received an assessment in the aggregate amount of approximately $10.6 million, translated at the September 30, 2020 spot rate, relating to various ICMS issues for its 2014 tax year. In September 2017, the Company filed a first-level administrative appeal for the 2014 tax year. The first-level administrative appeal was denied. The Company filed an appeal at the second-level administrative court in December 2018 and a verdict was issued in April 2019, remanding the case back to the first-level administrative court. During September 2018, for the State of Rio de Janeiro, the Company received an assessment in the aggregate amount of approximately $6.3 million, translated at the September 30, 2020 spot rate, relating to various ICMS-ST issues for its 2016 and 2017 tax years. On November 8, 2018, the Company filed a first-level administrative appeal, which was subsequently denied. On April 5, 2019, the Company appealed this tax assessment to the Administrative Council of Tax Appeals (second-level administrative appeal). The Company has also received other ICMS tax assessments in Brazil. During the fourth quarter of 2015, the Company filed appeals with state judicial courts against three of the assessments. The Company had issued surety bonds in the aggregate amount of $8.9 million, translated at the September 30, 2020 spot rate, to guarantee payment of some of the tax assessments as required while the Company pursues the appeals. In addition, the Company has received several ICMS tax assessments in the aggregate amount of $5.2 million, translated at the September 30, 2020 spot rate, from several other Brazilian states where surety bonds have not been issued. Litigation in all these cases is currently ongoing. The Company has not recognized a loss as the Company does not believe a loss is probable.

The Company has received various tax assessments in multiple states in India for multiple years from the Indian VAT authorities in an amount equivalent to approximately $8.3 million, translated at the September 30, 2020 spot rate. These assessments are for underpaid VAT. The Company is litigating these cases at the tax administrative level and the tax tribunal levels as it believes it has meritorious defenses. The Company has not recognized a loss as it does not believe a loss is probable.

The Korea Customs Service audited the importation activities of Herbalife Korea for the period January 2011 through May 2013. The total assessment for the audit period is $30.3 million, translated at the September 30, 2020 spot rate. The Company has paid the assessment and has recognized these payments within other assets on its condensed consolidated balance sheet as of September 30, 2020. The Company lodged a first-level administrative appeal, which was denied on October 21, 2016. On January 31, 2017, the Company filed a further appeal to the National Tax Tribunal of Korea. In November 2018, the Company received an unfavorable decision from the National Tax Tribunal of Korea. In February 2019, the Company submitted an appeal to the Seoul Administrative Court. The Korea Customs Service audited the importation activities of Herbalife Korea for the period May 2013 through December 2013. The total assessment for the audit period is $9.9 million, translated at the September 30, 2020 spot rate. The Company has paid the assessment and has recognized this payment within other assets on its condensed consolidated balance sheet as of September 30, 2020. In July 2019, the Company filed an appeal to the National Tax Tribunal of Korea. The Korea Customs Service audited the importation activities of Herbalife Korea for the period January 2014 through December 2014. The total assessment for the audit period is $15.3 million, translated at the September 30, 2020 spot rate. The Company paid the assessment in September 2020 and has recognized this payment within other assets on its condensed consolidated balance sheet. The Company plans to file an appeal to the National Tax Tribunal of Korea during the fourth quarter of 2020. The Company disagrees with the assertions made in the assessments, as well as the calculation methodology used in the assessments. The Company has not recognized a loss as the Company does not believe a loss is probable.

During the course of 2016, the Company received various questions from the Greek Social Security Agency and on December 29, 2016, the Greek Social Security Agency issued an assessment with respect to Social Security Contributions on Member earnings for the 2006 year. For Social Security issues, the statute of limitations is open for 2007 and later years in Greece. Despite the assessment amount being immaterial, the Company could receive similar assessments covering other years. The Company continues to litigate the assessment. The Company has not recognized a loss as it 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 Italian tax authorities audited the Company for the periods 2014 and 2015. The Company responded to the various points relating to income tax and non-income tax matters raised by the tax authorities. In December 2019, the Company reached an agreement with Italian tax authorities on all issues related to the 2014 audit and paid an immaterial amount during December 2019. In regard to the 2015 audit, the Company reached an agreement with the Italian tax authorities on all issues and paid an immaterial amount during the first quarter of 2020. The audit is now closed.

During March 2018, the Chinese Customs Service began an audit of the Company's Chinese importations initially covering the periods 2015 through 2017 and has subsequently expanded its audit. The Company has responded to the initial questions from the Customs Service and the audit is ongoing. The Company believes that it has accrued the appropriate amounts, and at the present time the Company is unable to reasonably estimate the amount of any potential loss in excess of the amount already accrued relating to these matters.

U.S. Federal Trade Commission Consent Order

On July 15, 2016, the Company and the Federal Trade Commission, or the FTC, entered into a proposed Stipulation to Entry of Order for Permanent Injunction and Monetary Judgment, or the Consent Order. The Consent Order was lodged with the U.S. District Court for the Central District of California on July 15, 2016 and became effective on July 25, 2016, or the Effective Date. The Consent Order resolved the FTC's multi-year investigation of the Company.

Pursuant to the Consent Order, under which the Company neither admitted nor denied the FTC's allegations (except as to the Court having jurisdiction over the matter), the Company made, through its wholly-owned subsidiary Herbalife International of America, Inc., a $200 million payment to the FTC. Additionally, the Company implemented and continues to enhance certain existing procedures in the U.S. Among other requirements, the Consent Order requires the Company to categorize all existing and future Members in the U.S. as either "preferred members" – who are simply consumers who only wish to purchase products for their own household use, or "distributors" – who are Members who wish to resell some products or build a sales organization. The Company also agreed to compensate distributors on eligible U.S. sales within their downline organization, which include purchases by preferred members, purchases by a distributor for his or her personal consumption within allowable limits and sales of product by a distributor to his or her customers. The Consent Order also imposes restrictions on a distributor's ability to open Nutrition Clubs in the United States. The Consent Order subjects the Company to certain audits by an independent compliance auditor for a period of seven years; imposes requirements on the Company regarding compliance certification and record creation and maintenance; and prohibits the Company, its affiliates and its distributors from making misrepresentations and misleading claims regarding, among other things, income and lavish lifestyles. The FTC and the independent compliance auditor have the right to inspect Company records and request additional compliance reports for purposes of conducting audits pursuant to the Consent Order. In September 2016, the Company and the FTC mutually selected Affiliated Monitors, Inc. to serve as the independent compliance auditor. The Company continues to monitor the impact of the Consent Order and, while the Company currently does not expect the settlement to have a long-term and materially adverse impact on its business and its Member base, the Company's business and its Member base, particularly in the United States, may be negatively impacted. If the Company is unable to comply with the Consent Order then this could result in a material and adverse impact to the Company's results of operations and financial condition.

Other Matters

As a marketer of foods, dietary and nutritional supplements, and other products that are ingested by consumers or applied to their bodies, the Company has been and is currently subjected to various product liability claims. The effects of these claims to date have not been material to the Company. The Company currently maintains product liability insurance with an annual deductible of $12.5 million.

As previously disclosed, the SEC and the Department of Justice, or DOJ, conducted investigations into the Company's compliance with the Foreign Corrupt Practices Act, or FCPA, in China. Also, as previously disclosed, the Company conducted its own review and implemented remedial and improvement measures based upon this review, including, but not limited to, replacement of certain employees and enhancements of Company policies and procedures in China. The Company cooperated with the SEC and the DOJ and has now reached separate resolutions with each of them.

On August 28, 2020, the SEC accepted the Offer of Settlement and issued an administrative order finding that the Company violated the books and records and internal controls provisions of the FCPA. In addition, on August 28, 2020, the Company and the DOJ separately entered into a court-approved deferred prosecution agreement, or DPA, under which the DOJ deferred criminal prosecution of the Company for a period of three years related to a conspiracy to violate the books and records provisions of the FCPA. Among other things, the Company is required to undertake compliance self-reporting obligations for the three-year term of the respective agreements with the SEC and the DOJ. If the Company remains in compliance with the DPA during its three-year term, the deferred charge against the Company will be dismissed with prejudice. In addition, the Company agreed to pay the SEC and the DOJ aggregate penalties, disgorgement and prejudgment interest of approximately $123 million. The $123 million settlement amount, which had previously been recognized in other current liabilities within the Company's condensed consolidated balance sheet as of June 30, 2020, was paid in September 2020. If the Company is unable to comply with the DPA, then this could result in a material and adverse impact to the Company's results of operations and financial condition.

As previously disclosed, the SEC had also requested from the Company documents and other information relating to the Company's disclosures regarding its marketing plan in China. On September 27, 2019, the Company and the SEC entered into a settlement resolving this matter. Pursuant to the administrative order settling this matter, under which the Company neither admitted nor denied the SEC's allegations (except as to the SEC's jurisdiction), the Company agreed to cease and desist from committing or causing any violations and any future violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act and Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder, and pay a $20 million civil penalty. The $20 million settlement amount, which had previously been recorded as an accrued liability within the Company's condensed consolidated balance sheet as of June 30, 2019, was paid in October 2019.

On September 18, 2017, the Company and certain of its subsidiaries and Members were named as defendants in a purported class action lawsuit, titled *Rodgers, et al. v Herbalife Ltd., et al.* and filed in the U.S. District Court for the Southern District of Florida, which alleges violations of Florida's Deceptive and Unfair Trade Practices statute and federal Racketeer Influenced and Corrupt Organizations statutes, unjust enrichment, and negligent misrepresentation. On August 23, 2018, the Court issued an order transferring the action to the U.S. District Court for the Central District of California as to four of the putative class plaintiffs and ordering the remaining four plaintiffs to arbitration, thereby terminating the Company defendants from the Florida action. The plaintiffs seek damages in an unspecified amount. The Company believes the lawsuit is without merit and will vigorously defend itself against the claims in the lawsuit. The Company is currently unable to reasonably estimate the amount of the loss that may result from an unfavorable outcome.

6. Segment Information

The Company is a nutrition company that sells a wide range of weight management; targeted nutrition; energy, sports, and fitness; and outer nutrition products. The Company's products are manufactured by the Company in its Changsha, Hunan, China extraction facility; Suzhou, China facility; Nanjing, China facility; Lake Forest, California facility; and Winston-Salem, North Carolina facility, as well as by third-party providers, and then are sold to Members who consume and sell Herbalife products to retail consumers or other Members. Revenues reflect sales of products by the Company to its Members and are categorized based on geographic location.

As of September 30, 2020, the Company sold products in 95 countries throughout the world and was organized and managed by six geographic regions: North America, Mexico, South and Central America, EMEA, Asia Pacific, and China. The Company defines its operating segments as those geographical operations. The Company aggregates its operating segments, excluding China, into a 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, the nature of the regulatory environment, and their economic characteristics. China has been identified as a separate reporting segment as it does not meet the criteria for aggregation. The Company reviews its net sales and contribution margin by operating segment and reviews its assets and capital expenditures on a consolidated basis and not by operating segment. Therefore, net sales and contribution margin are presented by reportable segment and assets and capital expenditures by segment are not presented.

Operating information for the two reportable segments is as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(in millions)			
Net sales:				
Primary Reporting Segment	$ 1,301.8	$ 1,035.8	$ 3,511.7	$ 3,110.7
China	220.0	208.7	619.4	546.1
Total net sales	$ 1,521.8	$ 1,244.5	$ 4,131.1	$ 3,656.8
Contribution margin(1):				
Primary Reporting Segment	$ 538.2	$ 446.7	$ 1,485.4	$ 1,346.2
China(2)	197.8	190.6	553.3	492.3
Total contribution margin	$ 736.0	$ 637.3	$ 2,038.7	$ 1,838.5
Selling, general, and administrative expenses(2)	529.7	500.1	1,559.5	1,412.5
Other operating income	(0.6)	(6.4)	(13.0)	(33.7)
Interest expense, net	35.2	31.6	89.0	104.0
Other income, net	—	(1.3)	—	(15.7)
Income before income taxes	171.7	113.3	403.2	371.4
Income taxes	33.6	31.8	104.4	117.1
Net income	$ 138.1	$ 81.5	$ 298.8	$ 254.3

(1) Contribution margin consists of net sales less cost of sales and Royalty overrides. For the China segment, contribution margin does not include service fees to China independent service providers.

(2) Service fees to China independent service providers totaling $124.1 million and $119.8 million for the three months ended September 30, 2020 and 2019, respectively, and $352.0 million and $304.5 million for the nine months ended September 30, 2020 and 2019, respectively, are included in selling, general, and administrative expenses.

The following table sets forth net sales by geographic area:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(in millions)			
Net sales:				
United States	$ 386.7	$ 251.5	$ 1,033.9	$ 774.2
China	220.0	208.7	619.4	546.1
Mexico	110.3	116.5	321.6	357.0
Others	804.8	667.8	2,156.2	1,979.5
Total net sales	$ 1,521.8	$ 1,244.5	$ 4,131.1	$ 3,656.8

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 included in the 2019 10-K. During the nine months ended September 30, 2020, the Company granted restricted stock units subject to service conditions and restricted stock units subject to service and performance conditions.

Share-based compensation expense amounted to $15.4 million and $9.2 million for the three months ended September 30, 2020 and 2019, respectively, and $37.9 million and $29.7 million for the nine months ended September 30, 2020 and 2019, respectively. As of September 30, 2020, the total unrecognized compensation cost related to all non-vested stock awards was $87.2 million and the related weighted-average period over which it is expected to be recognized is approximately1.7 years.

The following table summarizes the activity for stock appreciation rights, or SARs, under all share-based compensation plans for the nine months ended September 30, 2020:

	Number of Awards	Weighted-Average Exercise Price Per Award	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value(1)
	(in thousands)			*(in millions)*
Outstanding as of December 31, 2019(2)(3)	7,001	$ 27.85	5.4 years	$ 138.7
Granted	—	$ —		
Exercised(4)	(2,914)	$ 28.46		
Forfeited	(7)	$ 29.03		
Outstanding as of September 30, 2020(2)(3)	4,080	$ 27.41	4.7 years	$ 78.5
Exercisable as of September 30, 2020(5)	4,074	$ 27.41	4.7 years	$ 78.4
Vested and expected to vest as of September 30, 2020	4,080	$ 27.41	4.7 years	$ 78.5

(1) The intrinsic value is the amount by which the current market value of the underlying stock exceeds the exercise price of the SARs.
(2) Includes less than 0.1 million market condition SARs as of both September 30, 2020 and December 31, 2019.
(3) Includes 1.1 million and 2.9 million performance condition SARs as of September 30, 2020 and December 31, 2019, respectively, which represents the maximum amount that can vest.
(4) Includes 1.8 million performance condition SARs.
(5) Includes less than 0.1 million market condition and 1.1 million performance condition SARs.

There were no SARs granted during the three and nine months ended September 30, 2020 and 2019. The total intrinsic value of SARs exercised during the three months ended September 30, 2020 and 2019 was $38.5 million and $2.4 million, respectively. The total intrinsic value of SARs exercised during the nine months ended September 30, 2020 and 2019 was $50.2 million and $19.6 million, respectively.

The following table summarizes the activities for stock units under all share-based compensation plans for the nine months ended September 30, 2020:

	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
	(in thousands)	
Outstanding and nonvested as of December 31, 2019(1)	1,833	$ 49.49
Granted(2)	1,975	$ 39.63
Vested	(321)	$ 49.32
Forfeited	(115)	$ 43.94
Outstanding and nonvested as of September 30, 2020(1)	3,372	$ 43.92
Expected to vest as of September 30, 2020(3)	3,094	$ 43.61

(1) Includes 980,338 and 475,430 performance-based stock unit awards as of September 30, 2020 and December 31, 2019, respectively, which represents the maximum amount that can vest.
(2) Includes 504,908 performance-based stock unit awards.
(3) Includes 773,968 performance-based stock unit awards.

The total vesting date fair value of stock units which vested during the three months ended September 30, 2020 and 2019 was $1.3 million and $0.2 million, respectively. The total vesting date fair value of stock units which vested during the nine months ended September 30, 2020 and 2019 was $12.3 million and $11.1 million, respectively.

8. Income Taxes

Income taxes were $33.6 million and $31.8 million for the three months ended September 30, 2020 and 2019, respectively, and $104.4 million and $117.1 million for the nine months ended September 30, 2020 and 2019, respectively. The effective income tax rate was 19.5% and 28.1% for the three months ended September 30, 2020 and 2019, respectively, and 25.9% and 31.5% for the nine months ended September 30, 2020 and 2019, respectively. The decrease in the effective tax rate for the three months ended September 30, 2020 as compared to the same period in 2019 was primarily due to changes in the geographic mix of the Company's income and an increase in net benefits from discrete events. The decrease in the effective tax rate for the nine months ended September 30, 2020 as compared to the same period in 2019 was primarily due to changes in the geographic mix of the Company's income, partially offset by a decrease in net benefits from discrete events.

As of September 30, 2020, the total amount of unrecognized tax benefits, including related interest and penalties, was $52.5 million. If the total amount of unrecognized tax benefits was recognized, $40.8 million of unrecognized tax benefits, $10.6 million of interest, and $1.7 million of penalties would impact the effective tax rate.

The Company believes that it is reasonably possible that the amount of unrecognized tax benefits could decrease by up to approximately $7.1 million within the next twelve months. Of this possible decrease, $2.8 million would be due to the settlement of audits or resolution of administrative or judicial proceedings. The remaining possible decrease of $4.3 million would be due to the expiration of statute of limitations in various jurisdictions. For a description on contingency matters relating to income taxes, see Note 5, *Contingencies*.

In July 2020, the U.S. Treasury Department issued final tax regulations related to foreign-derived intangible income and global intangible low-taxed income, or GILTI, provisions. Also in July 2020, the U.S. Treasury Department released final tax regulations that provide certain U.S. taxpayers with an annual election to exclude foreign income that is subject to a high effective tax rate from their GILTI inclusions. The Company has assessed the impact of these new regulations and determined there was no material impact to its condensed consolidated financial statements.

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 2018 Credit Facility, which are based on variable rates.

During the first quarter of 2020, the Company entered into various interest rate swap agreements with effective dates ranging between February 2020 and March 2020. These agreements collectively provide for the Company to pay interest at a weighted-average fixed rate of 0.98% on aggregate notional amounts of $100.0 million under the 2018 Credit Facility until their respective expiration dates ranging between February 2022 and March 2023, while receiving interest based on LIBOR on the same notional amounts for the same periods. At inception, these swap agreements were designated as cash flow hedges against the variability in certain LIBOR-based borrowings under the 2018 Credit Facility, effectively fixing the interest rate on such notional amounts at a weighted-average effective rate of 3.48%. These hedge relationships qualified as effective under FASB ASC Topic 815, *Derivatives and Hedging*, or ASC 815, and consequently all changes in the fair value of these interest rate swaps are recorded as a component of accumulated other comprehensive loss within shareholders' deficit, and are recognized in interest expense, net within the Company's condensed consolidated statement of income during the period when the hedged item and underlying transaction affect earnings. The fair values of the interest rate swap agreements are based on third-party bank quotes, and as of September 30, 2020, the Company recorded liabilities at fair value of $1.2 million relating to these interest rate swap agreements.

Foreign Currency Instruments

The Company designates certain foreign currency derivatives, primarily comprised of foreign currency forward contracts 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 within the Company's condensed consolidated statements of income. The Company primarily uses freestanding foreign currency derivatives to hedge foreign currency-denominated intercompany transactions and to partially mitigate the impact of foreign currency fluctuations. The fair value of the freestanding foreign currency derivatives is 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 designated as cash flow hedges, excluding forward points, are recorded as a component of accumulated other comprehensive loss within shareholders' deficit, and are recognized in cost of sales within 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, excluding forward points, are recorded as a component of accumulated other comprehensive loss within shareholders' deficit, and are recognized in selling, general, and administrative expenses within the Company's condensed consolidated statement of income during the period when the hedged item and underlying transaction affect earnings. The Company has elected to record changes in the fair value of amounts excluded from the assessment of effectiveness currently in earnings.

As of September 30, 2020 and December 31, 2019, the aggregate notional amounts of all foreign currency contracts outstanding designated as cash flow hedges were approximately $49.4 million and $66.4 million, respectively. As of September 30, 2020, these outstanding contracts were expected to mature over the next fifteen months. The Company's derivative financial instruments are recorded on the condensed consolidated balance sheets at fair value based on third-party quotes. As of September 30, 2020, the Company recorded assets at fair value of $0.4 million and liabilities at fair value of $1.0 million relating to all outstanding foreign currency contracts designated as cash flow hedges. As of December 31, 2019, the Company recorded assets at fair value of $0.1 million and liabilities at fair value of $1.9 million relating to all outstanding foreign currency contracts designated as cash flow hedges. The Company assesses hedge effectiveness at least quarterly and the hedges remained effective as of September 30, 2020 and December 31, 2019.

As of both September 30, 2020 and December 31, 2019, 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 September 30, 2020, the Company had aggregate notional amounts of approximately $528.5 million of foreign currency contracts, inclusive of freestanding contracts and contracts designated as cash flow hedges.

The following tables summarize the derivative activity during the three and nine months ended September 30, 2020 and 2019 relating to all the Company's derivatives.

Gains and Losses on Derivative Instruments

The following table summarizes gains (losses) relating to derivative instruments recorded in other comprehensive (loss) income during the three and nine months ended September 30, 2020 and 2019:

	Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss)			
	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(in millions)			
Derivatives designated as hedging instruments:				
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	$ 0.1	$ (0.2)	$ 6.4	$ (1.2)
Interest rate swaps	—	—	(1.5)	—

As of September 30, 2020, the estimated amount of existing net gains related to cash flow hedges recorded in accumulated other comprehensive loss that are expected to be reclassified into earnings over the next twelve months was $2.2 million.

The effect of cash flow hedging relationships on the Company's condensed consolidated statements of income for the three and nine months ended September 30, 2020 and 2019 was as follows:

	Location and Amount of Gain (Loss) Recognized in Income on Cash Flow Hedging Relationships					
	Three Months Ended					
	September 30, 2020			September 30, 2019		
	Cost of sales	Selling, general, and administrative expenses	Interest expense, net	Cost of sales	Selling, general, and administrative expenses	Interest expense, net
	(in millions)					
Total amounts presented in the condensed consolidated statements of income	$ 322.7	$ 529.7	$ 35.2	$ 243.4	$ 500.1	$ 31.6
Foreign exchange currency contracts relating to inventory hedges:						
Amount of gain (loss) reclassified from accumulated other comprehensive loss to income	4.0	—	—	(0.3)	—	—
Amount of loss excluded from assessment of effectiveness recognized in income	(0.8)	—	—	(0.6)	—	—
Foreign exchange currency contracts relating to intercompany management fee hedges:						
Amount of gain (loss) reclassified from accumulated other comprehensive loss to income	—	(0.1)	—	—	0.1	—
Amount of gain excluded from assessment of effectiveness recognized in income	—	—	—	—	0.1	—
Interest rate swaps:						
Amount of loss reclassified from accumulated other comprehensive loss to income	—	—	(0.2)	—	—	—
Amount of gain excluded from assessment of effectiveness recognized in income	—	—	—	—	—	—

	Location and Amount of Gain (Loss) Recognized in Income on Cash Flow Hedging Relationships					
	Nine Months Ended					
	September 30, 2020			September 30, 2019		
	Cost of sales	Selling, general, and administrative expenses	Interest expense, net	Cost of sales	Selling, general, and administrative expenses	Interest expense, net
	(in millions)					
Total amounts presented in the condensed consolidated statements of income	$ 841.2	$ 1,559.5	$ 89.0	$ 728.2	$ 1,412.5	$ 104.0
Foreign exchange currency contracts relating to inventory hedges:						
Amount of gain (loss) reclassified from accumulated other comprehensive loss to income	2.8	—	—	(0.2)	—	—
Amount of loss excluded from assessment of effectiveness recognized in income	(2.6)	—	—	(1.9)	—	—
Foreign exchange currency contracts relating to intercompany management fee hedges:						
Amount of gain reclassified from accumulated other comprehensive loss to income	—	—	—	—	0.9	—
Amount of gain excluded from assessment of effectiveness recognized in income	—	0.1	—	—	0.2	—
Interest rate swaps:						
Amount of loss reclassified from accumulated other comprehensive loss to income	—	—	(0.3)	—	—	—
Amount of gain excluded from assessment of effectiveness recognized in income	—	—	—	—	—	—

The following table summarizes gains recorded to income relating to derivative instruments not designated as hedging instruments during the three and nine months ended September 30, 2020 and 2019:

	Amount of Gain Recognized in Income				
	Three Months Ended		Nine Months Ended		
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019	Location of Gain Recognized in Income
	(in millions)				
Derivatives not designated as hedging instruments:					
Foreign exchange currency contracts	$ 4.2	$ 0.4	$ 5.9	$ 0.2	Selling, general, and administrative expenses

The Company reports its derivatives at fair value as either assets or liabilities within its condensed consolidated balance sheets. See Note 12, *Fair Value Measurements,* for information on derivative fair values and their condensed consolidated balance sheets location as of September 30, 2020 and December 31, 2019.

10. Shareholders' Deficit

Changes in shareholders' deficit for the three months ended September 30, 2020 and 2019 were as follows:

	Three Months Ended September 30, 2020					
	Common Shares	Treasury Stock	Paid-in Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Deficit
			(in millions)			
Balance as of June 30, 2020	$ 0.1	$ (328.9)	$ 380.7	$ (246.1)	$ (70.6)	$ (264.8)
Issuance of 0.8 common shares from exercise of stock options, SARs, restricted stock units, employee stock purchase plan, and other	—		1.1			1.1
Additional capital from share-based compensation			15.4			15.4
Repurchases of 16.8 common shares	—		(61.4)		(757.7)	(819.1)
Net income					138.1	138.1
Foreign currency translation adjustment, net of income taxes of $0.7				19.5		19.5
Unrealized loss on derivatives, net of income taxes of $(0.1)				(3.1)		(3.1)
Balance as of September 30, 2020	$ 0.1	$ (328.9)	$ 335.8	$ (229.7)	$ (690.2)	$ (912.9)

	Three Months Ended September 30, 2019					
	Common Shares	Treasury Stock	Paid-in Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Deficit
			(in millions)			
Balance as of June 30, 2019	$ 0.1	$ (328.9)	$ 354.5	$ (206.4)	$ (353.5)	$ (534.2)
Issuance of 0.1 common shares from exercise of stock options, SARs, restricted stock units, employee stock purchase plan, and other	—		0.9			0.9
Additional capital from share-based compensation			9.2			9.2
Repurchases of 0.1 common shares	—		(0.9)			(0.9)
Forward Counterparties' delivery of 4.0 common shares to the Company	—		—			—
Net income					81.5	81.5
Foreign currency translation adjustment, net of income taxes of $(0.1)				(24.0)		(24.0)
Unrealized gain on derivatives, net of income taxes of $—				—		—
Balance as of September 30, 2019	$ 0.1	$ (328.9)	$ 363.7	$ (230.4)	$ (272.0)	$ (467.5)

Changes in shareholders' deficit for the nine months ended September 30, 2020 and 2019 were as follows:

	Nine Months Ended September 30, 2020					
	Common Shares	Treasury Stock	Paid-in Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Deficit
			(in millions)			
Balance as of December 31, 2019	$ 0.1	$ (328.9)	$ 366.6	$ (212.5)	$ (215.3)	$ (390.0)
Issuance of 1.5 common shares from exercise of stock options, SARs, restricted stock units, employee stock purchase plan, and other	—		2.7			2.7
Additional capital from share-based compensation			37.9			37.9
Repurchases of 17.4 common shares	—		(71.4)		(773.7)	(845.1)
Net income					298.8	298.8
Foreign currency translation adjustment, net of income taxes of $(4.1)				(20.4)		(20.4)
Unrealized gain on derivatives, net of income taxes of $(0.4)				3.2		3.2
Balance as of September 30, 2020	$ 0.1	$ (328.9)	$ 335.8	$ (229.7)	$ (690.2)	$ (912.9)

	Nine Months Ended September 30, 2019					
	Common Shares	Treasury Stock	Paid-in Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Deficit
			(in millions)			
Balance as of December 31, 2018	$ 0.1	$ (328.9)	$ 341.5	$ (209.8)	$ (526.3)	$ (723.4)
Issuance of 0.6 common shares from exercise of stock options, SARs, restricted stock units, employee stock purchase plan, and other	—		2.4			2.4
Additional capital from share-based compensation			29.7			29.7
Repurchases of 0.2 common shares	—		(9.9)			(9.9)
Forward Counterparties' delivery of 6.0 common shares to the Company	—		—			—
Net income					254.3	254.3
Foreign currency translation adjustment, net of income taxes of $(1.1)				(18.7)		(18.7)
Unrealized loss on derivatives, net of income taxes of $—				(1.9)		(1.9)
Balance as of September 30, 2019	$ 0.1	$ (328.9)	$ 363.7	$ (230.4)	$ (272.0)	$ (467.5)

Dividends

The Company has not declared or paid cash dividends since 2014. The declaration of future dividends is subject to the discretion of the Company's board of directors and will depend upon various factors, including its earnings, financial condition, Herbalife Nutrition Ltd.'s available distributable reserves under Cayman Islands law, restrictions imposed by the 2018 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.

Share Repurchases

On October 30, 2018, the Company's board of directors authorized a new five-year $1.5 billion share repurchase program that will expire on October 30, 2023, which replaced the Company's prior share repurchase authorization that was set to expire on February 21, 2020 and had approximately $113.3 million of remaining authorized capacity when it was replaced. This share repurchase program allows the Company, which includes an indirect wholly-owned subsidiary of Herbalife Nutrition Ltd., to repurchase the Company's common shares at such times and prices as determined by management, as market conditions warrant, and to the extent Herbalife Nutrition Ltd.'s distributable reserves are available under Cayman Islands law. The 2018 Credit Facility permits the Company to repurchase its common shares as long as no default or event of default exists and other conditions, such as specified consolidated leverage ratios, are met. As of September 30, 2020, the remaining authorized capacity under the Company's $1.5 billion share repurchase program was $682.9 million.

In conjunction with the issuance of the 2019 Convertible Notes during February 2014, the Company paid approximately $685.8 million to enter into Forward Transactions with certain financial institutions, or the Forward Counterparties, pursuant to which the Company purchased approximately 19.9 million common shares, at an average cost of $34.51 per share, for settlement on or around the August 15, 2019 maturity date for the 2019 Convertible Notes, subject to the ability of each Forward Counterparty to elect to settle all or a portion of its Forward Transactions early. The Forward Transactions were generally expected to facilitate privately negotiated derivative transactions between the Forward Counterparties and holders of the 2019 Convertible Notes, including swaps, relating to the common shares by which holders of the 2019 Convertible Notes establish short positions relating to the common shares and otherwise hedge their investments in the 2019 Convertible Notes concurrently with, or shortly after, the pricing of the 2019 Convertible Notes. The approximate 19.9 million common shares effectively repurchased through the Forward Transactions were treated as retired shares for basic and diluted EPS purposes. As of September 30, 2020, the Forward Counterparties had delivered all of the approximate 19.9 million common shares effectively repurchased through the Forward Transactions and no shares remained legally outstanding.

As a result of the Forward Transactions, the Company's total shareholders' equity within its condensed consolidated balance sheet was reduced by approximately $685.8 million during the first quarter of 2014, with amounts of $653.9 million and $31.9 million being allocated between retained earnings and additional paid-in capital, respectively, within total shareholders' equity. Also, upon executing the Forward Transactions, the Company recorded, at fair value, $ 35.8 million in non-cash issuance costs to other assets and a corresponding amount to additional paid-in capital within its condensed consolidated balance sheet. These non-cash issuance costs were amortized to interest expense over the contractual term of the Forward Transactions. During the three and nine months ended September 30, 2019, the Company recognized $0.2 million and $1.2 million, respectively, of non-cash interest expense relating to amortization of these non-cash issuance costs within its condensed consolidated statements of income.

In August 2020, the Company completed its modified Dutch auction tender offer and then subsequently paid cash to repurchase and retire a total of approximately 15.4 million of its common shares at an aggregate cost of approximately $750.0 million, or $48.75 per share. In addition, during the nine months ended September 30, 2020, the Company repurchased approximately 1.4 million of its common shares through open market purchases at an aggregate cost of approximately $67.1 million, or an average cost of $46.44 per share, and subsequently retired these shares. During the nine months ended September 30, 2019, the Company did not repurchase any of its common shares through open market purchases.

As of both September 30, 2020 and December 31, 2019, the Company held approximately 10.0 million of treasury shares for U.S. GAAP purposes. These treasury shares increased the Company's shareholders' deficit and are reflected at cost within the Company's accompanying condensed consolidated balance sheets. Although these shares are owned by an indirect wholly-owned subsidiary of the Company and remain legally outstanding, they are reflected as treasury shares under U.S. GAAP and therefore reduce the number of common shares outstanding within the Company's condensed consolidated financial statements and the weighted-average number of common shares outstanding used in calculating earnings per share. The common shares of Herbalife Nutrition Ltd. held by the indirect wholly-owned subsidiary, however, remain outstanding on the books and records of the Company's transfer agent and therefore still carry voting and other share rights related to ownership of the Company's common shares, which may be exercised. So long as it is consistent with applicable laws, such shares will be voted by such subsidiary in the same manner, and to the maximum extent possible in the same proportion, as all other votes cast with respect to any matter properly submitted to a vote of Herbalife Nutrition Ltd.'s shareholders.

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 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 condensed 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. During the three and nine months ended September 30, 2020 and 2019, the Company withheld shares on its vested restricted stock units and exercised SARs relating to its share-based compensation plans.

The Company reflects the aggregate purchase price of its common shares repurchased as an increase to shareholders' deficit. The Company generally allocated the purchase price of the repurchased shares to accumulated deficit, common shares, and additional paid-in capital, with the exception of treasury shares, which are recorded separately on the Company's condensed consolidated balance sheets.

For the nine months ended September 30, 2020 and 2019, the Company's share repurchases, inclusive of transaction costs, were $818.5 million and zero, respectively, under the Company's share repurchase programs, which includes open market purchases and the tender offer described above, and $26.6 million and $9.9 million, respectively, due to shares withheld for tax purposes related to the Company's share-based compensation plans. For the nine months ended September 30, 2020 and 2019, the Company's total share repurchases, including shares withheld for tax purposes, were $845.1 million and $9.9 million, respectively, and have been recorded as an increase to shareholders' deficit within the Company's condensed consolidated balance sheets. The Company recorded $844.2 million of total share repurchases within financing activities on its condensed consolidated statement of cash flows for the nine months ended September 30, 2020, which excludes $0.9 million of fees related to share repurchases for which payment was made subsequent to the quarter end and therefore reflected as a liability within the Company's consolidated balance sheet as of September 30, 2020.

Capped Call Transactions

In February 2014, in connection with the issuance of the 2019 Convertible Notes, the Company paid approximately $123.8 million to enter into Capped Call Transactions with certain financial institutions. The Capped Call Transactions were expected generally to reduce the potential dilution upon conversion of the 2019 Convertible Notes in the event that the market price of the common shares was greater than the strike price of the Capped Call Transactions, initially set at $43.14 per common share, with such reduction of potential dilution subject to a cap based on the cap price initially set at $60.39 per common share. The strike price and cap price were subject to certain adjustments under the terms of the Capped Call Transactions. Therefore, as a result of executing the Capped Call Transactions, the Company in effect was only exposed to potential net dilution once the market price of its common shares exceeded the adjusted cap price. As a result of the Capped Call Transactions, the Company's additional paid-in capital within shareholders' equity on its condensed consolidated balance sheet was reduced by $123.8 million during the first quarter of 2014.

During March 2018, in connection with the Company's repurchase of a portion of the 2019 Convertible Notes, the Company entered into partial settlement agreements with the option counterparties to the Capped Call Transactions to terminate a portion of such existing transactions, in each case, in a notional amount corresponding to the aggregate principal amount of 2019 Convertible Notes that were repurchased. As a result of terminating a portion of the Capped Call Transactions, which were in a favorable position, the Company received $55.9 million in cash and recognized an offsetting increase to additional paid-in capital during 2018.

On August 15, 2019, the 2019 Convertible Notes matured and the remaining Capped Call Transactions expired unexercised. The expiration of the Capped Call Transactions did not have an impact on the Company's condensed consolidated financial statements.

Accumulated Other Comprehensive Loss

The following table summarizes changes in accumulated other comprehensive loss by component during the three months ended September 30, 2020 and 2019:

	Changes in Accumulated Other Comprehensive Loss by Component					
	Three Months Ended					
	September 30, 2020			September 30, 2019		
	Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on Derivatives	Total	Foreign Currency Translation Adjustments	Unrealized Loss on Derivatives	Total
	(in millions)					
Beginning balance	$ (251.5)	$ 5.4	$ (246.1)	$ (206.3)	$ (0.1)	$ (206.4)
Other comprehensive income (loss) before reclassifications, net of tax	19.5	0.6	20.1	(24.0)	(0.2)	(24.2)
Amounts reclassified from accumulated other comprehensive loss to income, net of tax(1)	—	(3.7)	(3.7)	—	0.2	0.2
Total other comprehensive income (loss), net of reclassifications	19.5	(3.1)	16.4	(24.0)	—	(24.0)
Ending balance	$ (232.0)	$ 2.3	$ (229.7)	$ (230.3)	$ (0.1)	$ (230.4)

(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 loss into income during the three months ended September 30, 2020 and 2019.

Other comprehensive income before reclassifications was net of tax expense of $0.7 million for foreign currency translation adjustments for the three months ended September 30, 2020. Amounts reclassified from accumulated other comprehensive loss to income was net of tax benefit of $0.1 million for unrealized gain (loss) on derivatives for the three months ended September 30, 2020.

Other comprehensive loss before reclassifications was net of tax benefit of $0.1 million for foreign currency translation adjustments for the three months ended September 30, 2019.

The following table summarizes changes in accumulated other comprehensive loss by component during the nine months ended September 30, 2020 and 2019:

	Changes in Accumulated Other Comprehensive Loss by Component					
	Nine Months Ended					
	September 30, 2020			September 30, 2019		
	Foreign Currency Translation Adjustments	Unrealized (Loss) Gain on Derivatives	Total	Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on Derivatives	Total
	(in millions)					
Beginning balance	$ (211.6)	$ (0.9)	$ (212.5)	$ (211.6)	$ 1.8	$ (209.8)
Other comprehensive (loss) income before reclassifications, net of tax	(20.4)	5.7	(14.7)	(18.7)	(1.2)	(19.9)
Amounts reclassified from accumulated other comprehensive loss to income, net of tax(1)	—	(2.5)	(2.5)	—	(0.7)	(0.7)
Total other comprehensive (loss) income, net of reclassifications	(20.4)	3.2	(17.2)	(18.7)	(1.9)	(20.6)
Ending balance	$ (232.0)	$ 2.3	$ (229.7)	$ (230.3)	$ (0.1)	$ (230.4)

(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 loss into income during the nine months ended September 30, 2020 and 2019.

Other comprehensive loss before reclassifications was net of tax benefit of $4.1 million and $0.5 million for foreign currency translation adjustments and unrealized gain (loss) on derivatives, respectively, for the nine months ended September 30, 2020. Amounts reclassified from accumulated other comprehensive loss to income was net of tax expense of $0.1 million for unrealized gain (loss) on derivatives for the nine months ended September 30, 2020.

Other comprehensive loss before reclassifications was net of tax benefit of $1.1 million for foreign currency translation adjustments for the nine months ended September 30, 2019.

11. Earnings Per Share

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(in millions)			
Weighted-average shares used in basic computations	129.2	137.4	135.0	137.3
Dilutive effect of exercise of equity grants outstanding	3.3	2.6	2.8	3.7
Dilutive effect of 2019 Convertible Notes	—	—	—	1.3
Weighted-average shares used in diluted computations	132.5	140.0	137.8	142.3

There were an aggregate of 0.8 million and 1.7 million of equity grants, consisting of SARs and stock units, that were outstanding during the three months ended September 30, 2020 and 2019, respectively, and an aggregate of 0.9 million and 1.0 million of equity grants, consisting of SARs and stock units, that were outstanding during the nine months ended September 30, 2020 and 2019, respectively, but were not included in the computation of diluted earnings per share because their effect would be anti-dilutive or the performance condition of the award had not been satisfied.

Since the Company was required to settle the principal amount of its 2019 Convertible Notes in cash and settle the conversion feature for the amount above the conversion price in common shares, or the conversion spread, the Company used the treasury stock method for calculating any potential dilutive effect of the conversion spread on diluted earnings per share, if applicable. The conversion spread would have had a dilutive impact on diluted earnings per share when the average market price of the Company's common shares for a given period exceeded the conversion price of the 2019 Convertible Notes. The dilutive impacts for the three and nine months ended September 30, 2019 are disclosed in the table above. The initial conversion rate and conversion price for the 2019 Convertible Notes are described further in Note 4, *Long-Term Debt*.

For the 2024 Convertible Notes, the Company has the intent and ability to settle the principal amount in cash and intends to settle the conversion feature for the amount above the conversion price, or the conversion spread, in common shares. The Company uses the treasury stock method for calculating any potential dilutive effect of the conversion spread on diluted earnings per share, if applicable. The conversion spread will have a dilutive impact on diluted earnings per share when the average market price of the Company's common shares for a given period exceeds the conversion price of the 2024 Convertible Notes. For the three and nine months ended September 30, 2020 and 2019, the 2024 Convertible Notes have been excluded from the computation of diluted earnings per share, as the effect would be anti-dilutive since the conversion price of the 2024 Convertible Notes exceeded the average market price of the Company's common shares for the three and nine months ended September 30, 2020 and 2019. The initial conversion rate and conversion price for the 2024 Convertible Notes are described further in Note 4, *Long-Term Debt.*

The Capped Call Transactions were excluded from the calculation of diluted earnings per share because their impact was always anti-dilutive and the Forward Transactions were treated as retired shares for basic and diluted EPS purposes, in each case for the periods the transactions were in effect. On August 15, 2019, the remaining Capped Call Transactions expired unexercised and all shares were retired under the Forward Transactions. See Note 10, *Shareholders' Deficit*, for additional discussion regarding the Capped Call Transactions and Forward Transactions.

See Note 10, *Shareholders' Deficit*, for a discussion of how common shares repurchased by the Company's indirect wholly-owned subsidiary are treated under U.S. GAAP.

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 condensed 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. The Company's derivative assets and liabilities are measured at fair value and consisted of Level 2 inputs and their amounts are shown below at their gross values as of September 30, 2020 and December 31, 2019:

	Significant Other Observable Inputs (Level 2) Fair Value as of September 30, 2020	Significant Other Observable Inputs (Level 2) Fair Value as of December 31, 2019	Balance Sheet Location
	(in millions)		
ASSETS:			
Derivatives designated as hedging instruments:			
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	$ 0.4	$ 0.1	Prepaid expenses and other current assets
Derivatives not designated as hedging instruments:			
Foreign exchange currency contracts	4.4	3.1	Prepaid expenses and other current assets
	$ 4.8	$ 3.2	
LIABILITIES:			
Derivatives designated as hedging instruments:			
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	$ 1.0	$ 1.9	Other current liabilities
Interest rate swaps	1.2	—	Other current liabilities
Derivatives not designated as hedging instruments:			
Foreign exchange currency contracts	1.4	1.1	Other current liabilities
	$ 3.6	$ 3.0	

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents are comprised of money market funds and foreign and domestic bank accounts. These cash and cash equivalents are valued based on Level 1 inputs which consist of quoted prices in active markets. To reduce its credit risk, the Company monitors the credit standing of the financial institutions that hold the Company's cash and cash equivalents.

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 Consolidated Financial Statements included in the 2019 10-K for a further description of the Company's 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 sheets as of September 30, 2020 and December 31, 2019:

	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)		
September 30, 2020			
Foreign exchange currency contracts	$ 4.8	$ (1.2)	$ 3.6
Total	$ 4.8	$ (1.2)	$ 3.6
December 31, 2019			
Foreign exchange currency contracts	$ 3.2	$ (1.4)	$ 1.8
Total	$ 3.2	$ (1.4)	$ 1.8

	Offsetting of Derivative Liabilities		
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Liabilities Presented in the Balance Sheet
	(in millions)		
September 30, 2020			
Foreign exchange currency contracts	$ 2.4	$ (1.2)	$ 1.2
Interest rate swaps	1.2	—	1.2
Total	$ 3.6	$ (1.2)	$ 2.4
December 31, 2019			
Foreign exchange currency contracts	$ 3.0	$ (1.4)	$ 1.6
Total	$ 3.0	$ (1.4)	$ 1.6

The Company offsets all of its derivative assets and derivative liabilities in its condensed consolidated balance sheets to the extent it maintains master netting arrangements with related financial institutions. As of September 30, 2020 and December 31, 2019, all of the Company's derivatives were subject to master netting arrangements and no collateralization was required for the Company's derivative assets and derivative liabilities.

13. Detail of Certain Balance Sheet Accounts

Other Assets

The Other assets on the Company's accompanying condensed consolidated balance sheets include deferred compensation plan assets of $39.8 million and $38.9 million and deferred tax assets of $66.3 million and $79.3 million as of September 30, 2020 and December 31, 2019, respectively.

Other Current Liabilities

Other current liabilities consist of the following:

	September 30, 2020	December 31, 2019
	(in millions)	
Accrued compensation	$ 141.4	$ 121.6
Accrued service fees to China independent service providers	69.0	62.2
Accrued advertising, events, and promotion expenses	59.6	48.5
Current operating lease liabilities	34.0	37.4
Advance sales deposits	103.4	64.3
Income taxes payable	20.2	17.0
Other accrued liabilities	197.8	213.6
Total	$ 625.4	$ 564.6

Other Non-Current Liabilities

The Other non-current liabilities on the Company's accompanying condensed consolidated balance sheets include deferred compensation plan liabilities of $66.8 million and $62.4 million and deferred income tax liabilities of $21.4 million and $21.4 million as of September 30, 2020 and December 31, 2019, respectively. See Note 6, *Employee Compensation Plans*, to the Consolidated Financial Statements included in the 2019 10-K for a further description of the Company's deferred compensation plan assets and liabilities.

14. Subsequent Events

On November 4, 2020, the Company's Board of Directors declared a pro rata distribution of stock purchase warrants to the Company's shareholders of one warrant for every four common shares held. Each warrant will entitle the holder to purchase an Herbalife Nutrition common share at an exercise price of $67.50 per share where the Company will have the option to net share settle these warrants if they are exercised in the future. The warrants will have a seven-year term and will be exercisable only on the expiration date. The record date for the distribution is November 16, 2020 and the distribution or payment date is December 14, 2020. The Company expects to list the warrants on The New York Stock Exchange. The Company's 2024 Convertible Notes and employee equity awards will also be required to be adjusted accordingly as a result of this distribution.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with other information, including our condensed consolidated financial statements and related notes included in Part I, Item 1, Financial Information*, and Part II, Item 1A,* Risk Factors*, of this Quarterly Report on Form 10-Q, and our consolidated financial statements appearing in our Annual Report on Form 10-K for the year ended December 31, 2019, or the 2019 10-K. Unless the context otherwise requires, all references herein to the "Company," "we," "us" or "our," or similar terms, refer to Herbalife Nutrition Ltd., a Cayman Islands exempted company with limited liability, and its consolidated subsidiaries.*

Overview

We are a global nutrition company that sells weight management; targeted nutrition; energy, sports, and fitness; and outer nutrition products to and through independent members, or Members. In China, we sell our products to and through independent service providers, sales representatives, and sales officers to customers and preferred customers, as well as through Company-operated retail platforms when necessary. We refer to Members that distribute our products and achieve certain qualification requirements as "sales leaders."

We provide high-quality, science-backed products to Members and their customers who seek a healthy lifestyle and we also offer a business opportunity to those Members who seek additional income. We believe enhanced consumer awareness and demand for our products due to trends such as the global obesity epidemic, increasing healthcare costs, and aging populations, coupled with the effectiveness of personalized selling through a direct sales channel, have been the primary reasons for our continued success.

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

While we continue to monitor the current global financial environment, we remain focused on the opportunities and challenges in retailing our products and enhancing the customer experience, sponsoring and retaining Members, improving Member productivity, further penetrating existing markets, globalizing successful Distributor Methods of Operation, or DMOs, such as Nutrition Clubs, Fit Clubs, and Weight Loss Challenges, introducing new products and globalizing existing products, developing niche market segments and further investing in our infrastructure.

We sell our products 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.

On July 15, 2016, we reached a settlement with the U.S. Federal Trade Commission, or FTC, and entered into the Consent Order, which resolved the FTC's multi-year investigation of the Company. We continue to monitor the impact of the Consent Order and our board of directors established the Implementation Oversight Committee in connection with the Consent Order, and more recently, our Audit Committee assumed oversight of continued compliance with the Consent Order. The Implementation Oversight Committee had met regularly with management to oversee our compliance with the terms of the Consent Order. While we currently do not expect the settlement to have a long-term and materially adverse impact on our business and our Member base, our business and our Member base, particularly in the U.S., may be negatively impacted. The terms of the Consent Order do not change our going to market through direct selling by independent distributors, and compensating those distributors based upon the product they and their sales organization sell. See Part II, Item 1A, *Risk Factors,* of this Quarterly Report on Form 10-Q for a discussion of risks related to the settlement with the FTC.

COVID-19 Pandemic

During March 2020, the World Health Organization declared the outbreak of coronavirus disease 2019, or COVID-19, as a pandemic. The outbreak and subsequent global spread of the virus has impacted the general public, companies and state, local and national governments and economies worldwide, as well as global financial markets, and caused unemployment to increase. Public health organizations and international, federal, state and local governments have implemented measures to combat the spread of COVID-19, including restrictions on movement such as quarantines, "stay-at-home" orders and social distancing ordinances and restricting or prohibiting outright some or all forms of commercial and business activity. These measures, or others that may be implemented in the future, although temporary in nature, may become more restrictive or continue indefinitely.

Our business and operations have been affected by the pandemic in manners and degrees that vary by market and we expect that the effects may extend through the end of 2020 and beyond. For the health and safety of our employees, our Members, and their customers, we implemented temporary access restrictions at many of our physical business locations and locations where Members conduct their business activities, some of which measures continue. Generally, we have been able to satisfy current levels of demand. While demand for our nutritional products continues to be at or above pre-pandemic levels and pandemic constraints have been lessened in most markets by the designation of our nutritional business as "essential" or other similar characterization, our operations have been and continue to be disrupted. The most significant impacts we have seen, depending on market, include:

- Constrained ability to deliver product to Members and/or have Members pick product up from our access points due to facility closures and other precautionary measures we have implemented;
- Restrictions or outright prohibitions on in-person training and promotional meetings and events for Members that are a key aspect of our business model, such as our annual regional Extravaganzas;
- Constrained ability of Members to have face-to-face contact with their customers, including at Nutrition Clubs; and
- Slowed office operations as many of our employees have limited access to their regular place of employment.

We and our Members have responded to the pandemic and its impacts on our business and theirs by adapting operations and taking a number of proactive measures to mitigate those impacts. The most significant measures include:

- Adapting product access to the varying market-specific challenges, including shifting to more home product delivery from Member pick-up, and shifting to online or phone orders only from in-person ordering;
- Enhancing our training and promotion of technological tools offered to support Members' online operations and accelerating the launch of certain functionalities, such as functions that facilitate our Members' ability to communicate and transact with Nutrition Club customers;
- Members continuing to or increasing the ways they leverage the Internet and social media for customer contact including training, order-taking, and acceptance of payment;
- Member-operated Nutrition Clubs adding to or shifting from on-site offerings of single servings to carry-out and home delivery of single servings, as well as sales of fully packaged products;
- Instituting product purchase limitations for certain in-demand products to help ensure as many Members and their customers have fair access to these products and to minimize out-of-stock conditions; and
- Physical changes at our major facilities, such as our manufacturing plants and distribution centers, including pre-entry temperature checks, face masks for employees, and plexiglass barriers, and employees working from home where possible rather than at company offices.

We believe our cash on hand as of September 30, 2020 and as of the date of this filing, combined with cash flows from operating activities, is sufficient to meet our foreseeable needs for the next twelve months. We also have access to our $282.5 million revolving credit facility to supplement our cash-generating ability if necessary.

Although we believe that our responsive measures have been effective in limiting the adverse impact of the pandemic on most markets, the ongoing impact of the COVID-19 pandemic will affect our business, financial condition, and results of operations in future quarters, including their comparability to prior periods. Given the unpredictable, unprecedented, and fluid nature of the pandemic and its economic consequences, we are unable to predict the duration and extent to which the pandemic and its related impacts will impact our business, financial condition, and results of operations. A more detailed discussion of the pandemic's impact on net sales for the third quarter and first nine months of 2020 and its expected impact in future periods, as well as the impacts specific to each geographic region, are discussed further in the *Sales by Geographic Region* section below. See Part II, Item 1A, *Risk Factors*, of this Quarterly Report on Form 10-Q for a further discussion of risks related to the COVID-19 pandemic.

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, excluding the impact of price changes, 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. The criteria we use to determine how and when we recognize Volume Points are not identical to our revenue recognition policies under U.S. GAAP. Unlike net sales, which are generally recognized when the product is delivered and when control passes to the Member, as discussed in greater detail in Note 2, *Significant Accounting Policies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, we recognize Volume Points when a Member pays for the order, which is generally prior to the product being delivered. Further, the periods in which Volume Points are tracked can vary slightly from the fiscal periods for which we report our results under U.S. GAAP. Therefore, there can be timing differences between the product orders for which net sales are recognized and for which Volume Points are recognized within a given period. However, historically these timing differences generally have been immaterial in the context of using changes in Volume Points as a proxy to explain volume-driven changes in net sales.

The specific number of Volume Points assigned to a product, which is generally consistent across all markets, is based on a Volume Point to suggested retail price ratio for similar products. If a product is available in different quantities, the various sizes will have different Volume Point values. In general, once assigned, a Volume Point value is consistent in each region and country and does not change from year to year. We use Volume Points for Member qualification and recognition purposes, as well as a proxy for sales trends, and therefore we generally 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			Nine Months Ended		
	September 30, 2020	September 30, 2019	% Change	September 30, 2020	September 30, 2019	% Change
	(Volume Points in millions)					
North America	501.0	330.8	51.5 %	1,349.4	1,017.1	32.7 %
Mexico	232.3	216.4	7.3 %	655.6	663.0	(1.1)%
South and Central America	150.7	130.1	15.8 %	386.5	386.2	0.1 %
EMEA	423.1	315.2	34.2 %	1,166.5	977.0	19.4 %
Asia Pacific	448.9	406.6	10.4 %	1,211.3	1,147.1	5.6 %
China	143.5	142.4	0.8 %	412.8	361.6	14.2 %
Worldwide	1,899.5	1,541.5	23.2 %	5,182.1	4,552.0	13.8 %

Volume Points increased 23.2% and 13.8% for the three and nine months ended September 30, 2020, respectively, including a mixed impact of COVID-19 pandemic conditions across our markets, after having increased 2.3% and 2.7%, respectively, for the same periods in 2019. Although pandemic conditions had adverse operational impacts across all markets, we believe our Members in certain markets are more focused on their business where we have seen increased net sales and Volume Point growth in certain markets, particularly the North America region and certain EMEA markets.

We believe North America's Volume Point increases for the quarter and year-to-date periods, which were well above the increases for the comparable prior year periods, also reflect the continuing success of our Distributors as supported by our product line expansion and technological tools, as well as targeted communications and promotions. We believe Mexico's increase for the quarter, after decreases compared to prior years for a number of quarters and despitecontinuing difficult economic conditions for the market, reflects the success of our program of promotions to encourage Member sponsorship and activity. After some years of declines, the South and Central America region saw an increase in Volume Points for the third quarter versus the 2019 period, despite pandemic-related continuing declines in several key markets, as we believe efforts to build more sustainable business for our Members through a focus on daily product consumption and retailing take hold in certain markets in the region. EMEA saw increased Volume Point growth for the quarter and year-to-date periods versus 2019, a result we believe of customer-oriented efforts including Member training, brand awareness, and product line expansion, as well as strong business momentum including new Member recruitment. The Asia Pacific region saw Volume Point increases for the third quarter and year-to-date period, continuing favorable long-term trends seen in the region, although the growth rates were below those seen in the 2019 periods due to the adverse impact of pandemic conditions in the region, especially in India and South Korea. China achieved Volume Point increases for the quarter and year-to-date periods, compared to declines for the 2019 periods which were weakened by disruption from the Chinese government's 100-day review, concluded in April 2019, of the health product industry. We expect COVID-19 pandemic conditions to continue to impact Volume Point results; however, we are unable to predict the duration or magnitude of these effects. Results and more regional or country-specific impacts of the COVID-19 pandemic are discussed further below in the applicable sections of *Sales by Geographic Region.*

Presentation

"Retail value" represents the suggested retail price of products we sell to our Members and is the gross sales amount reflected on our invoices. Retail value is a non-GAAP measure which may not be comparable to similarly-titled measures used by other companies. This is not the price paid to us by our Members. Our Members purchase product from us at a discount from the suggested retail price. We refer to these discounts as *"distributor allowance,"* and we refer to retail value less distributor allowances as *"product sales."*

Total distributor allowances were 41.2% and 40.6% of retail value for the three months ended September 30, 2020 and 2019, respectively, and 41.1% of retail value for both the nine months ended September 30, 2020 and 2019. Depending on product and market, distributor allowances and Marketing Plan payouts for the three and nine months ended September 30, 2020 utilized on a weighted-average basis approximately 90% of suggested retail price, to which we applied discounts of up to 50% for distributor allowances and payout rates of up to 15% for royalty overrides, up to 7% for production bonuses, and approximately 1% for the Mark Hughes bonus. Distributor allowances as a percentage of retail value may vary by country depending upon regulatory restrictions that limit or otherwise restrict distributor allowances. We also offer reduced distributor allowances with respect to certain products worldwide. Each Member's level of discount is determined by qualification based on volume of purchases. In cases where a Member has qualified for less than the maximum discount, the remaining discount, which we also refer to as a wholesale commission, is received by their sponsoring Members. Therefore, product sales are recognized net of product returns and distributor allowances.

"Net sales" equal product sales plus shipping and handling, and generally represents what we collect. For U.S. GAAP purposes, shipping and handling services relating to product sales are recognized as fulfillment activities on our performance obligation to transfer products and are therefore recorded within net sales as part of product sales and are not considered as separate revenues.

We do not have visibility into all the sales from our Members to their customers, but such a figure would differ from our reported "retail value" by factors including: (a) the amount of product purchased by our Members for their own personal consumption, (b) prices charged by our Members to their customers other than our suggested retail prices, and (c) the discount from retail value at which preferred members purchase products from us. We discuss retail value because of its fundamental role in our systems, internal controls and operations, and its correlation to Member discounts and Royalty overrides. In addition, retail value is a component of the financial reports we use to analyze our financial results because, among other things, it can provide additional detail and visibility into our net sales results on a Company-wide and a geographic region and product category basis. Therefore, this non-GAAP measure may be useful to investors because it provides investors with the same information used by management. As this measure is not in accordance with U.S. generally accepted accounting principles, or U.S. GAAP, retail value 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 value to net sales is presented below under *Results of Operations.*

In certain geographic markets, we have introduced segmentation of our Member base into two categories: “preferred members” – who are simply consumers who wish to purchase product for their own household use, and “distributors” – who are Members who also wish to resell products or build a sales organization. Additionally, in certain markets we are simplifying our pricing by eliminating certain shipping and handling charges and recovering those costs within suggested retail price. As we continue to extend the segmentation of our distributors and preferred members to additional geographic markets and consider other pricing simplification efforts for our Members, we are evaluating the utility of retail value to management and investors and whether it will continue to be used in the same way in the future.

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

Additionally, the impact of foreign currency fluctuations in Venezuela and the price increases we implement as a result of the highly inflationary economy in that market can each, when considered in isolation, have a disproportionately large impact to our consolidated results despite the offsetting nature of these drivers and that net sales in Venezuela, which represent less than 1% of our consolidated net sales, are not material to our consolidated results. Therefore, in certain instances, we believe it is helpful to provide additional information with respect to these factors as reported and excluding the impact of Venezuela to illustrate the disproportionate nature of Venezuela’s individual pricing and foreign exchange impact to our consolidated results. However, excluding the impact of Venezuela from these measures is not in accordance with U.S. GAAP and should not be considered in isolation or as an alternative to the presentation and discussion thereof calculated in accordance with U.S. GAAP.

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

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

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

Royalty overrides are compensation to Members for the development, retention and improved productivity of their sales organizations and are paid to several levels of Members on each sale. Royalty overrides are compensation for services rendered to us and, as such, are recorded as an operating expense.

In China, our independent service providers are compensated for marketing, sales support, and other services instead of the distributor allowances and royalty overrides utilized in our global Marketing Plan. Service fees to China independent service providers are included in selling, general, and administrative expenses.

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

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, service fees to China service providers, sales events, professional fees, travel and entertainment, Member promotions, occupancy costs, communication costs, bank fees, depreciation and amortization, foreign exchange gains and losses, and other miscellaneous operating expenses.

Our "*other operating income*" consists of government grant income related to China and the finalization of insurance recoveries in connection with the flooding at one of our warehouses in Mexico during September 2017.

Our *"other income, net"* consists of non-operating income and expenses such as gains or losses due to subsequent changes in the fair value of the non-transferable contractual contingent value right, or CVR, provided for each share tendered in the October 2017 modified Dutch auction tender offer. See Note 8, *Shareholders' Deficit*, to the Consolidated Financial Statements included in the 2019 10-K for further information on the CVR.

Most of our sales to Members outside the United States are made in the respective local currencies. In preparing our financial statements, we translate revenues into U.S. dollars using average exchange rates. Additionally, the majority of our purchases from our suppliers generally are made in U.S. dollars. Consequently, a strengthening of the U.S. dollar versus a foreign currency can have a negative impact on our reported sales and contribution margins and can generate foreign currency losses on intercompany transactions. Foreign currency exchange rates can fluctuate significantly. From time to time, we enter into foreign currency derivatives 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*, of this Quarterly Report on Form 10-Q.

Summary Financial Results

Net sales for the three and nine months ended September 30, 2020 were $1,521.8 million and $4,131.1 million, respectively. Net sales increased $277.3 million, or 22.3% ($277.2 million, or 22.3% excluding Venezuela), and $474.3 million, or 13.0% ($474.2 million, or 13.0% excluding Venezuela), for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. In local currency, net sales increased 26.1% and 17.6% (25.1% and 16.7% excluding Venezuela) for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. The 22.3% increase in net sales for the three months ended September 30, 2020 was primarily driven by an increase in sales volume, as indicated by a 23.2% increase in Volume Points and, a 3.6% favorable impact of price increases (2.7% favorable impact excluding Venezuela), partially offset by a 3.8% unfavorable impact of fluctuations in foreign currency exchange rates (2.9% unfavorable impact excluding Venezuela), and a 0.8% unfavorable impact of country sales mix. The 13.0% increase in net sales for the nine months ended September 30, 2020 was primarily driven by an increase in sales volume, as indicated by a 13.8% increase in Volume Points, and a 3.9% favorable impact of price increases (2.8% favorable impact excluding Venezuela), partially offset by a 4.6% unfavorable impact of fluctuations in foreign currency exchange rates (3.7% unfavorable impact excluding Venezuela).

Net income for the three and nine months ended September 30, 2020 was $138.1 million, or $1.04 per diluted share, and $298.8 million, or $2.17 per diluted share, respectively. Net income increased $56.6 million, or 69.4%, and $44.5 million, or 17.5%, for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. The increase in net income for the three months ended September 30, 2020 was mainly due to $98.7 million higher contribution margin driven by higher net sales, partially offset by $29.6 million higher selling, general, and administrative expenses. The increase in net income for the nine months ended September 30, 2020 was mainly due to $200.2 million higher contribution margin driven by higher net sales; $15.0 million lower interest expense, net; and $12.7 million lower income taxes; partially offset by $147.0 million higher selling, general, and administrative expenses primarily driven by $83.1 million of expenses relating to the SEC and DOJ investigations relating to the FCPA matter in China (See Note 5, *Contingencies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q); a $15.7 million unfavorable impact from other income, net relating to CVR revaluations in 2019 as described below; and $14.7 million lower China government grant income.

Net income for the three months ended September 30, 2020 included a $5.5 million pre-tax unfavorable impact ($5.1 million post-tax) of non-cash interest expense related to the 2024 Convertible Notes (See Note 4, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q); a $4.7 million pre-tax unfavorable impact ($4.4 million post-tax) from expenses related to the COVID-19 pandemic, and such expenses are expected to continue in future periods; a $0.6 million pre-tax favorable impact ($0.3 million post-tax) of government grant income in China; and a $0.4 million pre-tax unfavorable impact ($4.7 million post-tax) from expenses related to regulatory inquiries.

Net income for the nine months ended September 30, 2020 included an $85.7 million unfavorable impact ($81.0 million post-tax) from expenses related to regulatory inquiries and a legal accrual, which includes $83.1 million of expenses relating to the SEC and DOJ investigations relating to the FCPA matter in China; a $16.6 million pre-tax unfavorable impact ($14.6 million post-tax) from expenses related to the COVID-19 pandemic, and such expenses are expected to continue in future periods; a $16.2 million pre-tax unfavorable impact ($16.4 million post-tax) of non-cash interest expense related to the 2024 Convertible Notes (See Note 4, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q); a $13.0 million pre-tax favorable impact ($9.4 million post-tax) of government grant income in China; and a $0.5 million pre-tax unfavorable impact ($0.4 million post-tax) of debt issuance costs related to the amendment of our 2018 Credit Facility.

The income tax impact of the expenses discussed above is based on forecasted items affecting our 2020 full year effective tax rate. Adjustments to forecasted items unrelated to these expenses, as well as impacts related to interim reporting, will have an effect on the income tax impact of these items in subsequent periods.

Net income for the three months ended September 30, 2019 included a $19.0 million pre-tax unfavorable impact ($16.2 million post-tax) of an accrual for Mexico VAT assessments; an $8.7 million pre-tax unfavorable impact ($8.0 million post-tax) of non-cash interest expense related to the 2019 Convertible Notes, 2024 Convertible Notes, and the Forward Transactions (See Note 4, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q); a $1.9 million pre-tax unfavorable impact ($3.2 million post-tax) from expenses related to regulatory inquiries; a $6.4 million pre-tax favorable impact ($4.7 million post-tax) of government grant income in China; a $1.3 million pre-tax favorable impact ($1.8 million post-tax) of gain on the revaluation of the CVR (See Note 8, *Shareholders' Deficit*, to the Consolidated Financial Statements included in the 2019 10-K); and a $0.4 million post-tax favorable impact related to the finalization of insurance recoveries in connection with the flooding at one of our warehouses in Mexico during September 2017, which damaged certain of our inventory stored within the warehouse (See Note 7, *Contingencies*, to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2018, or the 2018 10-K).

Net income for the nine months ended September 30, 2019 included a $34.1 million pre-tax unfavorable impact ($30.9 million post-tax) from expenses related to regulatory inquiries and a legal accrual related to the SEC investigation relating to our disclosures regarding our marketing plan in China (See Note 5, *Contingencies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q); a $33.0 million pre-tax unfavorable impact ($31.7 million post-tax) of non-cash interest expense related to the 2019 Convertible Notes, 2024 Convertible Notes, and the Forward Transactions (See Note 4, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q); a $19.0 million pre-tax unfavorable impact ($16.2 million post-tax) of an accrual for Mexico VAT assessments; a $27.7 million pre-tax favorable impact ($19.6 million post-tax) of government grant income in China; a $15.7 million pre-tax favorable impact ($14.4 million post-tax) of gain on the revaluation of the CVR (See Note 8, *Shareholders' Deficit*, to the Consolidated Financial Statements included in the 2019 10-K); and a $6.0 million pre-tax favorable impact ($5.5 million post-tax) related to the finalization of insurance recoveries in connection with the flooding at one of our warehouses in Mexico during September 2017, which damaged certain of our inventory stored within the warehouse (See Note 7, *Contingencies*, to the Consolidated Financial Statements included in the 2018 10-K).

Results of Operations

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Operations:				
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	21.2	19.6	20.4	19.9
Gross profit	78.8	80.4	79.6	80.1
Royalty overrides(1)	30.4	29.2	30.3	29.8
Selling, general, and administrative expenses(1)	34.8	40.2	37.7	38.6
Other operating income	—	(0.5)	(0.3)	(0.9)
Operating income	13.6	11.5	11.9	12.6
Interest expense, net	2.3	2.5	2.1	2.8
Other income, net	—	(0.1)	—	(0.4)
Income before income taxes	11.3	9.1	9.8	10.2
Income taxes	2.2	2.6	2.6	3.2
Net income	9.1%	6.5%	7.2%	7.0%

(1) Service fees to our independent service providers in China are included in selling, general, and administrative expenses while Member compensation for all other countries is included in Royalty overrides.

Reporting Segment Results

We aggregate our operating segments, excluding China, into a reporting segment, or the Primary Reporting Segment. The Primary Reporting Segment includes the North America, Mexico, South and Central America, EMEA, and Asia Pacific regions. China has been identified as a separate reporting segment as it does not meet the criteria for aggregation. See Note 6, *Segment Information*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further discussion of our reporting segments. See below for discussions of net sales and contribution margin by our reporting segments.

Net Sales by Reporting Segment

The Primary Reporting Segment reported net sales of $1,301.8 million and $3,511.7 million for the three and nine months ended September 30, 2020, respectively, representing an increase of $266.0 million, or 25.7% ($265.9 million, or 25.7% excluding Venezuela), and $401.0 million, or 12.9% ($400.9 million, or 12.9% excluding Venezuela), for the three and nine months ended September 30, 2020 and 2019, respectively, as compared to the same periods in 2019. In local currency, net sales increased 30.5% and 18.0% (29.4% and 16.8% excluding Venezuela) for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. The 25.7% increase in net sales for the three months ended September 30, 2020 was primarily due to an increase in sales volume, as indicated by a 25.5% increase in Volume Points, and a 4.3% favorable impact of price increases (3.2% favorable impact excluding Venezuela); partially offset by a 4.8% unfavorable impact of fluctuations in foreign currency exchange rates (3.7% unfavorable impact excluding Venezuela). The 12.9% increase in net sales for the nine months ended September 30, 2020 was primarily due to an increase in sales volume, as indicated by a 13.8% increase in Volume Points, and a 4.4% favorable impact of price increases (3.2% favorable impact excluding Venezuela); partially offset by a 5.1% unfavorable impact of fluctuations in foreign currency exchange rates (4.0% unfavorable impact excluding Venezuela).

For a discussion of China's net sales for the three and nine months ended September 30, 2020, see the China section of *Sales by Geographic Region* below.

Contribution Margin by Reporting Segment

As discussed above under "Presentation," contribution margin consists of net sales less cost of sales and Royalty overrides.

The Primary Reporting Segment reported contribution margin of $538.2 million, or 41.3% of net sales, and $1,485.4 million, or 42.3% of net sales, for the three and nine months ended September 30, 2020, respectively, representing an increase of $91.5 million, or 20.5% ($91.4 million, or 20.5% excluding Venezuela), and $139.2 million, or 10.3% ($138.6 million, or 10.3% excluding Venezuela), for the three and nine months ended September 30, 2020 and 2019, respectively, as compared to the same periods in 2019. The 20.5% increase in contribution margin for the three months ended September 30, 2020 was primarily the result of a 25.5% favorable impact of volume increases, a 6.9% favorable impact of price increases (5.1% favorable impact excluding Venezuela), and a 1.5% favorable impact of sales mix, partially offset by a 6.9% unfavorable impact of fluctuations in foreign currency exchange rates (5.1% unfavorable impact excluding Venezuela) and a 4.3% unfavorable impact of other cost changes related to self-manufacturing and sourcing and increased freight costs from orders shifting toward home delivery versus Member pick-up. The 10.3% increase in contribution margin for the nine months ended September 30, 2020 was primarily the result of a 13.8% favorable impact of volume increases and a 6.9% favorable impact of price increases (5.0% favorable impact excluding Venezuela); partially offset by a 6.1% unfavorable impact of fluctuations in foreign currency exchange rates (4.2% unfavorable impact excluding Venezuela) and a 2.8% unfavorable impact of other cost changes related to self-manufacturing and sourcing and increased freight costs from orders shifting toward home delivery versus Member pick-up.

China reported contribution margin of $197.8 million and $553.3 million for the three and nine months ended September 30, 2020, respectively, representing an increase of $7.2 million, or 3.8%, and $61.0 million, or 12.4%, for the three and nine months ended September 30, 2020 and 2019, respectively, as compared to the same periods in 2019. The 3.8% increase in contribution margin for the three months ended September 30, 2020 was primarily the result of a 2.6% favorable impact of sales mix and a 1.2% favorable impact of timing differences between the recognition of net sales and sales volume. The 12.4% increase in contribution margin for the nine months ended September 30, 2020 was primarily the result of a 14.2% favorable impact of volume increases, a 2.7% favorable impact of sales mix, and a 1.1% favorable impact of price increases, partially offset by a 2.4% unfavorable impact of fluctuations in foreign currency exchange rates and a 2.1% unfavorable impact of timing differences between the recognition of net sales and sales volume.

Sales by Geographic Region

The following chart reconciles retail value to net sales by geographic region:

	Three Months Ended										
	September 30, 2020					September 30, 2019					
	Retail Value(1)	Distributor Allowance	Product Sales	Shipping and Handling	Net Sales	Retail Value(1)	Distributor Allowance	Product Sales	Shipping and Handling	Net Sales	% Change in Net Sales
	(Dollars in millions)										
North America	$ 662.4	$ (304.1)	$ 358.3	$ 40.4	$ 398.7	$ 427.9	$ (195.8)	$ 232.1	$ 25.0	$ 257.1	55.1%
Mexico	193.1	(89.6)	103.5	6.8	110.3	200.4	(91.2)	109.2	7.3	116.5	(5.3)%
South and Central America	175.6	(75.9)	99.7	3.0	102.7	162.3	(72.3)	90.0	5.4	95.4	7.7%
EMEA	574.3	(255.5)	318.8	15.5	334.3	413.7	(185.8)	227.9	14.4	242.3	38.0%
Asia Pacific	613.2	(267.6)	345.6	10.2	355.8	555.7	(242.7)	313.0	11.5	324.5	9.6%
China	237.4	(18.7)	218.7	1.3	220.0	227.1	(19.6)	207.5	1.2	208.7	5.4%
Worldwide	$ 2,456.0	$ (1,011.4)	$ 1,444.6	$ 77.2	$ 1,521.8	$ 1,987.1	$ (807.4)	$ 1,179.7	$ 64.8	$ 1,244.5	22.3%

	Nine Months Ended										
	September 30, 2020					September 30, 2019					% Change in Net Sales
	Retail Value(1)	Distributor Allowance	Product Sales	Shipping and Handling	Net Sales	Retail Value(1)	Distributor Allowance	Product Sales	Shipping and Handling	Net Sales	
	(Dollars in millions)										
North America	$ 1,764.3	$ (808.2)	$ 956.1	$ 106.3	$ 1,062.4	$ 1,315.9	$ (601.0)	$ 714.9	$ 77.0	$ 791.9	34.2%
Mexico	558.7	(256.8)	301.9	19.7	321.6	604.4	(274.4)	330.0	27.0	357.0	(9.9)%
South and Central America	452.2	(198.6)	253.6	11.0	264.6	487.6	(217.6)	270.0	16.3	286.3	(7.6)%
EMEA	1,529.1	(681.4)	847.7	45.6	893.3	1,291.1	(578.8)	712.3	44.6	756.9	18.0%
Asia Pacific	1,673.6	(731.7)	941.9	27.9	969.8	1,572.4	(686.3)	886.1	32.5	918.6	5.6%
China	666.4	(51.1)	615.3	4.1	619.4	592.8	(49.8)	543.0	3.1	546.1	13.4%
Worldwide	$ 6,644.3	$ (2,727.8)	$ 3,916.5	$ 214.6	$ 4,131.1	$ 5,864.2	$ (2,407.9)	$ 3,456.3	$ 200.5	$ 3,656.8	13.0%

(1) Retail value is a non-GAAP measure which may not be comparable to similarly-titled measures used by other companies. See “Presentation” above for a discussion of how we calculate retail value and why we believe the measure is useful to investors.

Changes in net sales are directly associated with the retailing of our products, recruitment of new Members, and retention of sales leaders. Our strategies involve providing quality products, improved DMOs, including daily consumption approaches such as Nutrition Clubs, easier access to product, systemized training and education of Members on our products and methods, and continued promotion and branding of Herbalife products.

Management’s role, in-country and at the region and corporate level, is to provide Members with a competitive, broad, and innovative product line, offer leading-edge business tools and technology services, and encourage strong teamwork and Member leadership to make doing business with Herbalife simple. Management uses the Marketing Plan, which reflects the rules for our global network marketing organization that specify the qualification requirements and general compensation structure for Members, coupled with educational and motivational tools and promotions to encourage Members to increase retailing, retention, and recruiting, which in turn affect net sales. Such tools include sales events such as Extravaganzas, Leadership Development Weekends and World Team Schools where large groups of Members gather, thus allowing them to network with other Members, learn retailing, retention, and recruiting techniques from our leading Members and become more familiar with how to market and sell our products and business opportunities. Accordingly, management believes that these development and motivation programs increase the productivity of the sales leader network. The expenses for such programs are included in selling, general, and administrative expenses. We also use event and non-event product promotions to motivate Members to increase retailing, retention, and recruiting activities. These promotions have prizes ranging from qualifying for events to product prizes and vacations. A program that we have seen success with in many markets is the Member Activation Program, under which new Members, who order a modest number of Volume Points in each of their first three months, earn a prize. Our objective is to improve the quality of sales leaders by encouraging new Members to begin acquiring retail customers before attempting to qualify for sales leader status. Additionally, in certain markets we have begun to utilize the segmentation of our Member base into “preferred members” and “distributors” for more targeted and efficient communication and promotions for these two differently motivated types of Members. In certain other markets that have not been segmented, we have begun using Member data to similarly categorize Members for communication and promotion efforts.

DMOs are being generated in many of our markets and are globalized where applicable through the combined efforts of Members and country, regional and corporate management. While we support a number of different DMOs, one of the most popular DMOs is the daily consumption DMO. Under our traditional DMO, a Member typically sells to its customers on a somewhat infrequent basis (e.g., monthly) which provides fewer opportunities for interaction with their customers. Under a daily consumption DMO, a Member interacts with its customers on a more frequent basis, including such activities as weekly weigh-ins, which enables the Member to better educate and advise customers about nutrition and the proper use of the products and helps promote daily usage as well, thereby helping the Member grow his or her business. Specific examples of DMOs include the Nutrition Club concept in Mexico, the Healthy Breakfast concept in Russia, and the Internet/Sampling and Weight Loss Challenge in the United States. Management’s strategy is to review the applicability of expanding successful country initiatives throughout a region, and where appropriate, support the globalization of these initiatives.

As discussed further by market below, the Company has responded to COVID-19 pandemic conditions by adapting how it communicates with, services, and transacts with our Members and our Members have similarly adapted their DMOs and other activities. These responsive actions have varied by region and by market due to the differing market- and regional-specific impacts of the pandemic and the conditions and challenges unique to a particular market or region independent of the impacts of the pandemic

The factors described above help Members increase their business, which in turn helps drive Volume Point growth in our business, and thus, net sales growth. The discussion below of net sales details some of the specific drivers of changes in our business and causes of sales fluctuations during the three and nine months ended September 30, 2020 as compared to the same periods in 2019, as well as the unique growth or contraction factors specific to certain geographic regions or significant countries within a region during these periods. Net sales fluctuations, both Company-wide and within a particular geographic region or country, are primarily the result of changes in volume, changes in prices, or changes in foreign currency translation rates. The discussion of changes in net sales quantifies the impact of those drivers that are quantifiable such as changes in foreign currency translation rates, and cites the estimated impact of any significant price changes. The remaining drivers, which management believes are the primary drivers of changes in volume, are typically qualitative factors whose impact cannot be quantified. We use Volume Points as an indication for changes in sales volume.

We expect the impact of the COVID-19 pandemic to impact our results of operations in future quarters and their comparability to prior periods, both on a consolidated basis and at the regional level. However, given the unpredictable, unprecedented, and fluid nature of the pandemic and its economic consequences, we are unable to predict the extent to which the pandemic and its related impacts will adversely impact our business, financial condition, and results of operations, including the impact it may have on our regions and individual markets. See below for a more detailed discussion of the pandemic's impact on net sales for the first quarter for each geographic region and individual market.

North America

The North America region reported net sales of $398.7 million and $1,062.4 million for the three and nine months ended September 30, 2020, respectively. Net sales increased $141.6 million, or 55.1%, and $270.5 million, or 34.2%, for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. In local currency, net sales increased 55.1% and 34.2% for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. The 55.1% increase in net sales for the three months ended September 30, 2020 was primarily due to an increase in sales volume, as indicated by a 51.5% increase in Volume Points, and a 3.2% favorable impact of price increases. The 34.2% increase in net sales for the nine months ended September 30, 2020 was primarily due to an increase in sales volume, as indicated by a 32.7% increase in Volume Points, and a 2.9% favorable impact of price increases.

Net sales in the U.S. were $386.7 million and $1,033.9 million for the three and nine months ended September 30, 2020, respectively. Net sales increased $135.2 million, or 53.8%, and $259.7 million, or 33.5%, for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019.

Growth in the region continues to be supported by product line expansion and deployment of enhanced technology tools to support our distributors' businesses and optimize their customers' experiences with Herbalife. The number of active Nutrition Clubs in the region has continued to grow and the Nutrition Club DMO is a focus area for training and technological support of our Members. Our communications, promotions, and other operations in the region are targeted to our distributors, or their preferred members or retail customers as appropriate. Our promotional program is designed to encourage consistency and sustainability in our Members' businesses. Strengthened momentum for the market has resulted in higher rates of growth in net sales for the region for the quarter and year-to-date periods than those for the comparable 2019 periods.

In response to pandemic conditions, product distribution to our Members was altered to allow online orders only; our two major U.S. distribution centers were shipping product only, with no in-person pick-ups permitted; and our sales centers were for pick-up only, with no orders taken on-site as of yet; however, our Members' ability to obtain product has not materially decreased. Late in the third quarter, our Memphis distribution center began allowing pick-up orders; however, we continue to not allow in-person orders at any of our sales centers. Members' Nutrition Clubs, which represent a major DMO for the region, are operating in some areas as pick-up points for product only versus their more traditional on-site consumption approach. Nutrition Club sales volume increased for the third quarter versus the prior year, including the impact of home deliveries from Nutrition Clubs to their customers, an approach that has seen increased use as a response to the pandemic. Our Member training and promotion events, such as our Success Training Seminars and our Leadership Development Weekends, have shifted to a "virtual" online approach. Promotional activities aimed at our Members continue, though prizes that have involved travel to events have shifted to cash and other awards.

As evidenced by continuing Volume Point growth for the region, we believe that our responsive efforts to pandemic conditions have been effective to date and we believe that pandemic conditions may have been a contributing factor in the motivation and focus of our Members. Certain modified practices by us and our Members may prove to be lasting improvements, such as an increased focus on customer-direct orders, and events and trainings that are offered virtually as well as in-person.

Mexico

The Mexico region reported net sales of $110.3 million and $321.6 million for the three and nine months ended September 30, 2020, respectively. Net sales decreased $6.2 million, or 5.3%, and $35.4 million, or 9.9%, for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. In local currency, net sales increased 7.6% and 1.1% for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. The 5.3% decrease in net sales for the three months ended September 30, 2020 was primarily due to a 12.9% unfavorable impact of fluctuations in foreign currency exchange rates and a 2.2% unfavorable impact of timing differences between the recognition of net sales and Volume Points, partially offset by an increase in sales volume, as indicated by a 7.3% increase in Volume Points, and a 3.3% favorable impact of price increases. The 9.9% decrease in net sales for the nine months ended September 30, 2020 was primarily due to a 11.0% unfavorable impact of fluctuations in foreign currency exchange rates and a decrease in sales volume, as indicated by a 1.1% decrease in Volume Points, partially offset by a 2.8% favorable impact of price increases.

We believe the Volume Point increase for the quarter, after decreases for a number of prior quarters including the 2019 period, reflects the success of our program of promotions to encourage Member sponsorship and activity, including additional promotions offered since the second quarter of 2020 as a response to pandemic conditions. We believe the Volume Point decrease for the year-to-date period reflects difficult economic conditions in the region and a consequent slowing of our business momentum for the market prior to the third quarter. Despite the pandemic conditions, nearly all product access points in Mexico, both Company-operated and third party, have remained open.

South and Central America

The South and Central America region reported net sales of $102.7 million and $264.6 million for the three and nine months ended September 30, 2020, respectively. Net sales increased $7.3 million, or 7.7% ($7.2 million, or 7.6% excluding Venezuela), and decreased $21.7 million, or 7.6% ($21.8 million, or 7.7% excluding Venezuela), for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. In local currency, net sales increased 35.4% and 17.4% (22.9% and 4.8% excluding Venezuela) for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. The 7.7% increase in net sales for the three months ended September 30, 2020 was due to an increase in sales volume, as indicated by a 15.8% increase in Volume Points, and a 19.0% favorable impact of price increases (6.6% favorable impact excluding Venezuela), partially offset by a 27.7% unfavorable impact of fluctuations in foreign currency exchange rates (15.4% unfavorable impact excluding Venezuela). The 7.6% decrease in net sales for the nine months ended September 30, 2020 was due to a 25.0% unfavorable impact of fluctuations in foreign currency exchange rates (12.5% unfavorable impact excluding Venezuela), partially offset by an 18.2% favorable impact of price increases (5.3% favorable impact excluding Venezuela) and a slight increase in sales volume, as indicated by a 0.1% increase in Volume Points. The region saw a sales volume increase for the quarter versus the prior year period led by Colombia and Chile, as markets adapted to pandemic conditions and efforts to build more sustainable business for our Members through a focus on daily product consumption and retailing take hold in certain markets in the region. The region is seeing success leveraging social media, utilizing cash prize promotions, and using the weight loss challenge DMO. COVID-19 pandemic conditions, however, have impacted the region adversely, and significantly so for certain markets in the region including Brazil and Peru. Pandemic impacts have varied by market across the region and have begun to ease, but have included product shipping delays and widespread suspension of product access points and Members' Nutrition Clubs, requiring reliance on shipping product to Members' and customers' homes.

Net sales in Brazil were $20.8 million and $62.4 million for the three and nine months ended September 30, 2020, respectively. Net sales decreased $5.7 million, or 21.6%, and $20.9 million, or 25.2%, for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. In local currency, net sales increased 6.2% and decreased 4.1% for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. The fluctuation of foreign currency exchange rates had an unfavorable impact of $7.4 million and $17.6 million on net sales for the three and nine months ended September 30, 2020, respectively. In May 2019, we segmented our Member base in the market into distributors and preferred members; we are leveraging this segmentation for communication and promotion purposes, and have made preferred members a strategic focus in order to drive a larger base of new customers. We have expanded our product line to meet consumer demands in new product segments. However, COVID-19 pandemic conditions have constrained our business in Brazil since March 2020. Although most Members' Nutrition Clubs are now permitted to be open, broader pandemic conditions in the country have adversely impacted sales volumes for this important DMO for the market. Home delivery is operating and is the primary distribution channel for the market, though the majority of other product access points are now open for pick-up. Brazil had a 4% price increase in March 2020.

Net sales in Peru were $17.1 million and $44.6 million for the three and nine months ended September 30, 2020, respectively. Net sales increased $1.4 million, or 9.1%, and decreased $3.0 million, or 6.3%, for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. In local currency, net sales increased 15.7% and decreased 2.7% for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. The fluctuation of foreign currency exchange rates had an unfavorable impact of $1.0 million and $1.7 million on net sales for the three and nine months ended September 30, 2020, respectively. Sales volumes that were above the volumes for the prior year through mid-March declined significantly from that time through most of the second quarter due to pandemic conditions. We are taking orders by Internet and phone and shipping product to Member homes; during October 2020, our sales centers began to open for product pick-up as well as home delivery. Members' Nutrition Clubs were also modified for home delivery only, though they are now beginning to re-open more fully with certain restrictions These adaptations to pandemic conditions, as well as Members' success leveraging social media and using the weight loss challenge DMO, contributed to strengthened business momentum and a sales volume increase for the third quarter versus the prior year period.

EMEA

The EMEA region reported net sales of $334.3 million and $893.3 million for the three and nine months ended September 30, 2020, respectively. Net sales increased $92.0 million, or 38.0%, and $136.4 million, or 18.0%, for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. In local currency, net sales increased 39.7% and 22.0% for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. The 38.0% increase in net sales for the three months ended September 30, 2020 was primarily due to an increase in sales volume, as indicated by a 34.2% increase in Volume Points, and a 3.6% favorable impact of price increases; partially offset by a 1.7% unfavorable impact of fluctuations in foreign currency exchange rates. The 18.0% increase in net sales for the nine months ended September 30, 2020 was primarily due to an increase in sales volume, as indicated by a 19.4% increase in Volume Points, and a 3.8% favorable impact of price increases; partially offset by a 4.0% unfavorable impact of fluctuations in foreign currency exchange rates. Volume Points were generally higher across the region for the quarter and year-to-date periods. The Volume Point growth that has been seen across the EMEA region for a number of years reflects, we believe, efforts to enhance the quality and activity of sales leaders including Member training, brand awareness, and product line expansion, as well as enhanced technology tools for ordering, business performance, and customer retailing. In addition to the major markets discussed below, strong business momentum in the United Kingdom, South Africa, and France contributed to region net sales growth for the third quarter and year to date.

Due to COVID-19 pandemic conditions, our sales centers and other product access points in many markets within the region are closed or open for limited operations only, leaving shipping for home delivery as the primary distribution channel while these conditions persist. Members are turning further to social media to carry out their sales and oversight activities. These adaptations have been successful in limiting the adverse impact of the pandemic.

Net sales in Spain were $48.8 million and $125.0 million for the three and nine months ended September 30, 2020, respectively. Net sales increased $16.5 million, or 50.7%, and $19.2 million, or 18.1%, for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. In local currency, net sales increased 43.7% and 17.6% for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. The fluctuation of foreign currency exchange rates had a favorable impact of $2.3 million and $0.5 million on net sales for the three and nine months ended September 30, 2020, respectively. In recent years, Spain has seen sales volume increases as it benefited from programs of promotions and sponsorships, as well as enhanced technology tools, that have raised brand awareness through healthy active lifestyle and contributed to broad-based success across Member sales organizations in the market. In response to pandemic conditions, we are shifting our operations to primarily online activities to mitigate the negative impacts of being unable to conduct in-person meetings, trainings, and selling activities. Home delivery continues to be our prevailing distribution channel and has not seen significant disruption. After the first quarter of 2020 saw a small sales volume decline, subsequent quarters have seen significant volume increases as our Members appear to have adapted to pandemic conditions, such as leveraging online tools to reach their customers, and business momentum has increased.

Net sales in Russia were $36.7 million and $111.1 million for the three and nine months ended September 30, 2020, respectively. Net sales increased $1.8 million, or 5.1%, and $8.4 million, or 8.2%, for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. In local currency, net sales increased 19.8% and 17.9% for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. The fluctuation of foreign currency exchange rates had an unfavorable impact of $5.2 million and $9.9 million on net sales for the three and nine months ended September 30, 2020, respectively. Russia achieved sales volume increases for the third quarter and year-to-date periods versus the prior year despite some pandemic disruption commencing late in the first quarter. Our sales centers are now reopened for product pick-up, although we continue to support home delivery for the market. Due to pandemic conditions, Nutrition Clubs are operating primarily online in the market and remain a key DMO, supported by new products, training, and promotion for all levels of Membership, as well as product access expansion. During the third quarter, we introduced Member segmentation to the market by adding a preferred customer program option for new Members Russia had an approximate 5% price increase in September 2020.

Net sales in Italy were $39.5 million and $103.8 million for the three and nine months ended September 30, 2020, respectively. Net sales increased $10.2 million, or 34.3%, and $6.1 million, or 6.2%, for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. In local currency, net sales increased 28.0% and 5.9% for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. The fluctuation of foreign currency exchange rates had a favorable impact of $1.9 million and $0.3 million on net sales for the three and nine months ended September 30, 2020, respectively. Sales volume increased for the third quarter and year to date versus the prior year periods. After weakened momentum in our business and pandemic conditions in the country contributed to a sales volume decline for the first quarter of the year, we believe adaptation by Members to pandemic conditions, such as online communication with customers, has been a contributing factor to our sales volume increase and strengthened momentum for subsequent quarters.

Asia Pacific

The Asia Pacific region, which excludes China, reported net sales of $355.8 million and $969.8 million for the three and nine months ended September 30, 2020, respectively. Net sales increased $31.3 million, or 9.6%, and $51.2 million, or 5.6%, for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. In local currency, net sales increased 10.9% and 7.5% for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. The 9.6% increase in net sales for the three months ended September 30, 2020 was primarily due to an increase in sales volume, as indicated by a 10.4% increase in Volume Points, and a 1.8% favorable impact of price increases, partially offset by a 1.3% unfavorable impact of fluctuations in foreign currency exchange rates. The 5.6% increase in net sales for the nine months ended September 30, 2020 was primarily due to an increase in sales volume, as indicated by a 5.6% increase in Volume Points, and a 2.4% favorable impact of price increases, partially offset by a 1.9% unfavorable impact of fluctuations in foreign currency exchange rates. Volume Point and net sales increases in recent years for most markets in the region are a result, we believe, of a customer-focused business and daily consumption DMOs, including Nutrition Clubs, as well as product line and access point expansion. However, COVID-19 pandemic conditions, such as closed sales centers and Members' Nutrition Clubs and an increased reliance on home delivery for product distribution, have had an adverse impact on results commencing late in the first quarter, most significantly for India, South Korea, and Indonesia. The region has adapted to pandemic conditions and achieved sales volume increases for the third quarter as well as the year to date compared to the prior year periods. Volume increases were led by India and Vietnam, and the ongoing pandemic conditions contributed to decreases for South Korea and Indonesia.

Net sales in India were $96.2 million and $244.9 million for the three and nine months ended September 30, 2020, respectively. Net sales increased $10.2 million, or 12.0%, and $9.6 million, or 4.1%, for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. In local currency, net sales increased 18.2% and 9.7% for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. The fluctuation of foreign currency exchange rates had an unfavorable impact of $5.4 million and $13.2 million on net sales for the three and nine months ended September 30, 2020, respectively. Sales volumes have increased in India in recent years, including the current quarter and year-to-date periods despite some pandemic disruption, as we continued to expand our product line and make it easier for our Members to do business such as by adding product access points and payment methods.

Although certain Indian states have implemented pandemic-related operating constraints, including reduced product manufacturing capacity and constrained ability to deliver product to Members, our manufacturing capacity has met demand. We continue to take Member orders and payments online. Although Company locations are now open for the taking of orders and payments and pick-up of product, home delivery volumes continue to exceed pre-pandemic levels. Disruption to our collections and expenditures of cash have eased, though we continue to move transactions to electronic collection and payment for operating efficiency purposes and for Member convenience.

Separately, regulatory restrictions on direct selling, including registration requirements for our Members that were implemented during February2020, have reduced the number of new Members since that time, despite certain subsequent relaxations of regulations by the government in response to pandemic conditions. We have seen an increase in new Preferred Members, since these do not have similar registration requirements, but during a transition period, we may see some adverse impact on the net sales growth rate from these regulatory changes.

Net sales in Vietnam were $53.5 million and $149.9 million for the three and nine months ended September 30, 2020, respectively. Net sales increased $12.9 million, or 31.5%, and $35.8 million, or 31.3%, for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. In local currency, net sales increased 31.3% and 31.4% for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. The fluctuation of foreign currency exchange rates had a favorable impact of $0.1 million and an unfavorable impact of $0.1 million on net sales for the three and nine months ended September 30, 2020, respectively. Vietnam continues to have strong momentum, having adapted to increased direct-selling regulatory requirements and as sales leadership continues to focus on sustainable, consumption-oriented business practices. COVID-19 pandemic-related operating constraints that we saw in the second quarter had eased somewhat for the third quarter and we and our Members have adapted to constraints by moving events, trainings, and product ordering online.

Net sales in Indonesia were $42.6 million and $131.3 million for the three and nine months ended September 30, 2020, respectively. Net sales decreased $5.7 million, or 11.8%, and $1.7 million, or 1.3%, for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. In local currency, net sales decreased 8.3% and increased 1.5% for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. The fluctuation of foreign currency exchange rates had an unfavorable impact of $1.7 million and $3.7 million on net sales for the three and nine months ended September 30, 2020, respectively. Although Indonesia has increased sales volumes in recent years by focusing on a customer-based business and daily consumption through Nutrition Clubs and training activities, supported by increased product access, pandemic conditions have had an adverse impact on our operations and results for the third quarter and year to date. Our sales centers have continued to operate via online ordering, home delivery, and pick-up, which were already established methods for the market. Many Members' Nutrition Clubs, the major DMO for the market, that have continued to operate experienced pandemic-related constraints on their activities and public movement. Our responsive measures include training and promotions targeted to sales leaders, non-sales leader Members, and their customers as appropriate.

Net sales in South Korea were $34.0 million and $97.4 million for the three and nine months ended September 30, 2020, respectively. Net sales decreased $4.8 million, or 12.3%, and $11.4 million, or 10.5%, for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. In local currency, net sales decreased 12.6% and 7.6% for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. The fluctuation of foreign currency exchange rates had a favorable impact of $0.1 million and an unfavorable impact of $3.2 million on net sales for the three and nine months ended September 30, 2020, respectively. South Korea achieved Volume Point and net sales growth for 2019 after several years of transitionary impact from Marketing Plan changes that led to contraction in our business in the market, and this growth continued in the early part of 2020. Pandemic conditions, however, including the suspension of our training facilities and our Members' Nutrition Clubs and restrictions on gatherings, have affected the market since mid-February and contributed to sales volume declines for the third quarter and year to date versus the prior year periods. Nutrition Clubs have begun to open on a limited basis, sales and training activities continue online, and delivery of product continues.

China

The China region reported net sales of $220.0 million and $619.4 million for the three and nine months ended September 30, 2020, respectively. Net sales increased $11.3 million, or 5.4%, and $73.3 million, or 13.4%, for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. In local currency, net sales increased 4.2% and 15.7% for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019. The 5.4% increase in net sales for the three months ended September 30, 2020 was primarily due to a 1.2% favorable impact of fluctuations in foreign currency exchange rates, an increase in sales volume, as indicated by a 0.8% increase in Volume Points, a 2.4% favorable impact of sales mix, and a 1.1% favorable impact of timing differences between the recognition of net sales and Volume Points. The 13.4% increase in net sales for the nine months ended September 30, 2020 was primarily due to an increase in sales volume, as indicated by a 14.2% increase in Volume Points, a 2.4% favorable impact of sales mix, and a 1.0% favorable impact of price increases, partially offset by a 2.3% unfavorable impact of fluctuations in foreign currency exchange rates and a 1.9% unfavorable impact of timing differences between the recognition of net sales and Volume Points.

The volume growth for the nine months ended September 30, 2020 versus the prior year period despite some disruption due to the COVID-19 viral outbreak, was partially attributable to comparison to a weakened 2019 period. During 2019, our China net sales were negatively impacted by the Chinese government's 100-day review, or Review, of the health products industry, which concluded in April 2019. The Review, combined with negative media coverage about the Review, impacted our business as Members significantly reduced activities and sales meetings during and following the Review. These activities and sales meetings are important to our business as they are a central channel for attracting and retaining customers, providing personal and professional development for our Members, and promoting our products. While our Members had begun conducting meetings again toward the end of 2019 and the first quarter of 2020, the COVID-19 pandemic resulted in travel restrictions and other temporary measures which commenced early in the first quarter and also negatively impacted our business, including renewed sales meeting restrictions and Nutrition Club closures. We and our Members have been able to mitigate the impact of these restrictions through 2020 by taking many sales and promotional activities online. By April 2020, though subject to additional changes in conditions, China operations had largely resumed on an adapted basis. Manufacturing plants and distribution centers are open and operating normally, as well as Nutrition Clubs, subject to certain social distancing measures. Some in-person sales meetings have begun to be held again, based on location and size and subject to government approval, though sales meetings also continue to be successfully held online.

During 2019 we expanded our e-commerce platform to provide the ability for our China Members to service their customers via personalized sites, and for their retail customers to purchase products directly from the Company. We have expanded our product line for the China market and continue to conduct sales promotions in the region.

Sales by Product Category

	Three Months Ended										
	September 30, 2020					September 30, 2019					
	Retail Value(2)	Distributor Allowance	Product Sales	Shipping and Handling	Net Sales	Retail Value(2)	Distributor Allowance	Product Sales	Shipping and Handling	Net Sales	% Change in Net Sales
	(Dollars in millions)										
Weight Management	$ 1,486.4	$ (622.7)	$ 863.7	$ 46.7	$ 910.4	$ 1,241.1	$ (513.0)	$ 728.1	$ 40.5	$ 768.6	18.4%
Targeted Nutrition	679.1	(284.6)	394.5	21.3	415.8	524.1	(216.7)	307.4	17.1	324.5	28.1%
Energy, Sports, and Fitness	204.4	(85.7)	118.7	6.5	125.2	153.4	(63.5)	89.9	5.0	94.9	31.9%
Outer Nutrition	46.1	(19.3)	26.8	1.4	28.2	37.1	(15.3)	21.8	1.2	23.0	22.6%
Literature, Promotional, and Other(1)	40.0	0.9	40.9	1.3	42.2	31.4	1.1	32.5	1.0	33.5	26.0%
Total	$ 2,456.0	$ (1,011.4)	$ 1,444.6	$ 77.2	$ 1,521.8	$ 1,987.1	$ (807.4)	$ 1,179.7	$ 64.8	$ 1,244.5	22.3%

	Nine Months Ended										
	September 30, 2020					September 30, 2019					
	Retail Value(2)	Distributor Allowance	Product Sales	Shipping and Handling	Net Sales	Retail Value(2)	Distributor Allowance	Product Sales	Shipping and Handling	Net Sales	% Change in Net Sales
	(Dollars in millions)										
Weight Management	$ 4,042.9	$ (1,689.2)	$ 2,353.7	$ 130.6	$ 2,484.3	$ 3,696.6	$ (1,546.4)	$ 2,150.2	$ 126.4	$ 2,276.6	9.1%
Targeted Nutrition	1,834.4	(766.5)	1,067.9	59.2	1,127.1	1,527.4	(638.9)	888.5	52.2	940.7	19.8%
Energy, Sports, and Fitness	525.5	(219.6)	305.9	17.0	322.9	427.5	(178.8)	248.7	14.6	263.3	22.6%
Outer Nutrition	131.0	(54.7)	76.3	4.2	80.5	113.1	(47.3)	65.8	3.9	69.7	15.5%
Literature, Promotional, and Other(1)	110.5	2.2	112.7	3.6	116.3	99.6	3.5	103.1	3.4	106.5	9.2%
Total	$ 6,644.3	$ (2,727.8)	$ 3,916.5	$ 214.6	$ 4,131.1	$ 5,864.2	$ (2,407.9)	$ 3,456.3	$ 200.5	$ 3,656.8	13.0%

(1) Product buybacks and returns in all product categories are included in the Literature, Promotional, and Other category.

(2) Retail value is a non-GAAP measure which may not be comparable to similarly-titled measures used by other companies. See "Presentation" above for a discussion of how we calculate retail value and why we believe the measure is useful to investors.

Net sales for all categories increased for the three and nine months ended September 30, 2020 as compared to the same periods in 2019. The trends and business factors described in the above discussions of the individual geographic regions apply generally to all product categories.

Gross Profit

Gross profit was $1,199.1 million and $1,001.1 million for the three months ended September 30, 2020 and 2019, respectively, and $3,289.9 million and $2,928.6 million for the nine months ended September 30, 2020 and 2019, respectively. Gross profit as a percentage of net sales was 78.8% and 80.4% for the three months ended September 30, 2020 and 2019, respectively, or an unfavorable net decrease of 164 basis points, and 79.6% and 80.1% for the nine months ended September 30, 2020 and 2019, respectively, or an unfavorable net decrease of 45 basis points.

The decrease in gross profit as a percentage of net sales for the three months ended September 30, 2020 as compared to the same period in 2019 included the unfavorable impact of foreign currency fluctuations of 74 basis points (unfavorable impact of 58 basis points excluding Venezuela), unfavorable cost changes of 59 basis points relating to increased freight costs due to orders shifting toward home delivery versus Member pick-up, unfavorable changes in country mix of 54 basis points, unfavorable other cost changes of 49 basis points, and unfavorable cost changes related to self-manufacturing and sourcing of 15 basis points, which includes decreased costs related to Mexico tariffs, partially offset by the favorable impact of retail price increases of 63 basis points (favorable impact of 47 basis points excluding Venezuela) and the favorable impact of lower inventory write-downs of 24 basis points. There was no net impact of foreign currency fluctuations and retail price increases in Venezuela for the three months ended September 30, 2020 as compared to the same period in 2019.

The decrease in gross profit as a percentage of net sales for the nine months ended September 30, 2020 as compared to the same period in 2019 included unfavorable cost changes of 51 basis points relating to increased freight costs due to orders shifting toward home delivery versus Member pick-up, unfavorable cost changes related to self-manufacturing and sourcing of 32 basis points, which includes decreased costs related to Mexico tariffs, the unfavorable impact of foreign currency fluctuations of 29 basis points (unfavorable impact of 11 basis points excluding Venezuela), unfavorable other cost changes of 11 basis points, and unfavorable changes in country mix of 8 basis points, partially offset by the favorable impact of retail price increases of 72 basis points (favorable impact of 54 basis points excluding Venezuela) and the favorable impact of lower inventory write-downs of 14 basis points. There was no net impact of foreign currency fluctuations and retail price increases in Venezuela for the nine months ended September 30, 2020 as compared to the same period in 2019.

Generally, gross profit as a percentage of net sales may vary from period to period due to the impact of foreign currency fluctuations, changes in country mix as volume changes among countries with varying margins, retail price increases, cost changes related to self-manufacturing and sourcing, and inventory write-downs.

Royalty Overrides

Royalty overrides were $463.1 million and $363.8 million for the three months ended September 30, 2020 and 2019, respectively, and $1,251.2 million and $1,090.1 million for the nine months ended September 30, 2020 and 2019, respectively. Royalty overrides as a percentage of net sales were 30.4% and 29.2% for the three months ended September 30, 2020 and 2019, respectively, and 30.3% and 29.8% for the nine months ended September 30, 2020 and 2019, respectively.

Service fees to our independent service providers in China are included in selling, general, and administrative expenses while Member compensation for all other countries is included in Royalty overrides. Generally, Royalty overrides as a percentage of net sales may vary 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.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses were $529.7 million and $500.1 million for the three months ended September 30, 2020 and 2019, respectively, and $1,559.5 million and $1,412.5 million for the nine months ended September 30, 2020 and 2019, respectively. Selling, general, and administrative expenses as a percentage of net sales were 34.8% and 40.2% for the three months ended September 30, 2020 and 2019, respectively, and 37.7% and 38.6% for the nine months ended September 30, 2020 and 2019, respectively.

The increase in selling, general, and administrative expenses for the three months endedSeptember 30, 2020 as compared to the same period in 2019 was driven by $24.1 million in higher labor and benefits costs; $6.1 million in higher foreign exchange losses; $5.7 million in higher Member event and promotion costs; and $5.5 million in higher charitable donations; partially offset by $16.8 million in lower non-income tax expenses, primarily from the $19.0 million Mexico VAT assessment accrual recorded in 2019.

The increase in selling, general, and administrative expenses for the nine months ended September 30, 2020 as compared to the same period in 2019 was driven by $83.1 million of expenses relating to the SEC and DOJ investigations relating to the FCPA matter in China; $65.5 million in higher labor and benefits costs; and $47.5 million in higher service fees for China independent service providers due to higher sales in China; partially offset by $19.0 million of expenses relating to the SEC investigation relating to our disclosures regarding our marketing plan in China in 2019; $18.3 million in lower Member event and promotion costs, mostly resulting from cancellations of events and promotions due to the COVID-19 pandemic, $13.9 million in lower non-income tax expenses, primarily from the $19.0 million Mexico VAT assessment accrual recorded in 2019; and $13.7 million in lower travel and entertainment costs resulting from travel restrictions due to the COVID-19 pandemic.

Other Operating Income

The $0.6 million of other operating income for the three months ended September 30, 2020 consisted of $0.6 million of government grant income for China (See Note 2, *Significant Accounting Policies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q). The $6.4 million of other operating income for the three months ended September 30, 2019 consisted of $6.4 million of government grant income for China.

The $13.0 million of other operating income for the nine months ended September 30, 2020 consisted of $13.0 million of government grant income for China. The $33.7 million of other operating income for the nine months ended September 30, 2019 consisted of $27.7 million of government grant income for China and $6.0 million related to the finalization of insurance recoveries in connection with the flooding at one of our warehouses in Mexico during September 2017, which damaged certain of our inventory stored within the warehouse (See Note 7, *Contingencies*, to the Consolidated Financial Statements included in the 2018 10-K).

Interest Expense, Net

Interest expense, net was as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(in millions)			
Interest expense	$ 37.0	$ 36.7	$ 96.4	$ 121.5
Interest income	(1.8)	(5.1)	(7.4)	(17.5)
Interest expense, net	$ 35.2	$ 31.6	$ 89.0	$ 104.0

The increase in interest expense, net for the three months ended September 30, 2020 as compared to the same period in 2019 was primarily due to lower interest income earned as a result of lower interest rates. The decrease in interest expense, net for the nine months ended September 30, 2020 as compared to the same period in 2019 was primarily due to a decrease in our overall weighted-average borrowings and weighted-average interest rate, partially offset by lower interest income earned as a result of lower interest rates.

Other Income, Net

We did not recognize any other income, net for the three months ended September 30, 2020. The $1.3 million of other income, net for the three months ended September 30, 2019 consisted of a $1.3 million gain on the revaluation of the CVR (See Note 8, *Shareholders' Deficit*, to the Consolidated Financial Statements included in the 2019 10-K).

We did not recognize any other income, net for the nine months ended September 30, 2020. The $15.7 million of other income, net for the nine months ended September 30, 2019 consisted of a $15.7 million gain on the revaluation of the CVR.

Income Taxes

Income taxes were $33.6 million and $31.8 million for the three months ended September 30, 2020 and 2019, respectively, and $104.4 million and $117.1 million for the nine months ended September 30, 2020 and 2019, respectively. The effective income tax rate was 19.5% and 28.1% for the three months ended September 30, 2020 and 2019, respectively, and 25.9% and 31.5% for the nine months ended September 30, 2020 and 2019, respectively. The decrease in the effective tax rate for the three months ended September 30, 2020 as compared to the same period in 2019 was primarily due to changes in the geographic mix of our income and an increase in net benefits from discrete events. The decrease in the effective tax rate for the nine months ended September 30, 2020 as compared to the same period in 2019 was primarily due to changes in the geographic mix of our income, partially offset by a decrease in net benefits from discrete events.

Liquidity and Capital Resources

We have historically met our working capital and capital expenditure requirements, including funding for expansion of operations, through net cash flows provided by operating activities. Variations in sales of our products directly affect the availability of funds. There are no material contractual restrictions on our ability to transfer and remit funds among our international affiliated companies. However, there are foreign currency restrictions in certain countries which could reduce our ability to timely obtain U.S. dollars. Even with these restrictions and the impacts of the COVID-19 pandemic, we believe we will have sufficient resources, including cash flow from operating activities and access to capital markets, to meet debt service obligations in a timely manner and be able to continue to meet our objectives.

Historically, our debt has not resulted from the need to fund our normal operations, but instead has resulted primarily from our share repurchase programs. Since inception in 2007, total share repurchases amounted to approximately $5.3 billion. While a significant net sales decline could potentially affect the availability of funds, many of our largest expenses are variable in nature, which we believe protects our funding in all but a dramatic net sales downturn. Our $1,034.6 million cash and cash equivalents as of September 30, 2020 and our senior secured credit facility, in addition to cash flow from operations, can be used to support general corporate purposes, including any future share repurchases, dividends, and strategic investment opportunities.

We have a cash pooling arrangement with a financial institution for cash management purposes. This cash pooling arrangement allows certain of our participating subsidiaries to withdraw cash from this financial institution based upon our aggregate cash deposits held by subsidiaries who participate in the cash pooling arrangement. We did not owe any amounts to this financial institution under the pooling arrangement as of September 30, 2020 and December 31, 2019.

For the nine months ended September 30, 2020, we generated $516.1 million of operating cash flow as compared to $300.9 million for the same period in 2019. The increase in our operating cash flow was the result of $161.4 million of favorable changes in operating assets and liabilities and $53.8 million of higher net income excluding non-cash items disclosed within our condensed consolidated statement of cash flows. The $161.4 million change in operating assets and liabilities was primarily the result of favorable changes in inventories, royalty overrides, and other current liabilities, which included favorable changes in accrued compensation, income taxes payable, and advance sales deposits; partially offset by unfavorable changes in prepaid expenses and other current assets. The $53.8 million of higher net income excluding non-cash items was primarily driven by higher contribution margin driven by higher net sales (*See Summary Financial Results* above for further discussion), partially offset by higher selling, general, and administrative expenses primarily from the $83.1 million in expenses related to the SEC and DOJ investigations relating to the FCPA matter in China.

Capital expenditures, including accrued capital expenditures, were $74.8 million and $76.0 million for the nine months ended September 30, 2020 and 2019, respectively. The majority of these expenditures represented investments in management information systems, including initiatives to develop web-based Member tools. We expect to incur total capital expenditures of approximately $110 million to $130 million for the full year of 2020.

In March 2020, our annual global Herbalife Honors event, where sales leaders from around the world meet and share best practices and conduct leadership training, was canceled due to the COVID-19 pandemic and our management awarded Members $71.3 million of Mark Hughes bonus payments related to their 2019 performance. In March 2019, our management awarded Members $70.7 million of Mark Hughes bonus payments related to their 2018 performance.

Senior Secured Credit Facility

On February 15, 2017, we entered into a $1,450.0 million senior secured credit facility, or the 2017 Credit Facility, consisting of a $1,300.0 million term loan B, or the 2017 Term Loan B, and a $150.0 million revolving credit facility, or the 2017 Revolving Credit Facility, with a syndicate of financial institutions as lenders. The 2017 Revolving Credit Facility was to mature on February 15, 2022 and the 2017 Term Loan B was to mature on February 15, 2023. The 2017 Credit Facility was amended, effective March 16, 2018, to make certain technical amendments in connection with the offering of the 2024 Convertible Notes, as defined below. We terminated the 2017 Credit Facility on August 16, 2018 and the $1,178.1 million outstanding was repaid in full.

On August 16, 2018, we entered into a $1.25 billion senior secured credit facility, or the 2018 Credit Facility, consisting of a $250.0 million term loan A, or the 2018 Term Loan A, a $750.0 million term loan B, or the 2018 Term Loan B, and a $250.0 million revolving credit facility, or the 2018 Revolving Credit Facility, with a syndicate of financial institutions as lenders. Prior to the amendment described below, the 2018 Term Loan A and 2018 Revolving Credit Facility both were to mature on August 16, 2023. The 2018 Term Loan B matures upon the earlier of: (i) August 18, 2025, or (ii) December 15, 2023 if the outstanding principal on the 2024 Convertible Notes, as defined below, exceeds $350.0 million and we exceed certain leverage ratios as of that date. All obligations under the 2018 Credit Facility are unconditionally guaranteed by certain direct and indirect wholly-owned subsidiaries of Herbalife Nutrition Ltd. and secured by the equity interests of certain of Herbalife Nutrition Ltd.'s subsidiaries and substantially all of the assets of the domestic loan parties. Also on August 16, 2018, we issued $400 million aggregate principal amount of senior unsecured notes, or 2026 Notes as described below, and used the proceeds from the 2018 Credit Facility and the 2026 Notes to repay in full the $1,178.1 million outstanding under the 2017 Credit Facility. For accounting purposes, pursuant to FASB ASC Topic 470, *Debt* ("ASC 470"), these transactions were accounted for as an extinguishment of the 2017 Credit Facility. We recognized a loss on extinguishment of $35.4 million as a result, which was recorded in other (income) expense, net within our consolidated statements of income for the year ended December 31, 2018.

On December 12, 2019, we amended the 2018 Credit Facility which, among other things, reduced the interest rate for borrowings under the 2018 Term Loan B. We incurred approximately $1.2 million of debt issuance costs in connection with the amendment. For accounting purposes, pursuant to ASC 470, this transaction was accounted for as a modification of the 2018 Credit Facility. The debt issuance costs were recognized in interest expense within our consolidated statement of income for the year ended December 31, 2019.

On March 19, 2020, we amended the 2018 Credit Facility which, among other things, extended the maturity of both the 2018 Term Loan A and 2018 Revolving Credit Facility to the earlier of: (i) March 19, 2025 or (ii) September 15, 2023 if the outstanding principal on the 2024 Convertible Notes, as defined below, exceeds $350.0 million and we exceed certain leverage ratios as of that date; increased borrowings under the 2018 Term Loan A from $234.4 million to a total of $264.8 million; increased the total available borrowing capacity under 2018 Revolving Credit Facility from $250.0 million to $282.5 million; and reduced the interest rate for borrowings under both the 2018 Term Loan A and 2018 Revolving Credit Facility. We incurred approximately $1.6 million of debt issuance costs in connection with the amendment. For accounting purposes, pursuant to ASC 470, this transaction was accounted for as a modification of the 2018 Credit Facility. Of the $1.6 million of debt issuance costs, approximately $1.1 million was recorded on our condensed consolidated balance sheet and is being amortized over the life of the 2018 Credit Facility using the effective-interest method, and approximately $0.5 million was recognized in interest expense, net within our condensed consolidated statement of income during the three months ended March 31, 2020.

The 2018 Credit Facility requires us to comply with a leverage ratio. The 2018 Credit Facility also contains affirmative and negative covenants customary for financings of this type, including, among other things, limitations or prohibitions on repurchasing common shares, declaring and paying dividends and other distributions, redeeming and repurchasing certain other indebtedness, loans and investments, additional indebtedness, liens, mergers, asset sales and transactions with affiliates. In addition, the 2018 Credit Facility contains customary events of default. As of September 30, 2020 and December 31, 2019, we were in compliance with our debt covenants under the 2018 Credit Facility.

The 2018 Term Loan A and 2018 Term Loan B are payable in consecutive quarterly installments which began on December 31, 2018. Interest is due at least quarterly on amounts outstanding under the 2018 Credit Facility. In addition, beginning in 2020, we may be required to make mandatory prepayments towards the 2018 Term Loan B based on our consolidated leverage ratio and annual excess cash flows as defined under the terms of the 2018 Credit Facility. We are also permitted to make voluntary prepayments. Amounts outstanding under the 2018 Term Loan A may be voluntarily prepaid without premium or penalty, subject to customary breakage fees in connection with the prepayment of a eurocurrency loan. Under the 2018 Credit Facility, as amended, amounts outstanding under the 2018 Term Loan B may be voluntarily prepaid without premium or penalty, subject to customary breakage fees in connection with the prepayment of a eurocurrency loan. These prepayments, if any, will be applied against remaining quarterly installments owed under the 2018 Term Loan A and 2018 Term Loan B in order of maturity with the remaining principal due upon maturity, unless directed otherwise by us. Based on the 2019 consolidated leverage ratio and excess cash flow calculation, both as defined under the terms of the 2018Credit Facility, we were not required to make a mandatory prepayment in 2020 toward the 2018 Term Loan B.

During the nine months ended September 30, 2020, we repaid a total amount of $15.6 million on amounts outstanding under the 2018 Credit Facility. During the nine months ended September 30, 2019, we repaid a total amount of $15.0 million on amounts outstanding under the 2018 Credit Facility. As of September 30, 2020 and December 31, 2019, the U.S. dollar amount outstanding under the 2018 Credit Facility was $989.9 million and $975.0 million, respectively. Of the $989.9 million outstanding under the 2018 Credit Facility as of September 30, 2020, $254.9 million was outstanding under the 2018 Term Loan A and $735.0 million was outstanding under the 2018 Term Loan B. Of the $975.0 million outstanding under the 2018 Credit Facility as of December 31, 2019, $234.4 million was outstanding under the 2018 Term Loan A and $740.6 million was outstanding under the 2018 Term Loan B. There were no borrowings outstanding under the 2018 Revolving Credit Facility as of September 30, 2020 and December 31, 2019. There were no outstanding foreign currency borrowings under the 2018 Credit Facility as of September 30, 2020 and December 31, 2019. As of September 30, 2020 and December 31, 2019, the weighted-average interest rate for borrowings under the 2018 Credit Facility was 3.55% and 5.52%, respectively.

See Note 4, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a further discussion on the 2018 Credit Facility.

Convertible Senior Notes due 2019

In February 2014, we issued $1.15 billion aggregate principal amount of convertible senior notes due 2019, or the 2019 Convertible Notes. The 2019 Convertible Notes were senior unsecured obligations which ranked effectively subordinate to any of our existing and future secured indebtedness, including amounts outstanding under the 2018 Credit Facility, to the extent of the value of the assets securing such indebtedness. The 2019 Convertible Notes paid interest at a rate of 2.00% per annum payable semiannually in arrears on February 15 and August 15 of each year, beginning on August 15, 2014. Unless earlier repurchased or converted, the 2019 Convertible Notes matured on August 15, 2019. The primary purpose of the issuance of the 2019 Convertible Notes was for share repurchase purposes.

In March 2018, we issued $550 million aggregate principal of new convertible senior notes due 2024 as described below, and subsequently used the proceeds, along with cash on hand, to repurchase $475.0 million of our existing 2019 Convertible Notes from a limited number of holders in privately negotiated transactions for an aggregate purchase price of $583.5 million, which included $1.0 million of accrued interest.

In August 2019, we repaid a total amount of $675.0 million to repay in full amounts outstanding on the 2019 Convertible Notes upon maturity, as well as $6.7 million of accrued interest. See Note 4, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a further discussion on our 2019 Convertible Notes.

Convertible Senior Notes due 2024

In March 2018, we issued $550.0 million aggregate principal amount of convertible senior notes due 2024, or the 2024 Convertible Notes. The 2024 Convertible Notes are senior unsecured obligations which rank effectively subordinate to any of our existing and future secured indebtedness, including amounts outstanding under the 2018 Credit Facility, to the extent of the value of the assets securing such indebtedness. The 2024 Convertible Notes pay interest at a rate of 2.625% per annum payable semiannually in arrears on March 15 and September 15 of each year, beginning on September 15, 2018. Unless redeemed, repurchased or converted in accordance with their terms prior to such date, the 2024 Convertible Notes mature on March 15, 2024. The primary purpose of the issuance of the 2024 Convertible Notes was to repurchase a portion of the 2019 Convertible Notes. See Note 4, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a further discussion on our 2024 Convertible Notes.

Senior Notes due 2025

In May 2020, we issued $600.0 million aggregate principal amount of senior notes due 2025, or the 2025 Notes. The 2025 Notes are senior unsecured obligations which rank effectively subordinate to any of our existing and future secured indebtedness, including amounts outstanding under the 2018 Credit Facility, to the extent of the value of the assets securing such indebtedness. The 2025 Notes pay interest at a rate of 7.875% per annum payable semiannually in arrears on March 1 and September 1 of each year, beginning on March 1, 2021. The 2025 Notes mature on September 1, 2025, unless redeemed or repurchased in accordance with their terms prior to such date. The primary purpose of the issuance of the 2025 Notes was for general corporate purposes, including share repurchases and other capital investment projects. See Note 4, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a further discussion on our 2025 Notes.

Senior Notes due 2026

In August 2018, we issued $400.0 million aggregate principal amount of senior notes due 2026, or the 2026 Notes. The 2026 Notes are senior unsecured obligations which rank effectively subordinate to any of our existing and future secured indebtedness, including amounts outstanding under the 2018 Credit Facility, to the extent of the value of the assets securing such indebtedness. The 2026 Notes pay interest at a rate of 7.250% per annum payable semiannually in arrears on February 15 and August 15 of each year, beginning on February 15, 2019. The 2026 Notes mature on August 15, 2026, unless redeemed or repurchased in accordance with their terms prior to such date. The primary purpose of the issuance of the 2026 Notes was to refinance a portion of our 2017 Credit Facility. See Note 4, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a further discussion on our 2026 Notes.

Cash and Cash Equivalents

The majority of our foreign subsidiaries designate their local currencies as their functional currencies. As of September 30, 2020, the total amount of our foreign subsidiary cash and cash equivalents was $645.7 million, of which $26.8 million was invested in U.S. dollars. As of September 30, 2020, the total amount of cash and cash equivalents held by Herbalife Nutrition Ltd. and its U.S. entities, inclusive of U.S. territories, was $388.9 million.

For earnings not considered to be indefinitely reinvested deferred taxes have been provided. For earnings considered to be indefinitely reinvested, deferred taxes have not been provided. Should we make a determination to remit the cash and cash equivalents from our foreign subsidiaries that are considered indefinitely reinvested to our U.S. consolidated group for the purpose of repatriation of undistributed earnings, we would need to accrue and pay taxes. As of December 31, 2019, our U.S. consolidated group had approximately $139.6 million of permanently reinvested unremitted earnings from certain foreign subsidiaries, and if these monies were ever needed to be remitted, the impact of any tax consequences on our overall liquidity position would not be material. As of December 31, 2019, Herbalife Nutrition Ltd. had approximately $2.4 billion of permanently reinvested unremitted earnings relating to its operating subsidiaries. As a result of our decision to invest in the China Growth and Impact Investment Program, approximately $111.9 million of unremitted earnings were permanently reinvested as of December 31, 2019. As of December 31, 2019, we do not have any plans to repatriate these unremitted earnings to Herbalife Nutrition Ltd.; therefore, we do not have any liquidity concerns relating to these unremitted earnings and related cash and cash equivalents. See Note 12, *Income Taxes*, to the Consolidated Financial Statements included in our 2019 10-K for additional discussion on our unremitted earnings.

Off-Balance Sheet Arrangements

As of September 30, 2020 and December 31, 2019, we had no material off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Dividends

We have not declared or paid cash dividends since 2014. The declaration of future dividends is subject to the discretion of our board of directors and will depend upon various factors, including our earnings, financial condition, Herbalife Nutrition Ltd.'s available distributable reserves under Cayman Islands law, restrictions imposed by the 2018 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.

Share Repurchases

On October 30, 2018, our board of directors authorized a new five-year $1.5 billion share repurchase program that will expire on October 30, 2023, which replaced our prior share repurchase authorization that was set to expire on February 21, 2020 and had approximately $113.3 million of remaining authorized capacity when it was replaced. This share repurchase program allows us, which includes an indirect wholly-owned subsidiary of Herbalife Nutrition Ltd., to repurchase our common shares at such times and prices as determined by management, as market conditions warrant, and to the extent Herbalife Nutrition Ltd.'s distributable reserves are available under Cayman Islands law. The 2018 Credit Facility permits us to repurchase our common shares as long as no default or event of default exists and other conditions, such as specified consolidated leverage ratios, are met. As of September 30, 2020, the remaining authorized capacity under our $1.5 billion share repurchase program was $682.9 million.

In conjunction with the issuance of the 2019 Convertible Notes during February 2014, we paid approximately $685.8 million to enter into prepaid forward share repurchase transactions, or the Forward Transactions, with certain financial institutions, or the Forward Counterparties, pursuant to which we purchased approximately 19.9 million common shares, at an average cost of $34.51 per share, for settlement on or around the August 15, 2019 maturity date for the 2019 Convertible Notes, subject to the ability of each Forward Counterparty to elect to settle all or a portion of its Forward Transactions early. The shares are treated as retired shares for basic and diluted EPS purposes. See Note 10, *Shareholders' Deficit*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, for a further discussion on the Forward Transactions.

In August 2020, we completed our modified Dutch auction tender offer and then subsequently paid cash to repurchase and retire a total of approximately 15.4 million of our common shares at an aggregate cost of approximately $750.0 million, or $48.75 per share. In addition, during the nine months ended September 30, 2020, we repurchased approximately 1.4 million of our common shares through open market purchases at an aggregate cost of approximately $67.1 million, or an average cost of $46.44 per share, and subsequently retired these shares. During the nine months ended September 30, 2019, we did not repurchase any of our common shares through open market purchases.

As of both September 30, 2020 and December 31, 2019, we held approximately 10.0 million of treasury shares for U.S. GAAP purposes. These treasury shares increased our shareholders' deficit and are reflected at cost within our accompanying condensed consolidated balance sheets. Although these shares are owned by an indirect wholly-owned subsidiary of ours and remain legally outstanding, they are reflected as treasury shares under U.S. GAAP and therefore reduce the number of common shares outstanding within our condensed consolidated financial statements and the weighted-average number of common shares outstanding used in calculating earnings per share. The common shares of Herbalife Nutrition Ltd. held by the indirect wholly-owned subsidiary, however, remain outstanding on the books and records of our transfer agent and therefore still carry voting and other share rights related to ownership of our common shares, which may be exercised. So long as it is consistent with applicable laws, such shares will be voted by such subsidiary in the same manner, and to the maximum extent possible in the same proportion, as all other votes cast with respect to any matter properly submitted to a vote of Herbalife Nutrition Ltd.'s shareholders.

See Note 10, *Shareholders' Deficit*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, for a further discussion on our share repurchases.

Capped Call Transactions

In February 2014, in connection with the issuance of the 2019 Convertible Notes, we paid approximately $123.8 million to enter into capped call transactions with respect to our common shares, or the Capped Call Transactions, with certain financial institutions. The Capped Call Transactions were expected generally to reduce the potential dilution upon conversion of the 2019 Convertible Notes in the event that the market price of the common shares was greater than the strike price of the Capped Call Transactions, initially set at $43.14 per common share, with such reduction of potential dilution subject to a cap based on the cap price initially set at $60.39 per common share.

During March 2018, in connection with our repurchase of a portion of the 2019 Convertible Notes, we entered into partial settlement agreements with the option counterparties to the Capped Call Transactions to terminate a portion of the Capped Call Transactions, in each case, in a notional amount corresponding to the aggregate principal amount of the 2019 Convertible Notes that were repurchased.

On August 15, 2019, the 2019 Convertible Notes matured and the remaining Capped Call Transactions expired unexercised. The expiration of the Capped Call Transactions did not have an impact on our condensed consolidated financial statements. See Note 10, *Shareholders' Deficit*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, for a further discussion of the Capped Call Transactions.

Working Capital and Operating Activities

As of September 30, 2020 and December 31, 2019, we had working capital of $639.4 million and $523.8 million, respectively, or an increase of $115.6 million. The increase was primarily due to increases in cash and cash equivalents, receivables, and prepaid expenses and other current assets, partially offset by increases in other current liabilities, royalty overrides, and accounts payable.

We expect that cash and funds provided from operations, available borrowings under the 2018 Credit Facility, and access to capital markets will provide sufficient working capital to operate our business, to make expected capital expenditures, and to meet foreseeable liquidity requirements for the next twelve months and thereafter.

The majority of our purchases from suppliers are generally made in U.S. dollars, while sales to our Members generally are made in local currencies. Consequently, strengthening of the U.S. dollar versus a foreign currency can have a negative impact on net sales and contribution margins and can generate transaction gains or 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*, of this Quarterly Report on Form 10-Q

Contingencies

See Note 5, *Contingencies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, for a further discussion of our contingencies as of September 30, 2020.

Subsequent Events

See Note 14, *Subsequent Events*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, for information regarding subsequent events.

Critical Accounting Policies

U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. We regularly evaluate our estimates and assumptions related to revenue recognition, allowance for product returns, inventory, 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; targeted nutrition; energy, sports, and fitness; and outer nutrition products. Our products are manufactured by us in our Changsha, Hunan, China extraction facility, Suzhou, China facility, Nanjing, China facility, Lake Forest, California facility, and in our Winston-Salem, North Carolina facility, and by third-party providers, and then are sold to Members who consume and sell Herbalife products to retail consumers or other Members. As of September 30, 2020, we sold products in 95 countries throughout the world and we are organized and managed by geographic region. We aggregate our operating segments into one reporting segment, except China, as management believes that our operating segments have similar operating characteristics and similar long term operating performance. In making this determination, management believes that the operating segments are similar in the nature of the products sold, the product acquisition process, the types of customers to whom products are sold, the methods used to distribute the products, the nature of the regulatory environment, and their economic characteristics.

We generally recognize revenue upon delivery when control passes to the Member. 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. Royalty overrides are generally recorded when revenue is recognized. See Note 2, *Significant Accounting Policies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, for a further discussion of distributor compensation in the U.S.

Allowances for product returns, primarily in connection with our buyback program, are provided at the time the sale is recorded. This accrual is based upon historical return rates for each country and the relevant return pattern, which reflects anticipated returns to be received over a period of up to 12 months following the original sale. Historically, product returns and buybacks have not been significant. Product returns and buybacks were approximately 0.1% of product sales for each of the three and nine months ended September 30, 2020 and 2019.

We adjust our inventories to lower of cost and net realizable value. 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 $16.8 million and $15.1 million to present them at their lower of cost and net realizable value in our condensed consolidated balance sheets as of September 30, 2020 and December 31, 2019, 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.

As part of the annual goodwill impairment test, which is performed at the reporting unit level, we may conduct an assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. In a qualitative assessment, we would consider the macroeconomic conditions, including any deterioration of general conditions and industry and market conditions, including any deterioration in the environment where the reporting unit operates, increased competition, changes in the products/services and regulatory and political developments, cost of doing business, overall financial performance, including any declining cash flows and performance in relation to planned revenues and earnings in past periods, other relevant reporting unit specific facts, such as changes in management or key personnel or pending litigation, and events affecting the reporting unit, including changes in the carrying value of net assets. If we determine that it is more likely than not that the fair value of the reporting unit is less than its carrying value, then we would perform the quantitative goodwill impairment test as required. If we determine that it is not more likely than not that the fair value of the reporting unit is less than the carrying value, then no further testing is required. During fiscal year 2019, we performed a qualitative assessment and determined that it is not more likely than not that the fair value of each reporting unit is less than its respective carrying value.

For our marketing-related intangible assets, we may also utilize a qualitative assessment similar to the one described above, with the exception that the test is performed at the consolidated level rather than at the reporting unit level. During fiscal year 2019, we performed a qualitative assessment of our marketing-related intangible assets and determined that it is not more likely than not that the fair value of the assets is less than their carrying value.

If we are required to determine the fair value of each reporting unit using the quantitative method, we primarily use an income approach in order to 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. 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 over its fair value.

If we are required to determine the fair value of our marketing-related intangible assets using the quantitative method, we use a discounted cash flow model, or the income approach, under the relief-from-royalty method to determine the fair value of our marketing related intangible assets in order to confirm there is no impairment required. An impairment loss is recognized to the extent that the carrying amount of the assets exceeds their fair value.

As of September 30, 2020 and December 31, 2019, we had goodwill of approximately $88.7 million and $91.5 million, respectively. As of both September 30, 2020 and December 31, 2019, we had marketing-related intangible assets of approximately $310.0 million. The decrease in goodwill during the nine months ended September 30, 2020 was due to foreign currency translation adjustments. No marketing-related intangibles or goodwill impairment was recorded during the three and nine months ended September 30, 2020 and 2019. See Note 2, *Significant Accounting Policies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a further discussion.

Contingencies are accounted for in accordance with 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.

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

We account for uncertain tax positions in accordance with 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.

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act of 2017, or U.S. Tax Reform, which contains several key tax provisions that affect us, including, but not limited to, a one-time mandatory transition tax on accumulated foreign earnings, changes in the sourcing and calculation of foreign income, and a reduction of the corporate income tax rate to 21% effective January 1, 2018. We are required to recognize the effect of the tax law changes in the period of enactment, such as determining the transition tax, remeasuring our U.S. deferred tax assets and liabilities as well as reassessing the net realizability of our deferred tax assets and liabilities. In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act*, which allows us to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. See Note 12, *Income Taxes*, to the Consolidated Financial Statements included in the 2019 10-K for a further discussion of U.S. Tax Reform. We have made an accounting policy election to account for global intangible low-taxed income as a period cost if and when incurred.

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

New Accounting Pronouncements

See discussion under Note 2, *Significant Accounting Policies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, for information on new accounting pronouncements.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

We are exposed to market risks, which arise during the normal course of business from changes in interest rates and foreign currency exchange rates. On a selected basis, we use derivative financial instruments to manage or hedge certain of these risks. All hedging transactions are authorized and executed pursuant to written guidelines and procedures.

We apply FASB ASC Topic 815, *Derivatives and Hedging*, or ASC 815, which established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair-value hedge, the changes in the fair value of the derivative and the underlying hedged item are recognized concurrently in earnings. If the derivative is designated as a cash flow hedge, changes in the fair value of the derivative are recorded in other comprehensive loss and are recognized in the condensed consolidated statements of income when the hedged item affects earnings. ASC 815 defines the requirements for designation and documentation of hedging relationships as well as ongoing effectiveness assessments in order to use hedge accounting. For a derivative that does not qualify as a hedge, changes in fair value are recognized concurrently in earnings.

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

Foreign Exchange Risk

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

The foreign currency forward contracts and option contracts designated as freestanding derivatives are primarily used to hedge foreign currency-denominated intercompany transactions and to partially mitigate the impact of foreign currency fluctuations. The fair value of foreign exchange derivative contracts is based on third-party quotes. Our foreign currency derivative contracts are generally executed on a monthly basis.

We also purchase foreign currency forward contracts in order to hedge forecasted inventory transactions and intercompany management fees that are designated as cash flow hedges and are subject to foreign currency exposures. We applied the hedge accounting rules as required by ASC 815 for these hedges. These contracts allow us to buy and sell certain currencies at specified contract rates. As of September 30, 2020 and December 31, 2019, the aggregate notional amounts of these contracts outstanding were approximately $49.4 million and $66.4 million, respectively. As of September 30, 2020, the outstanding contracts were expected to mature over the next fifteen months. Our derivative financial instruments are recorded on the condensed consolidated balance sheets at fair value based on quoted market rates. For the forecasted inventory transactions, the forward contracts are used to hedge forecasted inventory transactions over specific months. Changes in the fair value of these forward contracts designated as cash flow hedges, excluding forward points, are recorded as a component of accumulated other comprehensive loss within shareholders' deficit, and are recognized in cost of sales in the condensed consolidated statements of income during the period which approximates the time the hedged inventory is sold. We also hedge forecasted intercompany management fees over specific months. Changes in the fair value of these forward contracts designated as cash flow hedges, excluding forward points, are recorded as a component of accumulated other comprehensive loss within shareholders' deficit, and are recognized in selling, general, and administrative expenses within the condensed consolidated statements of income during the period when the hedged item and underlying transaction affect earnings. As of September 30, 2020, we recorded assets at fair value of $0.4 million and liabilities at fair value of $1.0 million relating to all outstanding foreign currency contracts designated as cash flow hedges. As of December 31, 2019, we recorded assets at fair value of $0.1 million and liabilities at fair value of $1.9 million relating to all outstanding foreign currency contracts designated as cash flow hedges. These hedges remained effective as of September 30, 2020 and December 31, 2019.

As of both September 30, 2020 and December 31, 2019, the majority of our outstanding foreign currency forward contracts had maturity dates of less than twelve months with the majority of freestanding derivatives expiring within one month as of September 30, 2020 and December 31, 2019.

The following table provides information about the details of all foreign currency forward contracts that were outstanding as of September 30, 2020:

	Weighted-Average Contract Rate	Notional Amount	Fair Value Gain (Loss)
	(in millions, except weighted-average contract rate)		
As of September 30, 2020			
Buy British pound sell Euro	0.92	$ 3.2	$ —
Buy British pound sell U.S. dollar	1.28	1.4	—
Buy Canadian dollar sell Euro	1.57	0.7	—
Buy Chinese yuan sell Euro	8.04	60.8	0.6
Buy Chinese yuan sell U.S. dollar	7.13	99.3	3.4
Buy Colombian peso sell U.S. dollar	3,864.68	2.3	—
Buy Euro sell Australian dollar	1.65	1.8	—
Buy Euro sell Brazilian real	6.46	1.3	—
Buy Euro sell British pound	0.91	4.4	—
Buy Euro sell Canadian dollar	1.57	2.8	—
Buy Euro sell Chilean peso	915.43	0.9	—
Buy Euro sell Chinese yuan	8.01	91.6	(0.4)
Buy Euro sell Ghanaian cedi	7.06	2.0	—
Buy Euro sell Hong Kong dollar	9.07	4.3	—
Buy Euro sell Indonesian rupiah	17,706.53	31.8	(0.5)
Buy Euro sell Japanese yen	123.07	0.8	—
Buy Euro sell Kazakhstani tenge	503.50	1.5	—
Buy Euro sell Korean won	1,365.14	3.2	—
Buy Euro sell Malaysian ringgit	4.89	4.1	—
Buy Euro sell Mexican peso	26.58	44.2	(0.4)
Buy Euro sell Peruvian nuevo sol	4.20	3.1	—
Buy Euro sell Philippine peso	57.28	2.3	—
Buy Euro sell Russian ruble	92.60	2.2	—
Buy Euro sell South African rand	19.94	5.7	(0.1)
Buy Euro sell Taiwan dollar	34.06	1.2	—
Buy Euro sell Thai baht	37.03	1.7	—
Buy Euro sell Turkish lira	9.11	2.2	—
Buy Euro sell Ukrainian hryvnia	33.48	1.4	—
Buy Euro sell Vietnamese dong	27,364.37	19.5	(0.1)
Buy Indonesian rupiah sell Euro	17,524.80	27.1	0.1
Buy Mexican peso sell Euro	26.16	1.6	—
Buy Norwegian krone sell U.S. dollar	9.42	1.1	—
Buy South African rand sell Euro	19.91	1.2	—
Buy Swedish krona sell U.S. dollar	8.96	0.6	—
Buy Taiwan dollar sell U.S. dollar	28.75	9.4	—
Buy Thai baht sell Euro	36.99	0.1	—
Buy U.S. dollar sell Colombian peso	3,851.47	4.0	—
Buy U.S. dollar sell Euro	1.17	52.2	(0.3)
Buy U.S. dollar sell Korean won	1,168.08	15.4	—
Buy U.S. dollar sell Mexican peso	22.81	3.1	0.1
Buy U.S. dollar sell Philippine peso	48.84	8.2	—
Buy Vietnamese dong sell Euro	27,200.00	2.8	—
Total forward contracts		$ 528.5	$ 2.4

The majority of our foreign subsidiaries designate their local currencies as their functional currencies. See *Liquidity and Capital Resources — Cash and Cash Equivalents* in Part I, Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, of this Quarterly Report on Form 10-Q for further discussion of our foreign subsidiary cash and cash equivalents.

Interest Rate Risk

As of September 30, 2020, the aggregate annual maturities of the 2018 Credit Facility were expected to be $5.2 million for the remainder of 2020, $20.7 million for 2021, $27.4 million for 2022, $27.4 million for 2023, $34.0 million for 2024, and $875.2 million thereafter. As of September 30, 2020, the fair values of the 2018 Term Loan A and 2018 Term Loan B were approximately $251.6 million and $725.4 million, respectively, and the carrying values were $253.7 million and $727.5 million, respectively. As of December 31, 2019, the fair values of the 2018 Term Loan A and 2018 Term Loan B were approximately $235.7 million and $744.8 million, respectively, and the carrying values were $233.2 million and $732.1 million, respectively. There were no outstanding borrowings on the 2018 Revolving Credit Facility as of September 30, 2020 and December 31, 2019. The 2018 Credit Facility bears variable interest rates, and as of September 30, 2020 and December 31, 2019, the weighted-average interest rate for borrowings under the 2018 Credit Facility was 3.55% and 5.52%, respectively.

During the first quarter of 2020, we entered into various interest rate swap agreements with effective dates ranging between February 2020 and March 2020. These agreements collectively provide for us to pay interest at a weighted-average fixed rate of 0.98% on aggregate notional amounts of $100.0 million under the 2018 Credit Facility until their respective expiration dates ranging between February 2022 and March 2023, while receiving interest based on LIBOR on the same notional amounts for the same periods. At inception, these swap agreements were designated as cash flow hedges against the variability in certain LIBOR-based borrowings under the 2018 Credit Facility, effectively fixing the interest rate on such notional amounts at a weighted-average effective rate of 3.48%. The fair values of the interest rate swap agreements are based on third-party bank quotes, and as of September 30, 2020, we recorded liabilities at fair value of $1.2 million relating to these interest rate swap agreements.

Our exposure to interest rate volatility risk related to our 2018 Credit Facility is partially mitigated by our interest rate swaps. If interest rates were to increase or decrease by 1% for the year and our borrowing amounts on our 2018 Credit Facility and related interest rate swaps remained constant, our annual interest expense could increase by approximately $8.9 million or decrease by approximately $1.3 million.

As of September 30, 2020, the fair value of the liability component of the 2024 Convertible Notes was approximately $503.1 million and the carrying value was $454.6 million. As of December 31, 2019, the fair value of the liability component of the 2024 Convertible Notes was approximately $508.6 million, and the carrying value was $437.4 million. The 2024 Convertible Notes pay interest at a fixed rate of 2.625% per annum payable semiannually in arrears on March 15 and September 15 of each year, beginning on September 15, 2018. Unless redeemed, repurchased or converted in accordance with their terms prior to such date, the 2024 Convertible Notes mature on March 15, 2024.

As of September 30, 2020, the fair value of the 2025 Notes was approximately $646.1 million and the carrying value was $592.6 million. The 2025 Notes pay interest at a fixed rate of 7.875% per annum payable semiannually in arrears on March 1 and September 1 of each year, beginning on March 1, 2021. The 2025 Notes mature on September 1, 2025, unless redeemed or repurchased in accordance with their terms prior to such date. The 2025 Notes are recorded at their carrying value and their fair value is used only for disclosure purposes, so an increase or decrease in interest rates would not have any impact to our condensed consolidated financial statements; however, if interest rates were to increase or decrease by 1%, their fair value could decrease by approximately $19.4 million or increase by approximately $11.6 million.

As of September 30, 2020, the fair value of the 2026 Notes was approximately $410.9 million and the carrying value was $395.7 million. As of December 31, 2019, the fair value of the 2026 Notes was approximately $424.1 million and the carrying value was $395.3 million. The 2026 Notes pay interest at a fixed rate of 7.250% per annum payable semiannually in arrears on February 15 and August 15 of each year, beginning on February 15, 2019. The 2026 Notes mature on August 15, 2026, unless redeemed or repurchased in accordance with their terms prior to such date. The 2026 Notes are recorded at their carrying value and their fair value is used only for disclosure purposes, so an increase or decrease in interest rates would not have any impact to our condensed consolidated financial statements; however, if interest rates were to increase or decrease by 1%, their fair value could decrease by approximately $10.4 million or increase by approximately $9.9 million.

Item 4. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures. Our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2020.

Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting (as defined in Rules13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2020 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 or expectation; and any statements of assumptions underlying any of the foregoing or other future events. Forward-looking statements may include, among other, the words "may," "will," "estimate," "intend," "continue," "believe," "expect," "anticipate" or any other similar words.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and to inherent risks and uncertainties, many of which are beyond our control. Additionally, many of these risks and uncertainties are, and may continue to be, amplified by the COVID-19 pandemic. Important factors that could cause our actual results, performance and achievements, or industry results to differ materially from estimates or projections contained in or implied by our forward-looking statements include, among others, the following:

- the potential impacts of the COVID-19 pandemic on us, our Members, and the world economy (including our customers and our supply chain);
- our relationship with, and our ability to influence the actions of, our Members;
- improper action by our employees or Members in violation of applicable law;
- adverse publicity associated with our products or network marketing organization, including our ability to comfort the marketplace and regulators regarding our compliance with applicable laws;
- changing consumer preferences and demands;
- 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 markets in which we operate;
- legal challenges to our network marketing program;
- the Consent Order entered into with the FTC, the effects thereof and any failure to comply therewith;
- risks associated with operating internationally and the effect of economic factors, including foreign exchange, inflation, disruptions or conflicts with our third-party importers, and pricing and currency devaluation risks, especially in countries such as Venezuela;
- uncertainties relating to interpretation and enforcement of legislation in China governing direct selling and anti-pyramiding;
- our inability to obtain or maintain the necessary licenses for our direct selling business in China and elsewhere;
- adverse changes in the Chinese economy;
- our dependence on increased penetration of existing markets;
- any material disruption to our business caused by natural disasters, other catastrophic events, acts of war or terrorism, viral outbreaks and other similar epidemics, or cybersecurity incidents;
- noncompliance by us or our Members with any privacy laws or any security breach by us or a third party involving the misappropriation, loss, or other unauthorized use or disclosure of confidential information;
- contractual limitations on our ability to expand our business;
- our reliance on our information technology infrastructure and outside manufacturers;
- the sufficiency of our trademarks and other intellectual property rights;
- product concentration;

- our reliance upon, or the loss or departure of any member of, our senior management team which could negatively impact our Member relations and operating results;
- U.S. and foreign laws and regulations applicable to our operations;
- uncertainties relating to the United Kingdom's exit from the European Union;
- restrictions imposed by covenants in our existing indebtedness;
- risks related to our convertible notes;
- changes in, and uncertainties relating to, the application of transfer pricing, duties, value added taxes, and other tax laws, treaties, and regulations, or their interpretation;
- taxation relating to our Members;
- product liability claims;
- our incorporation under the laws of the Cayman Islands;
- whether we will purchase any of our shares in the open markets or otherwise, and if so, the prices paid in connection with such acquisitions; and
- share price volatility related to, among other things, speculative trading and certain traders shorting our common shares.

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

Forward-looking statements in this Quarterly Report on Form 10-Q speak only as of the date hereof. 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.

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

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

Item 1A. ***Risk Factors***

Please carefully consider the following discussion of significant factors, events, and uncertainties that make an investment in our securities risky. The events and consequences discussed in these risk factors could, in circumstances we may not be able to accurately predict, recognize, or control, have a material adverse effect on our business, growth, reputation, prospects, financial condition, operating results (including components of our financial results such as sales and profits), cash flows, liquidity, and stock price. These risk factors do not identify all risks that we face; our operations could also be affected by factors, events, or uncertainties that are not presently known to us or that we currently do not consider to present significant risks to our operations.

Additionally, the COVID-19 pandemic has had, and is expected to continue to have, an adverse impact on our business, financial condition, and results of operations, as well as those of many of our Members and their customers, our suppliers, and local, national, and global economies. The COVID-19 pandemic has also amplified many of the other risks discussed below to which we are subject. We are unable to predict the extent to which the pandemic and its related impacts will adversely impact our business, financial condition, and results of operations as well as our stock price. However, given the unpredictable, unprecedented, and fluid nature of the pandemic, it may also materially and adversely affect our business, financial condition, and results of operations in ways that are not currently anticipated by or known to us or that we do not currently consider to present significant risk.

Risks Related to Us and Our Business

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

We distribute our products exclusively to and through independent Members, and we depend upon them directly for substantially all of our sales. Our Members, including our sales leaders, may voluntarily terminate their Member agreements with us at any time. To increase our revenue, we must increase the number of, or the productivity of, our Members. Accordingly, our success depends in significant part upon our ability to recruit, retain and motivate a large base of Members. The loss of a significant number of Members or any legal or regulatory impact to our Members' ability to conduct their business for any reason could negatively impact sales of our products and could impair our ability to attract new Members. In our efforts to attract and retain Members, we compete with other network marketing organizations, including those in the weight management, dietary and nutritional supplement and personal care and cosmetic product industries. Our operating results could be harmed if our existing and new business opportunities and products do not generate sufficient interest to retain existing Members and attract new Members. Additionally, with the outbreak of COVID-19 and the uncertainties surrounding the ultimate spread of the virus, the severity thereof, the duration of the outbreak, the actions taken and may be taken by governments and responses thereto, we cannot reasonably estimate the impact the outbreak may have on our business, our operations, our Members' business or our Members' operations.

We believe the COVID-19 pandemic may have an adverse impact on the pipeline of new Members, which is a factor to our net sales. Additionally, our Member organization has a high turnover rate, which is a common characteristic found in the direct-selling industry, and this turnover rate may increase as a result of the COVID-19 pandemic. See the *COVID-19 Pandemic* and *Sales by Geographic Region* sections in Part I, Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, of this Quarterly Report on Form 10-Q for further discussion of the impacts of the COVID-19 pandemic on our business and results of operations. For additional information regarding sales leader retention rates, see Part I, Item 1, *Business* of the 2019 10-K.

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

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

Extensive federal, state and local laws regulate our business, products, direct sales channel, and multi-level marketing compensation plan. Because we have expanded into foreign countries, our policies and procedures for our independent Members differ due to the different legal requirements of each country in which we do business. While we have implemented Member policies and procedures designed to govern Member conduct and to protect the goodwill associated with Herbalife trademarks and tradenames, it can be difficult to enforce these policies and procedures because of the large number of Members and their independent status. We cannot ensure that all of our Members will comply with applicable legal requirements or our policies and procedures relating to the advertising, labeling, licensing or distribution of our products or the multi-level marketing compensation opportunity. Violations of applicable law or of our policies and procedures by our independent Members could reflect negatively on our products and operations and harm our business and reputation. In addition, it is possible that a court could hold us civilly or criminally accountable based on vicarious liability because of the actions of our independent Members.

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

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

- the safety and quality of our products and ingredients, as well as those of other similar companies;
- our multi-level marketing compensation plan or the attractiveness or viability of the financial opportunities provided therein;
- our Members;
- our network marketing program; and
- the direct-selling business generally.

Adverse publicity concerning any actual or purported failure of our Company or our Members to comply with applicable laws and regulations regarding product claims and advertising, good manufacturing practices, the regulation of our network marketing program, the registration of our products for sale in our target markets or other aspects of our business, whether or not resulting in investigation, enforcement, or legal actions or the imposition of penalties, could have an adverse effect on the goodwill of our Company and could negatively affect our ability to attract, motivate and retain Members, which would negatively impact our ability to generate revenue.

In addition, our Members' and consumers' perception of the safety and quality of our products and ingredients as well as similar products and ingredients distributed by other companies can be significantly influenced by media attention, publicized scientific research or findings, widespread product liability claims and other publicity concerning our products or ingredients or similar products and ingredients distributed by other companies. Adverse publicity, whether or not accurate or resulting from consumers' use or misuse of our products, that associates consumption of our products or ingredients, or any similar products or ingredients, with illness or other adverse effects, questions the benefits of our or similar products or claims that any such products are ineffective, inappropriately labeled or have inaccurate instructions as to their use, could lead to lawsuits or other legal challenges and could negatively impact our reputation, the market demand for our products, or our general business.

From time to time, we receive inquiries from government agencies and third parties requesting information concerning our products. We fully cooperate with these inquiries including, when requested, by the submission of detailed technical documents addressing product composition, manufacturing, process control, quality assurance, and contaminant testing. Further, we periodically respond to requests from regulators for additional information regarding product-specific adverse events. We are confident in the safety of our products when used as directed. However, there can be no assurance that regulators in these or other markets will not take actions that might delay or prevent the introduction of new products, or require the reformulation or the temporary or permanent withdrawal of certain of our existing products from their markets.

Adverse publicity relating to us, our products or our operations, including our network marketing program or the attractiveness or viability of the financial opportunities provided therein, has had, and could again have, a negative effect on our ability to attract, motivate and retain Members, and it could also affect our share price. In the mid-1980s, our products and marketing program became the subject of regulatory scrutiny in the United States, resulting in large part from claims and representations made about our products by our Members, including impermissible therapeutic claims. The resulting adverse publicity caused a rapid, substantial loss of Members in the United States and a corresponding reduction in sales beginning in 1985. In addition, in late 2012, a hedge fund manager publicly raised allegations regarding the legality of our network marketing program and announced that his fund had taken a significant short position regarding our common shares, leading to intense public scrutiny and governmental inquiries, and significant stock price volatility. We expect that negative publicity will, from time to time, continue to negatively impact our business in particular markets and may adversely affect our share price.

Our failure to appropriately respond to changing consumer preferences and demand for new products or product enhancements could significantly harm our Member relationships and our Members' customer relationships and product sales and harm our financial condition and operating results.

Our business is subject to changing consumer trends and preferences, especially with respect to weight management; targeted nutrition; energy, sports, and fitness; and other nutrition products. Our continued success depends in part on our ability to anticipate and respond to these changes, and we may not respond in a timely or commercially appropriate manner to such changes, particularly while the COVID-19 pandemic persists. Furthermore, the nutritional supplement industry is characterized by rapid and frequent changes in demand for products and new product introductions and enhancements. Our failure to accurately predict these trends could negatively impact consumer opinion of our products, which in turn could harm our Member relationships and the Members' relationships with their customers, and cause the loss of sales. The success of our new product offerings and enhancements depends upon a number of factors, including our ability to:

- accurately anticipate customer needs;
- innovate and develop new products or product enhancements that meet these needs;
- successfully commercialize new products or product enhancements in a timely manner;
- price our products competitively;
- manufacture and deliver our products in sufficient volumes and in a timely manner; and
- differentiate our product offerings from those of our competitors.

If we do not introduce new products or make enhancements to meet the changing needs of our Members and their customers in a timely manner, some of our product offerings could be rendered obsolete, which could negatively impact our revenues, financial condition and operating results.

Due to the high level of competition in our industry, we might fail to retain our Members and their customers, which would harm our financial condition and operating results.

The business of marketing weight management and nutrition products is highly competitive and sensitive to the introduction of new products or weight management plans, including various prescription drugs, which may rapidly capture a significant share of the market. These market segments include numerous manufacturers, distributors, marketers, retailers and physicians that actively compete for the business of consumers both in the United States and abroad. In addition, we are subject to increasing competition from sellers that utilize e-commerce. Some of these competitors have longer operating histories, significantly greater financial, technical, product development, marketing and sales resources, more innovative sales channels or platforms, greater name recognition, larger established customer bases and better-developed distribution channels than we do. Our present or future competitors may be able to develop products that are comparable or superior to those we offer, adapt more quickly than we do to new technologies, evolving industry trends and standards or customer requirements, or devote greater resources to the development, promotion and sale of their products than we do. For example, if our competitors develop other diet or weight management products that prove to be more effective than our products, demand for our products could be reduced. Accordingly, competition may intensify and we may not be able to compete effectively in our markets.

We are also subject to significant competition for the recruitment of Members from other network marketing organizations, including those that market weight management products, dietary and nutritional supplements, personal care products, and other types of products, as well as those organizations in which former employees or Members of the Company are involved. We compete globally for potential customers and Members with regard to weight management; nutritional supplement; energy, sports, and fitness; and personal care products. Our competitors include both direct selling companies such as NuSkin Enterprises, Nature's Sunshine, Alticor/Amway, Melaleuca, Avon Products, Oriflame, Omnilife, Tupperware and Mary Kay, as well as retail establishments such as WW (formerly Weight Watchers), Jenny Craig, General Nutrition Centers, Walmart, and retail pharmacies.

In addition, because the industry in which we operate is not particularly capital intensive or otherwise subject to high barriers to entry, it is relatively easy for new competitors to emerge that will compete with us for our Members and their customers. Furthermore, the fact that our Members may easily enter and exit our network marketing program contributes to the level of competition that we face. For example, a Member can enter or exit our network marketing system with relative ease at any time without facing a significant investment or loss of capital because (1) we have a low upfront financial cost to become a Herbalife Member, (2) we do not require any specific amount of time to work as a Member, (3) we do not charge Members for any training that we might require, (4) we do not prohibit a new Member from working with another company, and (5) in substantially all jurisdictions, we maintain a buyback program pursuant to which we will repurchase products sold to a Member who has decided to leave the business. Our ability to remain competitive therefore depends, in significant part, on our success in recruiting and retaining Members through an attractive compensation plan, the maintenance of an attractive product portfolio and other incentives. We cannot ensure that our programs for recruitment and retention of Members will be successful and if they are not, our financial condition and operating results would be harmed.

We are affected by extensive laws, governmental regulations, administrative determinations, court decisions and similar constraints both domestically and abroad, and our failure or our Members' failure to comply with these constraints could lead to the imposition of significant penalties or claims, which could harm our financial condition and operating results.

In both domestic and foreign markets, the formulation, manufacturing, packaging, labeling, distribution, advertising, importation, exportation, licensing, sale and storage of our products are affected by extensive laws, governmental regulations, administrative determinations, court decisions and other similar constraints. Such laws, regulations and other constraints may exist at the federal, state or local levels in the United States and at all levels of government in foreign jurisdictions. There can be no assurance that we or our Members are in compliance with all of these regulations. Our failure or our Members' failure to comply with these regulations or new regulations could disrupt our Members' sale of our products, or lead to the imposition of significant penalties or claims and could adversely impact our business, financial condition, and operating results. In addition, the adoption of new regulations or changes in the interpretations of existing regulations, such as those relating to genetically modified foods, may result in significant compliance costs or discontinuation of product sales and may negatively impact the marketing of our products, resulting in significant loss of sales revenues that may harm our financial condition and operating results.

The Consent Order we entered into with the FTC in July 2016 prohibits us from making, or allowing our Members to make, any misrepresentation regarding certain lifestyles or amount or level of income, including full-time or part-time income, that a participant can reasonably expect to earn in our network marketing program. The Consent Order also prohibits us and other persons who act in active concert with us from misrepresenting that participation in the network marketing program will result in a lavish lifestyle and from using images or descriptions to represent or imply that participation in the program is likely to result in a lavish lifestyle. In addition, the Consent Order prohibits specified misrepresentations in connection with marketing the program, including misrepresentations regarding any fact material to participation such as the cost to participate or the amount of income likely to be earned. The Consent Order also requires us to clearly and conspicuously disclose information related to our refund and buyback policy on certain company materials and websites.

On January 4, 2018, the FTC released its Business Guidance Concerning Multi-Level Marketing, or MLM Guidance. Although the MLM Guidance is not binding, the MLM Guidance explains, among other things, how the FTC distinguishes between MLMs with lawful and unlawful compensation structures, how MLMs with unfair or deceptive compensation structures harm consumers, how the FTC treats personal or internal consumption by participants in determining if an MLM's compensation structure is unfair or deceptive, and how an MLM should approach representations to current and prospective participants. Although we believe our current business practices, which include new and enhanced procedures implemented in connection with the Consent Order, are in compliance with the MLM Guidance, there can be no assurances that the FTC or other third parties would agree.

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

Governmental regulations in countries where we plan to commence or expand operations may prevent or delay entry into those markets. In addition, our ability to sustain satisfactory levels of sales in our markets is dependent in significant part on our ability to introduce new products into such markets. However, governmental regulations in our markets, both domestic and international, can delay or prevent the introduction, or require the reformulation or withdrawal, of certain of our products. Any such regulatory action, whether or not it results in a final determination adverse to us, could create negative publicity, with detrimental effects on the motivation and recruitment of Members and, consequently, on sales. For example, the Chinese government carried out a 100-day review, or the Review, which began on January 8, 2019 to investigate the unlawful promotion and sales of health products. The Review was accompanied with negative media attention, and although the review ended on or about April 18, 2019, we believe the Review impacted our business in 2019 as Members significantly reduced activities and sales meeting during and following the Review. The ultimate effects of the Review, coupled with its negative publicity, resulted in a material adverse effect on our business in China in 2019. Additionally, government, agency, or other regulatory recommendations, guidelines, or mandates in response to certain unexpected events, such as viral outbreaks, could negatively impact sales. For example, the COVID-19 pandemic has resulted, and may continue to result, in government recommendations, guidelines, or mandates in regions we operate in to address public health concerns which could include, but is not limited to, restrictions on movement, public gatherings, and travel and restrictions on, or in certain cases outright prohibition of, companies' ability to conduct normal business operations.

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

As previously disclosed, the Securities and Exchange Commission, or SEC, had requested from the Company documents and other information relating to the Company's disclosures regarding its marketing plan in China. On September 27, 2019, the Company and the SEC entered into a settlement resolving this matter. Pursuant to the administrative order settling this matter, under which the Company neither admitted nor denied the SEC's allegations (except as to the SEC's jurisdiction), the Company agreed to cease and desist from committing or causing any violations and any future violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act and Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder, and pay a $20 million civil penalty. The $20 million settlement amount, which had previously been recorded as an accrued liability within the Company's condensed consolidated balance sheet as of June 30, 2019, was paid in October 2019.

Our network marketing program could be found to be not in compliance with current or newly adopted laws or regulations in one or more markets, which could impact our business in these markets or require us to alter compensation practices under our network marketing program, and harm our financial condition and operating results.

Our network marketing program is subject to a number of federal and state regulations administered by the FTC and various federal and state agencies in the United States as well as regulations on direct selling in foreign markets administered by foreign agencies. For example, in certain foreign countries, compensation to distributors in the direct-selling industry may be limited to a certain percentage of sales. We are subject to the risk that, in one or more markets, our network marketing program could be found by federal, state, or foreign regulators not to be in compliance with applicable law or regulations, which may impact our ability to recruit and maintain Members or to obtain or maintain a license, permit, or similar certification. We may also be required to alter compensation practices under our network marketing program in order to comply with applicable federal, state, or foreign law or regulations. As previously disclosed, we entered into the Consent Order with the FTC to settle the FTC's multi-year investigation into our business for compliance with these regulations. Another example is the 1986 permanent injunction entered in California in proceedings initiated by the California Attorney General. There can be no assurances other federal, state attorneys general or foreign regulators will not take similar actions.

Regulations applicable to network marketing organizations generally are directed at preventing fraudulent or deceptive schemes, sometimes referred to as "pyramid" or "chain sales" schemes, by ensuring that product sales ultimately are made to consumers and that advancement within an organization is based on genuine demands and sales of the organization's products rather than investments in the organization or other non-retail sales-related criteria. The regulatory requirements concerning network marketing programs do not include "bright line" rules and are inherently fact-based and, thus, we are subject to the risk that these laws or regulations or the enforcement or interpretation of these laws and regulations by governmental agencies or courts can change. While we believe we are in compliance with these regulations, including those enforced by the Consent Order and the permanent injunction in California, there is no assurance any federal, state or foreign courts or agencies or the independent compliance auditor under the Consent Order would agree, including a federal court or the FTC in respect of the Consent Order or a court or the California Attorney General in respect to the permanent injunction.

The ambiguity surrounding these laws can also affect the public perception of the Company. For example, in the past, allegations regarding the legality of our network marketing program have been raised, which led to intense public scrutiny and significant stock price volatility. The failure of our network marketing program to comply with current or newly adopted laws or regulations, the Consent Order or the California injunction or any allegations or charges to that effect brought by federal, state, or foreign regulators could negatively impact our business in a particular market or in general and may adversely affect our share price.

We are also subject to the risk of private party challenges to the legality of our network marketing program, whether as a result of the Consent Order or otherwise. Some network marketing programs of other companies have been successfully challenged in the past, while other challenges to network marketing programs of other companies have been defeated. Adverse judicial determinations with respect to our network marketing program, or in proceedings not involving us directly but which challenge the legality of network marketing systems, in any other market in which we operate, could negatively impact our business.

We are subject to the Consent Order with the FTC, the effects of which, or any failure to comply therewith, could harm our financial condition and operating results.

As previously disclosed, on July 15, 2016, we reached a consensual resolution with the FTC regarding its multi-year investigation of our business resulting in the entry into a Stipulation to Entry of Order for Permanent Injunction and Monetary Judgment in the U.S. District Court for the Central District of California. The Consent Order became effective on July 25, 2016 upon final approval by the Court. As part of the Consent Order, we agreed to make a payment of $200 million. Additionally, we implemented and continue to enhance certain existing procedures in the United States. We also agreed to be subject to certain audits by an independent compliance auditor, or the ICA, for a period of seven years; requirements regarding compliance certification and record creation and maintenance; and a prohibition on misrepresentations and misleading claims regarding, among other things, income and lavish lifestyles. The FTC and ICA will also have the right to inspect Company records and request additional compliance reports for purposes of conducting audits pursuant to the Consent Order. In September 2016, we and the FTC mutually selected Affiliated Monitors, Inc. to serve as the ICA. The terms of the Consent Order are described in greater detail in our Current Report on Form 8-K filed on July 15, 2016.

The Consent Order includes a number of restrictions and requirements and therefore creates compliance risks, and while we believe we are compliant with the Consent Order, there is no guarantee that we are compliant or in the future will continue to be compliant with the Consent Order. We do not believe the Consent Order changes our business model as a direct selling company. However, compliance with the Consent Order required us to implement enhanced procedures regarding, among other things, tracking retail sales and internal consumption by distributors. We have instituted controls and procedures and developed technology solutions that we believe address these Consent Order requirements, including tools and software used by distributors to, among other things, document their sales and more efficiently track and manage their customer base. However, there can be no assurances that some or all of these controls and procedures and technology solutions will continue to operate as expected. Any failure of these systems to operate as designed could cause us to fail to maintain the records required under, or otherwise violate terms of, the Consent Order. Compliance with the Consent Order will require the cooperation of Members and, while we have updated our training programs and policies to address the Consent Order and expect our Members to cooperate, we do not have the same level of influence or control over our Members as we could were they our own employees. Failure by our Members to comply with the relevant aspects of the Consent Order could be a violation of the Consent Order and impact our ability to comply. While we believe we are compliant with the Consent Order, there can be no assurances that the FTC or ICA would agree now or will agree in the future. Our board of directors established the Implementation Oversight Committee, a committee which met regularly with management to oversee our compliance with the terms of the Consent Order. More recently, our Audit Committee assumed oversight of continued compliance with the Consent Order. In the event we are found to be in violation of the Consent Order, the FTC could, among other things, take corrective actions such as initiating enforcement actions, seeking an injunction or other restrictive orders and imposing civil monetary penalties against us and our officers and directors.

The Consent Order has impacted, and may continue to impact, our business operations, including our net sales and profitability. For example, the Consent Order imposes certain requirements regarding the verification and receipting of sales and there can be no assurances that these or other requirements of the Consent Order, our compliance therewith and the business procedures implemented as a result thereof, will not impact sales, whether as a result of undocumented sales activity or otherwise. The Consent Order also imposes restrictions on distributors' ability to open Nutrition Clubs in the United States. Additionally, the procedures described above, and any other actions taken in respect of continuing compliance efforts with the Consent Order, may continue to be costly. These extensive costs or any amounts in excess of our cost estimates could have a material adverse effect on our financial condition and results of operations. Our Members also disagreed with our decision to enter into the Consent Order, whether because they disagreed with certain terms thereof, they believed it would negatively impact their personal business or they would not have settled the investigation on any terms. The Consent Order also provides that if the total eligible U.S. sales on which compensation may be paid falls below 80% of the Company's total U.S. sales for a given year, compensation payable to distributors on eligible U.S. sales will be capped at 41.75% of the Net Rewardable Sales amount as defined in the Consent Order. While we believe we will continue to achieve the required 80% threshold necessary to pay full distributor compensation, this result is subject to the review and audit of the FTC and ICA and they may not agree with our conclusions. Because our business is dependent on our Members, our business operations and net sales could be adversely affected if U.S. distributor compensation is restricted or if any meaningful number of Members are dissatisfied, choose to reduce activity levels or leave our business altogether. Member dissatisfaction may also negatively impact the willingness of new Members to join Herbalife as a distributor. Further, management and the board of directors may be required to focus a substantial amount of time on compliance activities, which could divert their attention from running and growing our business. We may also be required to suspend or defer many or all of our current or anticipated business development, capital deployment and other projects unrelated to compliance with the Consent Order to allow resources to be focused on our compliance efforts, which could cause us to fall short of our guidance or analyst or investor expectations. In addition, while we believe the Consent Order has set new standards within the industry, our competitors are not required to comply with the Consent Order and may not be subject to similar actions, which could limit our ability to effectively compete for Members, customers and ultimately net sales.

The Consent Order also creates additional third-party risks. Although the Consent Order resolved the FTC's multi-year investigation into the Company, it does not prevent other third-parties from bringing actions against us, whether in the form of other state, federal or foreign regulatory investigations or proceedings, or private litigation, any of which could lead to, among other things, monetary settlements, fines, penalties or injunctions. Although we neither admitted nor denied the allegations in the FTC's complaint in agreeing to the terms of the Consent Order (except as to the Court having jurisdiction over the matter), third-parties may use specific statements or other matters addressed in the Consent Order as the basis for their action. The Consent Order or any subsequent legal or regulatory claim may also lead to negative publicity, whether because some view it as a condemnation of the Company or our direct selling business model or because other third parties use it as justification to make unfounded and baseless assertions against us, our business model or our Members. An increase in the number, severity or scope of third-party claims, actions or public assertions may result in substantial costs and harm to our reputation. The Consent Order may also impact third parties' willingness to work with us as a company.

We believe we have complied with the Consent Order and we will continue to do so. However, the impact of the Consent Order on our business, including the effectiveness of the controls, procedures and technology solutions implemented to comply therewith, and on our business and our member base, could be significant. If our business is adversely impacted, it is uncertain as to whether, or how quickly, we would be able to rebuild, irrespective of market conditions. Our financial condition and results of operations could be harmed if we fail to continue to comply with the Consent Order, if costs related to compliance exceed our estimates, if ithas a negative impact on net sales, or if it leads to further legal, regulatory, or compliance claims, proceedings, or investigations or litigation.

Our business could be materially and adversely affected by natural disasters, other catastrophic events, acts of war or terrorism, cybersecurity incidents, pandemics, and/or other acts by third parties.

We depend on the ability of our business to run smoothly, including the ability of Members to engage in their day-to-day selling and business building activities and the ability of our inventories and products to move reasonably unimpeded around the world. Any material disruption caused by natural disasters, including, but not limited to, fires, floods, hurricanes, volcanoes, and earthquakes, could adversely affect our ability to conduct business. For example, our operations in Mexico were impacted by flooding in September 2017, when the severe weather conditions damaged or otherwise destroyed inventory stored at one of our facilities. Furthermore, our headquarters and one of our distribution facilities and manufacturing facilities are located in Southern California, an area susceptible to earthquakes. Although the events in Mexico did not have a material negative impact to our Mexico operations, we cannot make assurances that any future natural disasters will not adversely affect our ability to operate our business and our financial conditions and results of our operations.

Furthermore, material disruption caused by power loss or shortages; environmental disasters; telecommunications or business information systems failures; acts of war or terrorism; viral outbreaks and other similar epidemics; cybersecurity incidents, including malicious software attacks intended to render our internal operating systems, third-party providers, or data unavailable, such as ransomware, phishing attacks; and/or other actions by third parties and other similar disruptions could adversely affect our ability to conduct business. Additionally, intentional or inadvertent exposure of content perceived to be sensitive data may adversely affect our business. If such disruptions result in significant cancellations of Member orders, contribute to a general decrease in local, regional or global economic activity, directly impact our marketing, manufacturing, financial or logistics functions, or impair our ability to meet Member demands, our operating results and financial condition could be materially adversely affected. In March 2020, the World Health Organization declared the rapidly growing COVID-19 outbreak a global pandemic.

Our business and operations may also be materially and adversely affected by pandemics and other regional spread of viruses and other infections. For example, the COVID-19 pandemic has significantly impacted health and economic conditions globally, and has adversely affected our business, particularly in the South and Central America region. Additionally, government, agency or other regulatory recommendations, guidelines or mandates in regions we operate in to address public health concerns, including restrictions on movement, public gatherings and travel and restrictions on, or in certain cases outright prohibitions of, companies' ability to conduct normal business operations, have and may continue to adversely affect our business. Although we have been classified as an essential business in most jurisdictions where we operate, there is no guarantee that this classification will not change in the future or that we will not voluntarily limit or cease operations in one or more markets if we believe doing so is necessary or otherwise in our best interests. We may also be forced to or voluntarily elect to close or shut down operations for other reasons such as the health and safety of our employees or because of disruptions in the continued operation of our supply chain and sources of supply. It is possible closure of manufacturing facilities could also impact our distribution centers and our ability to deliver product to our Members. In general, our inventory of products continues to be adequate to meet demand, but we do expect our supply chain and our ability to source and/or manufacture products will be negatively impacted if the pandemic continues for a prolonged period of time or was to worsen. The pandemic has also had an adverse impact on Members' product access in some markets, which may or in some cases will continue until conditions improve. Our Members' businesses are also subject to many of the same risks and uncertainties related to the COVID-19 pandemic, as well as other pandemic-related risks and uncertainties that may not directly impact our operations, any of which could adversely affect demand for our products. For example, limitations on public gatherings has restricted our Members' ability to hold meetings with their customers and attract new customers. Significant limitations on cash transactions could also have an adverse effect on sales in certain markets.

The COVID-19 pandemic is also adversely affecting the economies and financial markets of many countries, causing a significant deceleration of economic activity. This slowdown has reduced production, decreased demand for a broad variety of goods and services, diminished trade levels and led to widespread corporate downsizing, causing a sharp increase in unemployment. We have also seen significant disruption of and extreme volatility in the global capital markets, which could increase the cost of, or entirely restrict access to, capital. Considerable uncertainty still surrounds the outbreak, its potential effects and the extent and effectiveness of responses and effective vaccines or treatments may not be discovered soon enough to protect against a worsening of the outbreak. If the outbreak is not contained, these adverse impacts could worsen, impacting all segments of the global economy, and result in a significant recession or worse. However, the unprecedented and sweeping nature of the COVID-19 pandemic makes it extremely difficult to predict how our business and operations will be affected in the longer run. Accordingly, our ability to conduct our business in the manner previously done or planned for the future could be materially and adversely affected, and any of the foregoing risks, or other cascading effects of the COVID-19 pandemic that are not currently foreseeable, could materially and adversely affect our business, financial condition, and results of operations. See the *COVID-19 Pandemic* and *Sales by Geographic Region* sections in Part I, Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, of this Quarterly Report on Form 10-Q for further discussion of the impacts of the COVID-19 pandemic on our business and results of operations.

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

Approximately 79% of our net sales for the year ended December 31, 2019 were generated outside the United States, exposing our business to risks associated with foreign operations. For example, a foreign government may impose trade or foreign exchange restrictions or increased tariffs, or otherwise limit or restrict our ability to import products into a country, any of which could negatively impact our operations. We are also exposed to risks associated with foreign currency fluctuations. For instance, purchases from suppliers are generally made in U.S. dollars while sales to Members are generally made in local currencies. Accordingly, strengthening of the U.S. dollar versus a foreign currency could have a negative impact on us. Although we engage in transactions to protect against risks associated with foreign currency fluctuations, we cannot be certain any hedging activity will effectively reduce our exchange rate exposure. Additionally, we may be negatively impacted by conflicts with or disruptions caused or faced by our third-party importers, as well as conflicts between such importers and local governments or regulating agencies. Our operations in some markets also may be adversely affected by political, economic and social instability in foreign countries, as well as due to economic tensions between governments, the implementation of new or increased tariffs and other changes in international trade policies, or any changes we make to our business in response to the foregoing. For example, tariffs enacted by the United States or other foreign governments, such as China or Mexico, that apply to our products or the ingredients we use in our products, along with any price increases we implemented or may implement in the future, may have an adverse impact on future sales if such tariffs remain in place, particularly if the Company deems it necessary to increase product prices. Our operations, both domestically and internationally, could also be affected by laws and regulations related to immigration. For example, current and future tightening of U.S. immigration controls may adversely affect the residence status of non-U.S. employees in our U.S. locations or our ability to hire new non-U.S. employees in such locations and may adversely affect the ability of non-U.S. Members from entering the United States. The outbreak of a viral or other infection in one or more regions in which we operate could also adversely affect our business, such as the COVID-19 pandemic, which has adversely affected our operations across all six of our regions. As we continue to focus on expanding our existing international operations, these and other risks associated with international operations may increase, which could harm our financial condition and operating results.

Another risk associated with our international operations is the possibility that a foreign government may impose foreign currency remittance restrictions. Due to the possibility of government restrictions on transfers of cash out of the country and control of exchange rates, we may not be able to immediately repatriate cash at the official exchange rate. If this should occur, or if the official exchange rate devalues, it may have a material adverse effect on our business, assets, financial condition, liquidity, results of operations or cash flows. For example, currency restrictions enacted by the Venezuelan government continue to be restrictive and have impacted the ability of our subsidiary in Venezuela, or Herbalife Venezuela, to obtain U.S. dollars in exchange for Venezuelan Bolivars at the official foreign exchange rate. These currency restrictions and current pricing restrictions continue to limit Herbalife Venezuela's ability to import U.S. dollar denominated raw materials and finished goods which in addition to the Venezuelan Bolivar devaluations has significantly negatively impacted our Venezuelan operations. If we are unsuccessful in implementing any financially and economically viable strategies, including local manufacturing, we may be required to fundamentally change our business model or suspend or cease operations in Venezuela. Also, if the foreign currency and pricing or other restrictions in Venezuela intensify or do not improve and, as a result, impact our ability to control our Venezuelan operations, we may be required to deconsolidate Herbalife Venezuela for U.S. GAAP purposes and would be subject to the risk of further impairments.

Our business in China is subject to general, as well as industry-specific, economic, political and legal developments and risks in China and requires that we utilize a modified version of the business model we use elsewhere in the world.

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

China has published regulations governing direct selling and prohibiting pyramid promotional schemes, and a number of administrative methods and proclamations have been issued. These regulations require us to use a modified version of the business model we use in other markets. To allow us to operate under these regulations, we have created and introduced a model specifically for China based on our understanding as to how Chinese regulators are interpreting and enforcing these regulations, our interpretation of applicable regulations and our understanding of the practices of other international direct selling companies in China.

In China, we have sales representatives who are permitted by the terms of our direct selling licenses to sell certain product categories away from fixed retail locations in the provinces of Jiangsu, Guangdong, Shandong, Zhejiang, Guizhou, Beijing, Fujian, Sichuan, Hubei, Shanxi, Shanghai, Jiangxi, Liaoning, Jilin, Henan, Chongqing, Hebei, Shaanxi, Tianjin, Heilongjiang, Hunan, Guangxi, Hainan, Anhui, Yunnan, Gansu, Ningxia, and Inner Mongolia. In Xinjiang province, where the Company does not have a direct selling license, it has a Company-operated retail store that can directly serve customers and preferred customers. With online orderings throughout China, there has been a declining demand in Company-operated retail stores.

We also engage independent service providers who meet both the requirements to operate their own business under Chinese law as well as the conditions set forth by Herbalife to provide marketing, sales support and other services to Herbalife customers. In China, our independent service providers are compensated for marketing, sales support, and other services instead of the Member allowances and royalty overrides utilized in our global Marketing Plan. The service hours and related fees eligible to be earned by the independent service providers are based on a number of factors, including the sales generated through them and through others to whom they may provide marketing, sales support and other services, the quality of their service, and other factors. Total compensation available to our independent service providers in China can generally be comparable to the total compensation available to other sales leaders globally. The Company does this by performing an analysis in our worldwide system to estimate the potential compensation available to the service providers, which can generally be comparable to that of sales leaders in other countries. After adjusting such amounts for other factors and dividing by each service provider's hourly rate, we then notify each independent service provider the maximum hours of work for which they are eligible to be compensated in the given month. In order for a service provider to be paid, the Company requires each service provider to invoice the Company for their services.

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

Additionally, although certain regulations have been published with respect to obtaining and operating under such approvals and otherwise conducting business in China, other regulations are pending and there continues to be uncertainty regarding the interpretation and enforcement of Chinese regulations. The regulatory environment in China continues to evolve, and officials in the Chinese government, including at the local andnational level, exercise broad discretion in deciding how to interpret, apply, and enforce regulations as they deem appropriate. Regulators in China may change how they interpret and enforce the direct selling regulations, both current interpretations and enforcement thereof or future iterations. Regulators in China may also modify the regulations. We cannot be certain that our business model will continue to be deemed by national or local Chinese regulatory authorities to be compliant with any such regulations. The Chinese government rigorously monitors the direct selling market in China, and in the past has taken serious action against companies that the government believed were engaging in activities that at the time they regarded to be in violation of applicable law, including shutting down their businesses and imposing substantial fines. For example, China's State Administration for Market Regulation, along with twelve other Chinese government ministries and agencies, carried out a 100-day review which began on January 8, 2019 to investigate the unlawful promotion and sales of health products. Although the review ended on or about April 18, 2019, there is no guarantee the government will not revisit its focus on health products, expand its investigation to cover direct-selling business models, or otherwise launch into a new investigation or multiple investigations that may result in a material adverse effect to our business in China. Furthermore, there can be no guarantee that the Chinese government's current or future interpretation and application of the existing and new regulations will not negatively impact our business in China, create industry reputational risk, result in regulatory investigations or lead to fines or penalties against us or our Chinese Members. If our business practices are deemed to be in violation of applicable regulations as they are or may be interpreted or enforced, or modified by regulations, in particular with respect to the factors used in determining the services a service provider is eligible to perform and service fees they are eligible to earn and to receive, then we could be sanctioned and/or required to change our business model, either of which could have a significant adverse impact on our business in China.

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

China has also enacted labor contract and social insurance legislation. We have reviewed our employment contracts and contractual relations with employees in China and have made such other changes as we believe to be necessary or appropriate to bring these contracts and contractual relations into compliance with these laws and their implementing regulations. In addition, we continue to monitor the situation to determine how these laws and regulations will be implemented in practice. There is no guarantee that these laws will not adversely impact us, cause us to change our operating plan for China or otherwise have an adverse impact on our business operations in China.

We currently have a social e-commerce business in China, which enables our sales representatives and independent service providers in China to promote the Company's products and provide services to our customers in China through virtual online stores. On January 1, 2019, the E-Commerce Law of the People's Republic of China was established and regulates social e-commerce businesses. The regulatory environment in China continues to evolve, and government officials in China, including at the local and national level, exercise broad discretion in deciding how to interpret, apply, and enforce regulations as they deem appropriate, including to promote social order. Regulators in China may change how they interpret and enforce the new regulation, both current interpretations and enforcement thereof or future iterations, and may also modify such regulations, any of which could have an adverse impact on our business and net sales in China.

We may continue to experience growth in China, and there can be no assurances that we will be able to successfully manage expansion of manufacturing operations and a growing and dynamic sales force. If we are unable to effectively scale our supply chain and manufacturing infrastructure to support future growth in China, our operations in China may be adversely impacted.

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

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

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

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

In addition, this agreement with our Members provides that we will not make any material changes adverse to our Members to certain aspects of our Marketing Plan that may negatively impact our Members without their approval as described in further detail below. For example, our agreement with our Members provides that we may increase, but not decrease, the discount percentages available to our Members for the purchase of products or the applicable royalty override percentages, and production and other bonus percentages available to our Members at various qualification levels within our Member hierarchy. We may not modify the eligibility or qualification criteria for these discounts, royalty overrides and production and other bonuses unless we do so in a manner to make eligibility and/or qualification easier than under the applicable criteria in effect as of the date of the agreement. Our agreement with our Members further provides that we may not vary the criteria for qualification for each Member tier within our Member hierarchy, unless we do so in such a way so as to make qualification easier.

Although we reserved the right to make these changes to our Marketing Plan without the consent of our Members in the event that changes are required by applicable law or are necessary in our reasonable business judgment to account for specific local market or currency conditions to achieve a reasonable profit on operations, we may initiate other changes that are adverse to our Members based on an assessment of what will be best for the Company and its Members. Under the agreement with our Members, these other adverse changes would then be submitted to our Member leadership for a vote. The vote would require the approval of at least 51% of our Members then at the level of President's Team earning at the production bonus level of 6% who vote, provided that at least 50% of those Members entitled to vote do in fact vote. While we believe this agreement has strengthened our relationship with our existing Members, improved our ability to recruit new Members and generally increased the long-term stability of our business, there can be no assurance that our agreement with our Members will not restrict our ability to adapt our Marketing Plan to the evolving requirements of the markets in which we operate. As a result, our growth may be limited.

We depend on the integrity and reliability of our information technology infrastructure, and any related inadequacies may result in a material adverse effect on our business, financial condition, and results of operations

Our ability to provide products and services to our Members depends on the performance and availability of our core transactional systems. We operate our global back office transactional systems on an Oracle Enterprise Suite which is supported by a robust hardware and network infrastructure. The Oracle Enterprise Suite is a scalable and stable solution that provides a solid foundation upon which we are building our next generation Member facing Internet toolset. While we continue to invest in our information technology infrastructure, there can be no assurance that there will not be any significant interruptions to such systems or that the systems will be adequate to meet all of our future business needs. This infrastructure, as well as that of our Members and the other third parties with which we interact, may be damaged, disrupted, or otherwise breached for a number of reasons, including power outages, computer and telecommunication failures, computer viruses, malware or other destructive software, internal design, manual or usage errors, cyberattacks, terrorism, workplace violence or wrongdoing, catastrophic events, natural disasters, and severe weather conditions. Our role as a credit card merchant may also put us at a greater risk of being targeted by hackers and requires us to comply with certain regulatory requirements. For example, in Europe, the Payment Services Directive 2 (PSD2), includes strong customer authentication (SCA) requirements for online transactions that could impose technology challenges and could negatively impact our sales in that region. In addition, numerous and evolving cybersecurity threats, including advanced and persistent cyberattacks, phishing, and social engineering schemes could compromise the confidentiality, availability, and integrity of data in our systems as well as those of the third parties with which we interact. We have been the target of, and may be the target of in the future, malicious cyberattack attempts, although to date none of these attacks have had a meaningful adverse impact on our business. Additionally, in response to the COVID-19 pandemic, many of our employees have been encouraged to work remotely, which may increase our exposure to significant systems interruptions, potential or attempted cybersecurity attacks, and compromise the integrity and reliability of our information technology infrastructure and our internal controls.

The most important aspect of our information technology infrastructure is the system through which we record and track Member sales, Volume Points, royalty overrides, bonuses and other incentives. We have encountered, and may encounter in the future, errors in our software or our enterprise network, or inadequacies in the software and services supplied by our vendors, although to date none of these errors or inadequacies has had a meaningful adverse impact on our business. Any such errors, inadequacies, or other system disruptions that we may encounter in the future may result in substantial interruptions to our services and may damage our relationships with, or cause us to lose, our Members if the errors or inadequacies impair our ability to track sales and pay royalty overrides, bonuses and other incentives, which would harm our financial condition and operating results. Any such errors could create compliance risks under the Consent Order or any applicable laws or regulations. Such errors may be expensive or difficult to correct in a timely manner, and we may have little or no control over whether any inadequacies in software or services supplied to us by third parties are corrected, if at all.

Our ability to effectively manage our network of Members, and to ship products, and track royalty and bonus payments on a timely basis, depends significantly on our information systems. The failure of our information systems to operate effectively, or a breach in security of these systems, could adversely impact the promptness and accuracy of our product distribution and transaction processing. We could be required to make significant additional expenditures to remediate any such failure, problem or breach.

Anyone who is able to circumvent our security measures could misappropriate confidential or proprietary information, including that of third parties such as our Members, cause interruption in our operations, damage our computers or otherwise damage our reputation and business. We may need to expend significant resources to protect against security breaches or to address problems caused by such breaches. Any actual security breaches could damage our reputation and result in a violation of applicable privacy and other laws, legal and financial exposure, including litigation and other potential liability, and a loss of confidence in our security measures, which could have an adverse effect on our results of operations and our reputation as a brand, business partner or employer. In addition, employee error or malfeasance or other errors in the storage, use or transmission of any such information could result in a disclosure to third parties. If this should occur, we could incur significant expenses addressing such problems. Since we collect and store Member and vendor information, including credit card information, these risks are heightened.

In addition, the use and handling of this information is regulated by evolving and increasingly demanding laws and regulations, such as the European Union General Data Protection Regulation, or the GDPR, which took effect in May 2018 and the California Consumer Privacy Act, or CCPA, which became effective on January 1, 2020. The CCPA imposes new responsibilities on us for the handling, disclosure and deletion of personal information for consumers who reside in California. The CCPA permits California to assess potentially significant fines for violating CCPA and creates a right for individuals to bring class action suits seeking damages for violations. These laws and regulations are increasing in complexity and number, change frequently and increasingly conflict among the various countries in which we operate, which has resulted in greater compliance risk and cost for us. If we fail to comply with these laws or regulations, we could be subject to significant litigation, monetary damages, regulatory enforcement actions or fines in one or more jurisdictions, which could have a material adverse effect on our results of operations.

We rely on independent third parties for the manufacture and supply of certain of our products. If these third parties fail to reliably supply products to us at required levels of quality which are manufactured in compliance with applicable laws, including the dietary supplement and OTC drug cGMPs, then our financial condition and operating results could be materially and adversely impacted.

A significant portion of our products are manufactured by third-party contract manufacturers. We cannot assure you that our outside contract manufacturers will continue to reliably supply products to us at the levels of quality, or the quantities, we require, and in compliance with applicable laws, including under the FDA's cGMP regulations. For example, as a result of the pandemic, we have experienced some delays in receiving certain ingredients and packaging components at our manufacturing and contract manufacturing locations globally. While these delays have not materially impacted our supply levels, there is no guarantee that there will be sufficient global supply for us to manufacture our products at sufficient levels to meet demand or at the pre-pandemic levels. We are actively monitoring the pandemic and its potential impact on our supply chain and operations. Given the uncertainties surrounding COVID-19, including the severity of the disease, the duration and extent of the outbreak, and actions taken or to be taken by governmental authorities and the resulting impacts from those responses to our third-party contract manufacturers, we cannot guarantee that we will have sufficient and reliable supply products from our third party vendors. Additionally, while we are not presently aware of any current liquidity issues with our suppliers, we cannot assure you that they will not experience financial hardship.

For the portion of our product supply that we manufacture, we believe we have significantly lowered the product supply risk, as the risk factors of financial health, liquidity, capacity expansion, reliability and product quality are almost entirely all within our control. However, increases to the volume of products that we manufacture in our Winston-Salem, Lake Forest, Nanjing, Suzhou, and Changsha facilities raise the concentration risk that a significant interruption of production at any of our facilities due to, for example, natural disasters including earthquakes, hurricanes and floods, technical issues or work stoppages could impede our ability to conduct business. While our business continuity programs contemplate and plan for such events, if we were to experience such an event resulting in the temporary, partial or complete shutdown of one of these manufacturing facilities, we could be required to transfer manufacturing to the surviving facility and/or third-party contract manufacturers if permissible. When permissible, converting or transferring manufacturing to a third-party contract manufacturer could be expensive, time-consuming, result in delays in our production or shipping, reduce our net sales, damage our relationship with Members and damage our reputation in the marketplace, any of which could harm our business, results of operations and financial condition.

Our product supply contracts generally have a three-year term. Except for force majeure events such as natural disasters and other acts of God, and non-performance by Herbalife, our manufacturers generally cannot unilaterally terminate these contracts. These contracts can generally be extended by us at the end of the relevant time period and we have exercised this right in the past. Globally, we have over 50 product suppliers, with Fine Foods (Italy) being a major supplier for meal replacements, protein powders and nutritional supplements. Additionally, we use contract manufacturers in the United States, India, Brazil, South Korea, Taiwan, Germany, and the Netherlands to support our global business. If any of our contract manufacturers were to become unable or unwilling to continue to provide us with products in required volumes and at suitable quality levels, we would be required to identify and obtain acceptable replacement manufacturing sources. There is no assurance that we would be able to obtain alternative manufacturing sources on a timely basis. An extended interruption in the supply of products, including any interruptions that may arise as a result of the COVID-19 outbreak, would result in the loss of sales. In addition, any actual or perceived degradation of product quality as a result of reliance on contract manufacturers may have an adverse effect on sales or result in increased product returns and buybacks.

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

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

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

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

If our Members fail to comply with labeling laws, then our financial condition and operating results would be harmed.

Although the physical labeling of our products is not within the control of our Members, our Members must nevertheless advertise our products in compliance with the extensive regulations that exist in certain jurisdictions, such as the United States, which considers product advertising to be labeling for regulatory purposes.

Our products are sold principally as foods, dietary supplements and cosmetics and are subject to rigorous FDA and related legal regimens limiting the types of therapeutic claims that can be made for our products. The treatment or cure of disease, for example, is not a permitted claim for these products. While we train our Members and attempt to monitor our Members' marketing materials, we cannot ensure that all such materials comply with applicable regulations, including bans on therapeutic claims. If our Members fail to comply with these restrictions, then we and our Members could be subjected to claims, financial penalties, mandatory product recalls or relabeling requirements, which could harm our financial condition and operating results. Although we expect that our responsibility for the actions of our Members in such an instance would be dependent on a determination that we either controlled or condoned a noncompliant advertising practice, there can be no assurance that we could not be held vicariously liable for the actions of our Members.

If our intellectual property is not adequate to provide us with a competitive advantage or to prevent competitors from replicating our products, or if we infringe the intellectual property rights of others, then our financial condition and operating results would be harmed.

Our future success and ability to compete depend upon our ability to timely produce innovative products and product enhancements that motivate our Members and customers, which we attempt to protect under a combination of copyright, trademark and trade secret laws, confidentiality procedures and contractual provisions. However, our products are generally not patented domestically or abroad, and the legal protections afforded by common law and contractual proprietary rights in our products provide only limited protection and may be time-consuming and expensive to enforce or maintain. Further, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our proprietary rights or from independently developing non-infringing products that are competitive with, equivalent to or superior to our products.

Monitoring infringement or misappropriation of intellectual property can be difficult and expensive, and we may not be able to detect every infringement or misappropriation of our proprietary rights. Even if we do detect infringement or misappropriation of our proprietary rights, litigation to enforce these rights could cause us to divert financial and other resources away from our business operations. Further, the laws of some foreign countries do not protect our proprietary rights to the same extent as do the laws of the United States.

Additionally, third parties may claim that products or marks that we have independently developed or which bear certain of our trademarks infringe upon their intellectual property rights and there can be no assurance that one or more of our products or marks will not be found to infringe upon third-party intellectual property rights in the future.

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

For 2019, 2018, and 2017, our Formula 1 Healthy Meal, which is our best-selling product line, approximated 30% of our net sales. If consumer demand for this product decreases significantly or we cease offering this product without a suitable replacement, then our financial condition and operating results would be harmed.

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

We depend on the continued services of our senior management team as it works closely with the senior Member leadership to create an environment of inspiration, motivation and entrepreneurial business success. Additionally, although we have entered into employment agreements with certain members of our senior management team, and do not believe that any of them are planning to leave or retire in the near term, we cannot assure you that all members of our senior management team will remain with us. The loss or departure of any member of our senior management team could adversely impact our Member relations and operating results. If any of these executives do not remain with us, our business could suffer. Also, the loss of key personnel, including our regional and country managers, could negatively impact our ability to implement our business strategy, and our continued success will also be dependent on our ability to retain existing, and attract additional, qualified personnel to meet our needs. To the extent we are required to replace any members of the management team, any significant leadership change or senior management transition involves inherent risk and any failure to ensure a smooth transition could hinder our strategic planning, execution and future performance. While we strive to mitigate any negative impact associated with changes to our senior management team, there may be uncertainty among investors, employees, Members and others concerning our future direction and performance. Any disruption in our operations or uncertainty could have a material adverse effect on our business, financial condition or results of operations We currently do not maintain "key person" life insurance with respect to our senior management team.

Our international operations are subject to the laws and regulations of the United States and many foreign countries, including the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and other similar laws in a number of countries.

We are subject to a variety of laws regarding our international operations, including the U.S. Foreign Corrupt Practices Act, or the FCPA, the U.K. Bribery Act of 2010, or the UK Bribery Act, and regulations issued by U.S. Customs and Border Protection, U.S. Treasury Department's Office of Foreign Assets Control, or OFAC, and various foreign governmental agencies. The FCPA, the UK Bribery Act and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments for the purpose of obtaining or retaining business as well as require companies to maintain accurate books and records. In recent years there has been a substantial increase in anti-bribery law enforcement activity with more frequent and aggressive investigations and enforcement proceedings by both the Department of Justice, or DOJ, and the SEC, increased enforcement activity by non-U.S. regulators and increases in criminal and civil proceedings brought against companies and individuals. Our policies mandate compliance with these anti-bribery laws, including the requirements to maintain accurate information and internal controls. We operate in many parts of the world that have experienced governmental corruption to some degree and in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. Notwithstanding our compliance programs, which include annual training and certification requirements, there is no assurance that our internal control policies and procedures will protect us from acts committed by our employees or agents. Additionally, we cannot predict the nature, scope or effect of future regulatory requirements to which our international operations might be subject or the manner in which existing or new laws might be administered or interpreted. Alleged or actual violations of any such existing or future laws (either due to our own acts or our inadvertence, or due to the acts or inadvertence of others) may result in criminal or civil sanctions, including contract cancellations or debarment, and loss of reputation, which could have a material adverse effect on our business, financial condition, and results of operations.

As previously disclosed, the SEC and the DOJ conducted investigations into the Company's compliance with the FCPA in China. Also, as previously disclosed, the Company conducted its own review and implemented remedial and improvement measures based upon this review, including, but not limited to, replacement of certain employees and enhancements of Company policies and procedures in China. The Company cooperated with the SEC and the DOJ and has now reached separate resolutions with each of them.

On August 28, 2020, the SEC accepted the Offer of Settlement and issued an administrative order finding that the Company violated the books and records and internal controls provisions of the FCPA. In addition, on August 28, 2020, the Company and the DOJ separately entered into a court-approved deferred prosecution agreement, or DPA, under which the DOJ deferred criminal prosecution of the Company for a period of three years related to a conspiracy to violate the books and records provisions of the FCPA. Among other things, the Company is required to undertake compliance self-reporting obligations for the three-year term of the respective agreements with the SEC and the DOJ. If the Company remains in compliance with the DPA during its three-year term, the deferred charge against the Company will be dismissed with prejudice. In addition, the Company agreed to pay the SEC and the DOJ aggregate penalties, disgorgement and prejudgment interest of approximately $123 million. The $123 million settlement amount, which had previously been recognized in other current liabilities within the Company's condensed consolidated balance sheet as of June 30, 2020, was paid in September 2020. If the Company fails to comply with the DPA, such failure or any resulting further government action could result in a material and adverse impact to the Company's results of operations and financial condition.

The United Kingdom's exit from the European Union could adversely impact us.

On June 23, 2016, in a referendum vote commonly referred to as "Brexit," a majority of British voters voted to exit the European Union and, in March 2017, the British government delivered formal notice of the U.K.'s intention to leave the European Union. On January 31, 2020, the U.K. formally exited the European Union. The British government is currently in negotiations with the European Union to determine the terms of the U.K.'s exit. The withdrawal could potentially disrupt the free movement of goods, services and people between the U.K. and the European Union, undermine bilateral cooperation in key geographic areas and significantly disrupt trade between the U.K. and the European Union or other nations as the U.K. pursues independent trade relations. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which European Union laws to replace or replicate. The effects of Brexit will depend on any agreements the U.K. makes to retain access to European Union or other markets either during a transitional period or more permanently. It is unclear what long-term economic, financial, trade and legal implications the withdrawal of the U.K. from the European Union would have and how such withdrawal would affect our business globally and in the region. In addition, Brexit may lead other European Union member countries to consider referendums regarding their European Union membership. Any of these events, along with any political, economic and regulatory changes that may occur, could cause political and economic uncertainty in Europe and internationally and harm our business and financial results.

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

Our credit facility and the indentures governing the senior notes due September 1, 2025, or the 2025 Notes, and the senior notes due August 15, 2026, or the 2026 Notes, have operating covenants that restrict our and our subsidiaries' ability to, among other things:

- pay dividends, redeem share capital or capital stock and make other restricted payments and investments;
- incur or guarantee additional debt;
- impose dividend or other distribution restrictions on our subsidiaries; and
- create liens on our and our subsidiaries' assets.

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

The required payments on our indebtedness or other agreements may be impacted by expected reforms related to LIBOR. The variable interest rates payable under our credit facility are linked to LIBOR as the benchmark for establishing such rates. Recent national, international and other regulatory guidance and reform proposals regarding LIBOR are expected to ultimately cause LIBOR to be discontinued or become unavailable as a benchmark rate. Although our credit facility includes mechanics to facilitate the adoption by us and our lenders of an alternative benchmark rate for use in place of LIBOR, no assurance can be made that such alternative rate will perform in a manner similar to LIBOR and may result in interest rates that are higher or lower than those that would have resulted had LIBOR remained in effect.

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

In March 2018, we issued convertible senior notes due on March 15, 2024, or the 2024 Convertible Notes, in the aggregate principal amount of $550 million. On the maturity date, we will have to pay the holders of the 2024 Convertible Notes the full aggregate principal amount of the 2024 Convertible Notes then outstanding.

Holders of our 2024 Convertible Notes may convert their notes at their option under the following circumstances: (i) during any calendar quarter commencing after the calendar quarter ending June 30, 2018, if the last reported sale price of our common shares for at least 20 trading days (whether or not consecutive) in a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter exceeds 130% of the conversion price for the 2024 Convertible Notes on each applicable trading day; (ii) during the five business-day period immediately after any five consecutive trading day period, or the measurement period, in which the trading price per $1,000 principal amount of 2024 Convertible Notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of our common shares and the conversion rate for the 2024 Convertible Notes for each such day; (iii) if the Company calls the 2024 Convertible Notes for redemption; or (iv) upon the occurrence of specified corporate events. On and after December 15, 2023, holders may convert their2024 Convertible Notes at any time, regardless of the foregoing circumstances.

The 2024 Convertible Notes may be settled in cash, common shares, or a combination of cash and common shares, at our option. If one or more holders elect to convert their 2024 Convertible Notes when conversion is permitted, we could elect to make cash payments to satisfy our conversion obligations with respect to the 2024 Convertible Notes, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their 2024 Convertible Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of our 2024 Convertible Notes as a current rather than long-term liability, which could result in a material reduction of our net working capital. Payment of cash upon conversion of the 2024 Convertible Notes, or any adverse accounting treatment of the 2024 Convertible Notes, may adversely affect our financial condition and operating results, each of which could in turn adversely impact the amount or timing of future potential share repurchases or the payment of dividends to our shareholders.

The conversion of any of the convertible notes into common shares could have a dilutive effect that could cause our share price to go down.

The 2024 Convertible Notes, until December 14, 2023, are convertible into common shares only if specified conditions are met and thereafter convertible at any time, at the option of the holder. We have reserved common shares for issuance upon conversion of the 2024 Convertible Notes. Upon conversion of the 2024 Convertible Notes, we may deliver cash, common shares or a combination of cash and common shares, at our option, to satisfy our conversion obligations. We did not enter into any capped call transactions or similar arrangements in connection with the issuance of the 2024 Convertible Notes.

If any or all of the 2024 Convertible Notes are converted into common shares, our existing shareholders will experience immediate dilution of voting rights and our common share price may decline. Furthermore, the perception that such dilution could occur may cause the market price of our common shares to decline. The conversion rate for the 2024 Convertible Notes as of March 23, 2018, the date of issuance thereof, was 8.0028 common shares per $1,000 principal amount, or a conversion price of approximately $124.96 per common share. The conversion rate for the 2024 Convertible Notes was adjusted to 16.0056 common shares per $1,000 principal amount, or a conversion price of approximately $62.48 per common share, due to our two-for-one stock split effected in May 2018. The conversion rate for the 2024 Convertible Notes was further adjusted to 16.0352 common shares per $1,000 principal amount, or a conversion price of approximately $62.36 per common share, due to the Company's modified Dutch auction tender offer completed in May 2018. Because the conversion rate of the 2024 Convertible Notes adjusts upward upon the occurrence of certain events, our existing shareholders may experience more dilution if any or all of the 2024 Convertible Notes are converted into common shares after the adjusted conversion rate became effective.

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

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

The imposition of new taxes, even pass-through taxes such as VAT, could have an impact on our perceived product pricing and will likely require that we increase prices in certain jurisdictions, and therefore could have a potential negative impact on our business and results of operations. Ultimate resolution of these matters may take several years, and the outcome is uncertain. If the United States Internal Revenue Service or the taxing authorities of any other jurisdiction were to successfully challenge our transfer pricing practices or our positions regarding the payment of income taxes, customs duties, value added taxes, withholding taxes, sales and use, and other taxes, we could become subject to higher taxes, we may determine it is necessary to raise prices in certain jurisdictions accordingly, and our revenue and earnings and our results of operations could be adversely affected.

See Note 5, *Contingencies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Qfor further information on contingencies relating to VAT and other related matters.

U.S. Tax Reform may adversely impact certain U.S. shareholders of the Company.

A non-U.S. corporation will be classified as a controlled foreign corporation, or CFC, for any particular taxable year, if U.S. persons (including individuals and entities) who own (directly, indirectly through foreign entities, or constructively pursuant to the application of certain constructive ownership rules) 10% or more of the voting power or value of the shares, or 10% U.S. Shareholders, own, in the aggregate, more than 50% of the total combined voting power or value of the shares. In determining whether a shareholder is treated as a 10% U.S. Shareholder, the voting power of the shares, special voting rights to appoint directors, whether by law, agreement, or other arrangement, may also be taken into account. In addition, certain constructive ownership rules apply, which attribute share ownership among certain family members and certain entities and their owners. Such constructive ownership rules may also attribute share ownership to persons (including individuals and entities) that are entitled to acquire shares pursuant to an option, such as the holders of our 2024 Convertible Notes. Generally, 10% U.S. Shareholders of a CFC are required to include currently in gross income their respective shares of (i) the CFC's "Subpart F income" (e.g. items of passive income and certain income resulting from inter-company sales and services), (ii) the CFC's earnings (that have not been subject to tax under the Subpart F rules) to the extent the CFC holds certain U.S. property, and (iii) the CFC's global intangible low-taxed income pursuant to the Tax Cuts and Jobs Act of 2017, or U.S. Tax Reform. Such 10% U.S. Shareholders are subject to current U.S. federal income tax with respect to the foregoing income items, even if the CFC has not made an actual distribution to such shareholders.

As a result of certain changes to the CFC constructive ownership rules introduced by U.S. Tax Reform, one or more of our non-U.S. corporate subsidiaries that were not previously classified as CFCs are now classified as CFCs, including on a retroactive basis. For 10% U.S. Shareholders, this may result in adverse tax consequences, including the current inclusion of earnings of certain of our non-U.S. corporate subsidiaries (regardless of whether we make any distributions in respect of such earnings).

While we do not believe that Herbalife Nutrition Ltd. is classified as a CFC, such entity and one or more of our non-U.S. corporate subsidiaries not already classified as CFCs could become classified as CFCs either (i) as a result of additional changes to tax laws, including future pronouncements or other guidance from the Internal Revenue Service or (ii) on the basis of an increase in the percentage ownership of our stock by shareholders who presently hold, or in the future may hold, 10% or more of our shares, as a result of future share acquisitions or after taking into account the impact of any share repurchases we may undertake.

Further, under U.S. Tax Reform, a one-time tax is imposed upon our 10% U.S. Shareholders on certain historic accumulated, undistributed foreign earnings of CFCs and other "specified foreign corporations," which earnings have not been previously subject to tax at the 10% U.S. Shareholder level. A specified foreign corporation is any CFC or other non-U.S. corporation that has at least one U.S. corporate shareholder that is a 10% U.S. Shareholder. Herbalife Nutrition Ltd. believes that it may be classified as a specified foreign corporation and that one or more of our non-U.S. corporate subsidiaries may be classified as specified foreign corporations.

Shareholders who own, or contemplate owning, 10% or more of our shares (taking into account the impact of any share repurchases we may undertake pursuant to share repurchase programs as well as the impact of the constructive ownership rules) are urged to consult their tax advisors.

No assurances can be given that future legislative, administrative, or judicial developments will not result in an increase in the amount of U.S. taxes payable by an investor in our shares. If any such developments occur, such developments could have a material and adverse effect on an investment in our shares.

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

A change in applicable tax laws, treaties or regulations or their interpretation could result in a higher effective tax rate on our worldwide earnings and such change could be significant to our financial results. The Organisation for Economic Co-operation and Development has, within recent years, released guidance covering various international tax standards as part of its "base erosion and profit shifting" or "BEPS" initiative. The anticipated implementation of BEPS by non-U.S. jurisdictions in which we operate could result in changes to tax laws and regulations, including with respect to transfer pricing that could materially increase our effective tax rate.

No assurances can be given that future legislative, administrative, or judicial developments will not result in an increase in the amount of taxes payable by us or our subsidiaries. If any such developments occur, our business, financial condition, and results of operations could be materially and adversely affected.

Our Members and we may be held responsible for additional compensation, certain taxes, or assessments relating to the activities of our Members, which could harm our financial condition and operating results.

Our Members are subject to taxation, and in some instances, legislation or governmental agencies impose an obligation on us to collect taxes, such as value added taxes and social contributions, and to maintain appropriate records. In addition, we are subject to the risk in some jurisdictions of being responsible for social security, withholding or other taxes with respect to payments to our Members. In the event that local laws and regulations or the interpretation of local laws and regulations change to require us to treat our Members as employees, or that our Members are deemed by local regulatory authorities in one or more of the jurisdictions in which we operate to be our employees rather than independent contractors under existing laws and interpretations, we may be held responsible for additional compensation, social security contributions, withholding and related taxes in those jurisdictions, and workers' compensation insurance, plus any related assessments and penalties, which could harm our financial condition and operating results. Our Members could face similar risks with respect to other Members in their sales organizations who may claim they are employees of that Member rather than independent contractors or independent business owners, which could impact their sales operations. For example, California recently passed legislation taking effect January 1, 2020 which seeks to expand the classification of employees. Other states may propose similar legislation or assert interpretations of existing rules and regulations that seek to expand the classification of employees. Although California provides an exemption for direct sellers, there can be no assurance that other states will also provide such an exemption nor can there be any assurance that judicial or regulatory authorities will not assert interpretations that would mandate that we change classification. See Note 5, *Contingencies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a more specific discussion of contingencies related to the activities of our Members.

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

Our ingestible products include vitamins, minerals and botanicals and other ingredients and are classified as foods or dietary supplements and are not subject to pre-market regulatory approval in the United States. Our products could contain contaminated substances, and some of our products contain some ingredients that do not have long histories of human consumption. We rely upon published and unpublished safety information including clinical studies on ingredients used in our products and conduct limited clinical studies on some key products but not all products. Previously unknown adverse reactions resulting from human consumption of these ingredients could occur. As a marketer of dietary and nutritional supplements and other products that are ingested by consumers or applied to their bodies, we have been, and may again be, subjected to various product liability claims, including that the products contain contaminants, the products include inadequate instructions as to their uses, or the products include inadequate warnings concerning side effects and interactions with other substances. It is possible that widespread product liability claims could increase our costs, and adversely affect our revenues and operating income. Moreover, liability claims arising from a serious adverse event may increase our costs through higher insurance premiums and deductibles, and may make it more difficult to secure adequate insurance coverage in the future. In addition, our product liability insurance may fail to cover future product liability claims, thereby requiring us to pay substantial monetary damages and adversely affecting our business. Finally, given the level of self-insured retentions that we have accepted under our current product liability insurance policies, which is $12.5 million, in certain cases we may be subject to the full amount of liability associated with any injuries, which could be substantial.

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

Our corporate affairs are governed by our amended and restated memorandum and articles of association, by the Companies Law (2020 Revision), or the Companies Law, and the common law of the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as under statutes or judicial precedent in existence in jurisdictions in the United States. Therefore, shareholders may have more difficulty in protecting their interests in the face of actions by our management or board of directors than would shareholders of a corporation incorporated in a jurisdiction in the United States due to the comparatively less developed nature of Cayman Islands law in this area.

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

A shareholder can bring a suit personally where its individual rights have been, or are about to be, infringed. Our Cayman Islands counsel, Maples and Calder, is not aware of any reported class action having been brought in a Cayman Islands court. Derivative actions have been brought in the Cayman Islands courts, and the Cayman Islands courts have confirmed the availability of such actions. In most cases, we would be the proper plaintiff where an action is brought to redress any loss or damage suffered by us, or based on a breach of duty owed to us, and a claim against, for example, our officers or directors usually may not be brought by a shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority and be applied by a court in the Cayman Islands, exceptions to the foregoing principle may apply and a shareholder may be permitted to bring a claim derivatively on a company's behalf, where:

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

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

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

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

The Cayman Islands have provisions under the Companies Law to facilitate mergers and consolidations between Cayman Islands companies and non-Cayman Islands companies (provided that is facilitated by the laws of such other jurisdiction). These provisions, contained within Part XVI of the Companies Law, are broadly similar to the merger provisions provided for under Delaware Law.

There are however a number of important differences that could impede a takeover. First, the threshold for approval of the merger plan by shareholders is higher. The threshold is a special resolution of the shareholders (being 66 ⅔% of those present in person or by proxy and voting) together with such other authorization, if any, as may be specified in the articles of association.

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

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

The procedural and legal requirements necessary to consummate these transactions are more rigorous and take longer to complete than the procedures typically required to consummate a merger in the United States. Under Cayman Islands law and practice, a scheme of arrangement in relation to a solvent Cayman Islands company must be approved at a shareholders' meeting by a majority in number of each class of the company's shareholders who are present and voting (either in person or by proxy) at such meeting. The shares voted in favor of the scheme of arrangement must also represent at least 75% of the value of each relevant class of the company's shareholders present and voting at the meeting. The convening of these meetings and the terms of the arrangement must also be sanctioned by the Grand Court of the Cayman Islands. Although there is no requirement to seek the consent of the creditors of the parties involved in the scheme of arrangement, the Grand Court typically seeks to ensure that the creditors have consented to the transfer of their liabilities to the surviving entity or that the scheme of arrangement does not otherwise materially adversely affect creditors' interests. Furthermore, the court will only approve a scheme of arrangement if it is satisfied that:

- we are not proposing to act illegally or beyond the scope of our Company's corporate authority and the statutory provisions as to majority vote have been complied with;
- the shareholders who voted at the meeting in question fairly represent the relevant class of shareholders to which they belong;
- the scheme of arrangement is such as a businessman would reasonably approve; and
- the scheme of arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law or that would amount to a "fraud on the minority".

If the scheme of arrangement is approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of U.S. corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

In addition, if an offer by a third party to purchase shares in us has been approved by the holders of at least 90% of our issued and outstanding shares (not including such a third party) pursuant to an offer within a four-month period of making such an offer, the purchaser may, during the two months following expiration of the four-month period, require the holders of the remaining shares to transfer their shares on the same terms on which the purchaser acquired the first 90% of our issued and outstanding shares. An objection can be made to the Grand Court of the Cayman Islands, but this is unlikely to succeed unless there is evidence of fraud, bad faith, collusion or inequitable treatment of the shareholders.

There is uncertainty as to shareholders' ability to enforce certain foreign civil liabilities in the Cayman Islands.

We are incorporated as an exempted company with limited liability under the laws of the Cayman Islands. A material portion of our assets are located outside of the United States. As a result, it may be difficult for our shareholders to enforce judgments against us or judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal securities laws of the United States or any state of the United States.

We have been advised by our Cayman Islands counsel, Maples and Calder, that although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, the courts of the Cayman Islands will — based on the principle that a judgment by a competent foreign court imposes upon the judgment debtor an obligation to pay the sum for which judgment has been given — recognize and enforce a foreign judgment of a court of competent jurisdiction if such judgment is final, for a liquidated sum, not in respect of taxes or a fine or penalty, is not inconsistent with a Cayman Islands judgment in respect of the same matters, impeachable on the grounds of fraud, and was not obtained in a manner, and is not of a kind, the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands. There is doubt, however, as to whether the Grand Court of the Cayman Islands will (1) recognize or enforce judgments of U.S. courts predicated upon the civil liability provisions of the federal securities laws of the United States or any state of the United States, or (2) in original actions brought in the Cayman Islands, impose liabilities predicated upon the civil liability provisions of the federal securities laws of the United States or any state of the United States, on the grounds that such provisions are penal in nature.

The Grand Court of the Cayman Islands may stay proceedings if concurrent proceedings are being brought elsewhere.

Mail addressed to the Company and received at its registered office will be forwarded unopened to the forwarding address supplied by the Company. None of Herbalife, its directors, officers, advisors or service providers (including the organization that provides registered office services in the Cayman Islands) will bear any responsibility for any delay caused in mail reaching the forwarding address.

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

Short sellers and others who raise allegations regarding the legality of our business activities, some of whom are positioned to profit if our stock declines, can negatively affect our stock price. For example, in late 2012, a hedge fund manager publicly raised allegations regarding the legality of our network marketing program, our product safety, our accounting practices, and other matters, and announced that his fund had taken a significant short position regarding our common shares, leading to intense public scrutiny and significant stock price volatility. Following this public announcement in December 2012, our stock price dropped significantly. Additionally, from time to time the Company is subject to governmental and regulatory inquiries and inquiries from legislators that may adversely affect our stock price. Significant volatility of our stock price may cause the value of a shareholder's investment to decline rapidly.

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

(a) None.

(b) None.

(c) On October 30, 2018, our board of directors authorized a new five-year $1.5 billion share repurchase program that will expire on October 30, 2023, which replaced our prior share repurchase authorization that was set to expire on February 21, 2020 and had approximately $113.3 million of remaining authorized capacity when it was replaced. This share repurchase program allows us, which includes an indirect wholly-owned subsidiary of Herbalife Nutrition Ltd., to repurchase our common shares at such times and prices as determined by management, as market conditions warrant, and to the extent Herbalife Nutrition Ltd.'s distributable reserves are available under Cayman Islands law. The 2018 Credit Facility permits us to repurchase our common shares as long as no default or event of default exists and other conditions, such as specified consolidated leverage ratios, are met. As of September 30, 2020, the remaining authorized capacity under our $1.5 billion share repurchase program was $682.9 million. The following is a summary of our repurchases of common shares during the three months ended September 30, 2020, including the approximately 15.4 million common shares we repurchased in the August 2020 modified Dutch auction tender offer at an aggregate cost of approximately $750.0 million, or $48.75 per share. For further information on our share repurchases, including the August 2020 tender offer, see Note 10, *Shareholders' Deficit*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
July 1 — July 31	—	$ —	—	$ 1,482,932,978
August 1 — August 31	15,702,498	$ 48.76	15,702,498	$ 717,251,637
September 1 — September 30	693,217	$ 49.61	693,217	$ 682,860,678
	16,395,715	$ 48.80	16,395,715	$ 682,860,678

Item 3. ***Defaults Upon Senior Securities***

None.

Item 4. ***Mine Safety Disclosures***

Not applicable.

Item 5. ***Other Information***

(a) None.

(b) None.

Item 6. ***Exhibits***

(a) Exhibit Index:

EXHIBIT INDEX

Exhibit Number	Description	Reference
3.1	Amended and Restated Memorandum and Articles of Association of Herbalife Nutrition Ltd.	(v)
4.1	Form of Share Certificate	(c)
4.2	Indenture between Herbalife Ltd. (n/k/a Herbalife Nutrition Ltd.) and MUFG Union Bank, N.A., as trustee, dated as of March 23, 2018, governing the 2.625% Convertible Senior Notes due 2024	(l)
4.3	Form of Global Note for 2.625% Convertible Senior Notes due 2024 (included as Exhibit A to Exhibit 4.2 hereto)	(l)
4.4	Indenture among HLF Financing SaRL, LLC, Herbalife International, Inc., the guarantors party thereto and MUFG Union Bank, N.A., as trustee, dated as of August 16, 2018, governing the 7.250% Senior Notes due 2026	(o)
4.5	Form of Global Note for 7.250% Senior Notes due 2026 (included as Exhibit A to Exhibit 4.4 hereto)	(o)
4.6	Indenture among Herbalife Nutrition Ltd., HLF Financing, Inc., the guarantors party thereto and MUFG Union Bank, N.A., as trustee, dated as of May 29, 2020, governing the 7.875% Senior Notes due 2025	(w)
4.7	Form of Global Note for 7.875% Senior Notes due 2025 (included as Exhibit A to Exhibit 4.6 hereto)	(w)
10.1#	Form of Second Amendment and Restatement of the Herbalife International of America, Inc. Senior Executive Deferred Compensation Plan	(t)
10.2#	Form of Second Amendment and Restatement of the Herbalife International of America, Inc. Management Deferred Compensation Plan	(t)
10.3#	Notice to Distributors, dated as of July 18, 2002, regarding Amendment to Agreements of Distributorship, between Herbalife International, Inc. and each Herbalife Distributor	(a)
10.4#	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)
10.5	Form of Indemnification Agreement between Herbalife Ltd. and each of its directors and certain of its officers	(b)
10.6#	Amended and Restated Herbalife Ltd. 2005 Stock Incentive Plan	(d)
10.7#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement	(i)
10.8#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement	(i)
10.9#	Herbalife Ltd. Employee Stock Purchase Plan	(m)
10.10#	Amended and Restated Herbalife Ltd. Non-Management Directors Compensation Plan	(e)
10.11#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Non-Employee Directors Stock Appreciation Right Award Agreement	(e)
10.12#	Amended and Restated Severance Agreement, dated as of February 23, 2011, by and between Desmond Walsh and Herbalife International of America, Inc.	(f)
10.13#	Form of Amendment to Amended and Restated Herbalife Ltd. 2005 Stock Incentive Plan	(f)
10.14#	Form of Herbalife Ltd. 2005 Stock Incentive Plan Performance Condition Stock Appreciation Right Award Agreement	(p)
10.15#	Amended and Restated Herbalife Ltd. 2014 Stock Incentive Plan	(f)
10.16#	Herbalife Ltd. Executive Incentive Plan	(f)
10.17	Stipulation to Entry of Order for Permanent Injunction and Monetary Judgment	(g)
10.18	Second Amended and Restated Support Agreement, dated July 15, 2016, by and among Herbalife Ltd., Carl C. Icahn, Icahn Associates Corp., Icahn Partners Master Fund LP, Icahn Offshore LP, Icahn Partners LP, Icahn Onshore LP, Beckton Corp., Hopper Investments LLC, Barberry Corp., High River Limited Partnership, Icahn Capital LP, IPH GP LLC, Icahn Enterprises Holdings LP, and Icahn Enterprises GP Inc.	(g)
10.19#	Amended and Restated Employment Agreement by and between Richard P. Goudis and Herbalife International of America, Inc., dated as of November 1, 2016	(h)
10.20#	Letter Agreement by and between Michael O. Johnson and Herbalife International of America, Inc., dated November 1, 2016	(h)
10.21#	Herbalife International of America, Inc. Executive Officer Severance Plan	(h)
10.22#	Stock Unit Award Agreement (Performance-Vesting) by and between Herbalife Ltd. and Richard P. Goudis dated as of June 6, 2017	(i)
10.23	Agreement, dated August 21, 2017, by and among Herbalife Ltd. and Carl C. Icahn and his controlled affiliates party thereto	(j)

Exhibit Number	Description	Reference
10.24#	Employment Agreement dated as of March 27, 2008 between Michael O. Johnson and Herbalife International of America, Inc.	(m)
10.25#	Form of Herbalife Ltd. 2014 Stock Incentive Plan Stock Unit Award Agreement	(k)
10.26#	Form of Herbalife Ltd. 2014 Stock Incentive Plan Stock Appreciation Right Award Agreement	(k)
10.27#	Form of Herbalife Ltd. 2014 Stock Incentive Plan Lead Director Stock Unit Award Agreement	(k)
10.28#	Form of Herbalife Ltd. 2014 Stock Incentive Plan Independent Directors Stock Unit Award Agreement	(k)
10.29#	Form of Herbalife Ltd. 2014 Stock Incentive Plan Performance Based Stock Appreciation Right Award Agreement	(k)
10.30#	Form of Herbalife Ltd. 2014 Stock Incentive Plan Restricted Cash Unit Award Agreement	(k)
10.31	Amendment dated May 29, 2018 to the Letter Agreement by and between Michael O. Johnson and Herbalife International of America, Inc.	(n)
10.32	Credit Agreement, dated as of August 16, 2018, among HLF Financing SaRL, LLC, Herbalife Nutrition Ltd., Herbalife International Luxembourg S.à R.L., Herbalife International, Inc., the several banks and other financial institutions or entities from time to time party thereto as lenders, Jefferies Finance LLC, as administrative agent for the Term B Lenders and collateral agent, and Coöperatieve Rabobank U.A., New York Branch, as an Issuing Bank and as administrative agent for the Term A Lenders and the Revolving Credit Lenders	(o)
10.33#	Separation Agreement and General Release dated as of January 8, 2019, by and between Richard P. Goudis and Herbalife International of America, Inc.	(p)
10.34#	Letter Agreement, dated July 11, 2019, by and between Michael O. Johnson and Herbalife International of America, Inc.	(q)
10.35#	Employment Agreement, dated as of October 23, 2019, by and among Dr. John Agwunobi, Herbalife International of America, Inc., and Herbalife Nutrition Ltd.	(r)
10.36#	Employment Agreement, dated as of October 23, 2019, by and among John G. DeSimone, Herbalife International of America, Inc., and Herbalife Nutrition Ltd.	(r)
10.37	First Amendment to Credit Agreement, dated as of December 12, 2019, by and among HLF Financing SaRL, LLC, Herbalife Nutrition Ltd., Herbalife International Luxembourg S.à R.L., Herbalife International, Inc., the Company's subsidiaries party thereto as subsidiary guarantors, the several banks and other financial institutions or entities party thereto as lenders and Jefferies Finance LLC, as administrative agent for the Term Loan B Lenders and collateral agent	(s)
10.38	Second Amendment to Credit Agreement, dated as of March 19, 2020, by and among HLF Financing SaRL, LLC, Herbalife Nutrition Ltd., Herbalife International Luxembourg S.à R.L., Herbalife International, Inc., the Company's subsidiaries party thereto as subsidiary guarantors, the several banks and other financial institutions or entities party thereto as lenders and Coöperatieve Rabobank U.A., New York Branch as administrative agent for the Term Loan A Lenders and Revolving Credit Lenders	(u)
10.39	Deferred Prosecution Agreement between Herbalife Nutrition Ltd. and the United States Department of Justice	*
10.40	Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order	*
31.1	Rule 13a-14(a) Certification of Chief Executive Officer	*
31.2	Rule 13a-14(a) Certification of Chief Financial Officer	*
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer	**
101.INS	Inline XBRL Instance Document – The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	*
101.SCH	Inline XBRL Taxonomy Extension Schema Document	*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	*
104	Cover Page Interactive Data File – The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 is formatted in Inline XBRL (included as Exhibit 101)	*

* Filed herewith.
** Furnished 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 FormS-1 (File No. 333-119485) and is incorporated herein by reference.
(b) Previously filed on December 2, 2004 as an Exhibit to Amendment No. 4 to the Company's registration statement on Form S-1 (File No. 333-119485) and is incorporated herein by reference.
(c) Previously filed on December 14, 2004 as an Exhibit to Amendment No. 5 to the Company's registration statement on Form S-1 (File No. 333-119485) and is incorporated herein by reference.
(d) Previously filed on May 5, 2015 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 and is incorporated herein by reference.
(e) Previously filed on August 5, 2015 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 and is incorporated herein by reference.
(f) Previously filed on May 5, 2016 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 and is incorporated herein by reference.
(g) Previously filed on July 15, 2016 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
(h) Previously filed on February 23, 2017 as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2016 and is incorporated herein by reference.
(i) Previously filed on August 1, 2017 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 and is incorporated herein by reference.
(j) Previously filed on August 21, 2017 as an Exhibit to the Company's Tender Offer Statement on Schedule TO and is incorporated herein by reference.
(k) Previously filed on February 22, 2018 as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2017 and is incorporated herein by reference.
(l) Previously filed on March 29, 2018 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
(m) Previously filed on May 3, 2018 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 and is incorporated herein by reference.
(n) Previously filed on August 1, 2018 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 and is incorporated herein by reference.
(o) Previously filed on August 22, 2018 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
(p) Previously filed on February 19, 2019 as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2018 and is incorporated herein by reference.
(q) Previously filed on August 1, 2019 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 and is incorporated herein by reference.
(r) Previously filed on October 29, 2019 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 and is incorporated herein by reference.
(s) Previously filed on December 12, 2019 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
(t) Previously filed on February 18, 2020 as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2019.
(u) Previously filed on March 19, 2020 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
(v) Previously filed on May 7, 2020 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 and is incorporated herein by reference.
(w) Previously filed on May 29, 2020 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.

SIGNATURES

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

HERBALIFE NUTRITION LTD.

By: /s/ BOSCO CHIU
Bosco Chiu
Executive Vice President, Chief Financial Officer

Dated: November 5, 2020

Exhibit 10.39

U.S. Department of Justice

United States Attorney
Southern District of New York

The Silvio J. Mollo Building
One Saint Andrew's Plaza
New York, New York 10007

August 24, 2020

BY E-MAIL
Patrick F. Stokes, Esq.
Barry Goldsmith, Esq.
M. Jonathan Seibald, Esq.
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Washington, DC 20005

Re: United States v. Herbalife Nutrition Ltd., 20 Cr. ___ (GHW)
Deferred Prosecution Agreement

Defendant Herbalife Nutrition Ltd. (the "Company"), pursuant to authority granted by the Company's Board of Directors reflected in Attachment B, and the United States Department of Justice, Criminal Division, Fraud Section (the "Fraud Section") and the United States Attorney's Office for the Southern District of New York (the "Office," and together with the Fraud Section, the "United States") enter into this deferred prosecution agreement (the "Agreement").

Criminal Information and Acceptance of Responsibility

1. The Company acknowledges and agrees that the United States will file the attached one-count criminal Information in the United States District Court for the Southern District of New York charging the Company with conspiracy to commit an offense against the United States, in violation of Title 18, United States Code, Section 371, that is, to violate the books and records provision of the Foreign Corrupt Practices Act of 1977 ("FCPA"), as amended, *see* Title 15, United States Code, Sections 78m(b)(2)(A), 78m(b)(5), and 78ff(a). In so doing, the Company: (a) knowingly waives its right to indictment on this charge, as well as all rights to a speedy trial pursuant to the Sixth Amendment to the United States Constitution, Title 18, United States Code, Section 3161, and Federal Rule of Criminal Procedure 48(b); and (b) knowingly waives any objection with respect to venue to any charges by the United States arising out of the conduct described in the Statement of Facts attached hereto as Attachment A (the "Statement of Facts") and consents to the filing of the Information, as provided under the terms

of this Agreement, in the United States District Court for the Southern District of New York. The United States agrees to defer prosecution of the Company pursuant to the terms and conditions described below.

2. The Company admits, accepts, and acknowledges that it is responsible under United States law for the acts of its officers, directors, employees, and agents as charged in the Information, and as set forth in the Statement of Facts, and that the allegations described in the Information and the facts described in the Statement of Facts are true and accurate. Should the United States pursue the prosecution that is deferred by this Agreement, the Company stipulates to the admissibility of the Statement of Facts in any proceeding, including any trial, guilty plea, or sentencing proceeding, and will not contradict anything in the Statement of Facts at any such proceeding.

Term of the Agreement

3. This Agreement is effective for a period beginning on the date on which the Information is filed and ending three years from that date (the "Term"). The Company agrees, however, that, in the event the United States determines, in its sole discretion, that the Company has knowingly violated any provision of this Agreement or has failed to completely perform or fulfill each of the Company's obligations under this Agreement, an extension or extensions of the Term may be imposed by the United States, in its sole discretion, for up to a total additional time period of one year, without prejudice to the right of the United States to proceed as provided in Paragraphs 14 through 18 below. Any extension of the Agreement extends all terms of this Agreement, including the terms of the reporting requirement in Attachment D, for an equivalent period. Conversely, in the event the United States finds, in its sole discretion, that there exists a change in circumstances sufficient to eliminate the need for the reporting requirement in Attachment D, and that the other provisions of this Agreement have been satisfied, the Agreement may be terminated early. If the Court rejects the Agreement, all the provisions of the Agreement shall be deemed null and void, and the Term shall be deemed to have not begun.

Relevant Considerations

4. The United States enters into this Agreement based on the individual facts and circumstances presented by this case and the Company, including:

a. the Company did not receive voluntary disclosure credit pursuant to the FCPA Corporate Enforcement Policy in the Department of Justice Manual ("JM") 9-47.120, or pursuant to the United States Sentencing Guidelines ("U.S.S.G." or "Sentencing Guidelines"), because it did not voluntarily disclose to the United States the conduct described in the Statement of Facts attached hereto as Attachment A ("Statement of Facts");

b. the Company received full credit for its cooperation with the United States' independent investigation, which has included: making regular factual presentations to the United States and, after taking steps that the Company and its affiliates determined complied with applicable foreign data privacy, confidentiality, and discovery laws, voluntarily making employees available for interviews in the United States; producing documents and information located outside of the United States; providing translations of foreign language materials; proactively disclosing certain conduct of which the United States was previously unaware; and providing to the United States all relevant facts known to it;

c. the Company engaged in extensive remedial measures, including taking disciplinary actions against, and separating from, employees involved in the misconduct; enhancing its anti-corruption compliance program by, among other things, significantly increasing the personnel and resources devoted to compliance; bolstering the Company's annual risk assessment process; strengthening accounting controls for various forms of expenditures; implementing additional testing, monitoring, and auditing procedures; and improving policies related to entertaining and giving gifts to foreign officials;

d. the Company has enhanced and has committed to continuing to enhance its compliance program and internal accounting controls, including ensuring that its compliance program satisfies the minimum elements set forth in Attachment C to this Agreement (Corporate Compliance Program);

e. based on the Company's remediation and the state of its compliance program, and the Company's agreement to report to the United States as set forth in Attachment D to the Agreement (Reporting Requirements), the United States determined that an independent compliance monitor is unnecessary;

f. the nature and seriousness of the offense conduct, including the falsification of books and records to conceal improper payments and benefits to Chinese officials by a Senior Vice President of the Company and others, as well as the duration of the misconduct;

g. the Company has agreed to resolve with the U.S. Securities and Exchange Commission ("SEC") through a civil complaint and injunction that will be filed on August 27, 2020, relating to the conduct described in the Statement of Facts, and has agreed to pay $58,669,993.00 in disgorgement and pre-judgment interest of $8,643,504.50;

h. the Company has no prior criminal history; and

i. the Company has agreed to continue to cooperate with the United States in any ongoing investigation as described in Paragraph 5 below.

j. Accordingly, after considering (a) through (i) above, the United States believes that the appropriate resolution in this case is a deferred prosecution agreement with the Company; a criminal monetary penalty of $55,743,093, which reflects an aggregate discount of 25 percent off the bottom of the otherwise-applicable Sentencing Guidelines fine range; and the Company's agreement to report to the United States as set forth in Attachment D of the Agreement.

Future Cooperation and Disclosure Requirements

5. The Company shall cooperate fully with the United States in any and all matters relating to the conduct described in this Agreement and the Statement of Facts and other conduct under investigation by the United States at any time during the Term until the later of the date upon which all investigations and prosecutions arising out of such conduct are concluded, or the end of the Term. At the request of the United States, the Company shall also cooperate fully with other domestic or foreign law enforcement, regulatory authorities and agencies, and Multilateral Development Banks in any investigation of the Company or its affiliates, or any of its present or former officers, directors, employees, agents, and consultants, or any other party, in any and all matters relating to the conduct described in this Agreement and the Statement of Facts and other conduct under investigation by the United States at any time during the Term. The Company's cooperation pursuant to this Paragraph is subject to applicable laws and regulations, including relevant data privacy and national security laws, as well as valid claims of attorney-client privilege or attorney work product doctrine; however, the Company must provide to the United States a log of any information or cooperation that is not provided based on an assertion of law, regulation, or privilege, and the Company bears the burden of establishing the validity of any such an assertion. The Company agrees that its cooperation pursuant to this paragraph shall include, but not be limited to, the following:

a. The Company shall truthfully disclose all factual information with respect to its activities, those of its subsidiaries and affiliates, and those of its present and former directors, officers, employees, agents, and consultants, including any evidence or allegations and internal or external investigations, about which the Company has any knowledge or about which the United States may inquire. This obligation of truthful disclosure includes, but is not limited to, the obligation of the Company to provide to the United States, upon request, any document, record or other tangible evidence about which the United States may inquire of the Company.

b. Upon request of the United States, the Company shall designate knowledgeable employees, agents, or attorneys to provide to the United States the information and materials described in Paragraph 5(a) above on behalf of the Company. It is further understood that the Company must at all times provide complete, truthful, and accurate information.

c. The Company shall use its best efforts to make available for interviews or testimony, as requested by the United States, present or former officers, directors, employees, agents, and consultants of the Company. This obligation includes, but is not limited to, sworn testimony before a federal grand jury or in federal trials, as well as interviews with domestic or foreign law enforcement and regulatory authorities. Cooperation under this Paragraph shall include identification of witnesses who, to the knowledge of the Company, may have material information regarding the matters under investigation.

d. With respect to any information, testimony, documents, records or other tangible evidence provided to the United States pursuant to this Agreement, the Company consents to any and all disclosures to other governmental authorities, including United States authorities and those of a foreign government and Multilateral Development Banks, of such materials as the United States, in its sole discretion, shall deem appropriate.

6. In addition to the obligations in Paragraph 5, during the Term, should the Company learn of any evidence or allegation of conduct that may constitute a violation of the FCPA anti-bribery or accounting provisions had the conduct occurred within the jurisdiction of the United States, the Company shall promptly report such evidence or allegation to the United States.

Payment of Monetary Penalty

7. The United States and the Company agree that application of the United States Sentencing Guidelines ("USSG" or "Sentencing Guidelines") to determine the applicable fine range yields the following analysis:

a. The November 1, 2018 version of the Sentencing Guidelines are applicable to this matter.

b. Offense Level. Based on U.S.S.G § 2B1.1, the total offense level is 30, calculated as follows:

(a)(1)	Base Offense Level	6
(b)(10)	Offense Committed Outside the U.S.	+2
(b)(1)(L)	Gain from the Offense Exceeds $25,000,000	+22
TOTAL		**30**

c. Base Fine. Based upon U.S.S.G. § 8C2.4(a)(1), the base fine is $46,452,577 (the pecuniary gain to Herbalife from the offense).

d. Culpability Score. Based upon U.S.S.G. § 8C2.5, the culpability score is 8, calculated as follows:

(a)	Base Culpability Score	5
(b)(1)	the organization had 5,000 or more employees and an individual within high-level personnel of the organization participated in, condoned, or was willfully ignorant of the offense	+5
(g)	The organization fully cooperated in the investigation and clearly demonstrated recognition and affirmative acceptance of responsibility for its criminal conduct	-2
TOTAL		**8**

Calculation of Fine Range:

Base Fine	$46,452,577
Multipliers	1.6 (min) / 3.2 (max)
Fine Range	$74,324,124 / $148,648,248

The Company agrees to pay a total monetary penalty in the amount of $55,743,093 (the "Total Criminal Penalty"), which reflects a 25 percent discount off of the bottom of the applicable United States Sentencing Guidelines. The Company and the United States agree that this penalty is appropriate given the facts and circumstances of this case, including the Relevant Considerations described in paragraph 4 of this Agreement. The Company agrees to pay the Total Criminal Penalty to the United States Treasury no later than ten business days after the Agreement is fully executed. The Total Criminal Penalty is final and shall not be refunded. Furthermore, nothing in this Agreement shall be deemed an agreement by the United States that the Total Criminal Penalty is the maximum penalty that may be imposed in any future prosecution, and the United States is not precluded from arguing in any future prosecution that the Court should impose a higher fine, although the United States agree that under those circumstances, it will recommend to the Court that any amount paid under this Agreement should be offset against any fine the Court imposes as part of a future judgment. The Company acknowledges that no tax deduction may be sought in connection with the payment of any part of the Total Criminal Penalty. The Company shall not seek or accept directly or indirectly reimbursement or indemnification from any source with regard to the penalty or disgorgement amounts that the Company pays pursuant to this Agreement or any other agreement entered into with an enforcement authority or regulator, including the SEC, concerning the facts set forth in the Statement of Facts.

Conditional Release from Liability

8. Subject to Paragraphs 14 through 18, the United States agrees, except as provided in this Agreement, that it will not bring any criminal or civil case against the Company or any of its direct or indirect affiliates, subsidiaries, or joint ventures relating to any of the conduct described in the Statement of Facts or the criminal Information filed pursuant to this Agreement. The United States, however, may use any information related to the conduct described in the Statement of Facts against the Company or any of its direct or indirect affiliates, subsidiaries, or joint ventures: (a) in a prosecution for perjury or obstruction of justice; (b) in a prosecution for making a false statement; (c) in a prosecution or other proceeding relating to any crime of violence; or (d) in a prosecution or other proceeding relating to a violation of any provision of Title 26 of the United States Code.

a. This Agreement does not provide any protection against prosecution for any future conduct by the Company or any of its direct or indirect affiliates, subsidiaries, or joint ventures.

b. In addition, this Agreement does not provide any protection against prosecution of any individuals, regardless of their affiliation with the Company.

Corporate Compliance Program

9. The Company represents that it has implemented and will continue to implement a compliance and ethics program designed to prevent and detect violations of the FCPA and other applicable anti-corruption laws throughout its operations, including those of its affiliates, agents, and joint ventures, and those of its contractors and subcontractors whose responsibilities include interacting with foreign officials or other activities carrying a high risk of corruption, including, but not limited to, the minimum elements set forth in Attachment C.

10. In order to address any deficiencies in its internal accounting controls, policies, and procedures, the Company represents that it has undertaken, and will continue to undertake in the future, in a manner consistent with all of its obligations under this Agreement, a review of its existing internal accounting controls, policies, and procedures regarding compliance with the FCPA and other applicable anti-corruption laws. Where necessary and appropriate, the Company agrees to adopt a new compliance program, or to modify its existing one, including internal controls, compliance policies, and procedures in order to ensure that it maintains: (a) an effective system of internal accounting controls designed to ensure the making and keeping of fair and accurate books, records, and accounts; and (b) a rigorous anti-corruption compliance program that incorporates relevant internal accounting controls, as well as policies and procedures designed to effectively detect and deter violations of the

FCPA and other applicable anti-corruption laws. The compliance program, including the internal accounting controls system, will include, but not be limited to, the minimum elements set forth in Attachment C.

Corporate Compliance Reporting

11. The Company agrees that it will report to the United States annually during the Term regarding remediation and implementation of the compliance measures described in Attachment C. These reports will be prepared in accordance with Attachment D.

Deferred Prosecution

12. In consideration of the undertakings agreed to by the Company herein, the United States agrees that any prosecution of the Company for the conduct set forth in the Statement of Facts be and hereby is deferred for the Term. To the extent there is conduct disclosed by the Company that is not set forth in the Statement of Facts, such conduct will not be exempt from further prosecution and is not within the scope of or relevant to this Agreement.

13. The United States further agrees that if the Company fully complies with all of its obligations under this Agreement, the United States will not continue the criminal prosecution against the Company described in Paragraph 1 and, at the conclusion of the Term, this Agreement shall expire. Within six months after the Agreement's expiration, the United States shall seek dismissal with prejudice of the criminal Information filed against the Company described in Paragraph 1, and agree not to file charges in the future against the Company based on the conduct described in this Agreement and the Statement of Facts.

Breach of the Agreement

14. If, during the Term, the Company (a) commits any felony under U.S. federal law; (b) provides in connection with this Agreement deliberately false, incomplete, or misleading information, including in connection with its disclosure of information about individual culpability; (c) fails to cooperate as set forth in Paragraphs 5 and 6 of this Agreement; (d) fails to implement a compliance program as set forth in Paragraphs 9 and 10 of this Agreement and Attachment C; (e) commits any act that, had it occurred within the jurisdictional reach of the FCPA, would be a violation of the FCPA; or (f) otherwise fails to completely perform or fulfill each of the Company's obligations under the Agreement, regardless of whether the United States becomes aware of such a breach after the Term is complete, the Company shall thereafter be subject to prosecution for any federal criminal violation of which the United States has knowledge, including, but not limited to, the charges in the Information described in Paragraph 1, which may be pursued by the United States in the U.S. District Court for the Southern

District of New York or any other appropriate venue. Determination of whether the Company has breached the Agreement and whether to pursue prosecution of the Company shall be in the United States' sole discretion. Any such prosecution may be premised on information provided by the Company or its personnel. Any such prosecution relating to the conduct described in the Statement of Facts or relating to conduct known to the United States prior to the date on which this Agreement was signed that is not time-barred by the applicable statute of limitations on the date of the signing of this Agreement may be commenced against the Company, notwithstanding the expiration of the statute of limitations, between the signing of this Agreement and the expiration of the Term plus one year. Thus, by signing this Agreement, the Company agrees that the statute of limitations with respect to any such prosecution that is not time-barred on the date of the signing of this Agreement shall be tolled for the Term plus one year. In addition, the Company agrees that the statute of limitations as to any violation of federal law that occurs during the Term will be tolled from the date upon which the violation occurs until the earlier of the date upon which the United States is made aware of the violation or the duration of the Term plus five years, and that this period shall be excluded from any calculation of time for purposes of the application of the statute of limitations.

15. In the event the United States determines that the Company has breached this Agreement, the United States agrees to provide the Company with written notice of such breach prior to instituting any prosecution resulting from such breach. Within thirty days of receipt of such notice, the Company shall have the opportunity to respond to the United States in writing to explain the nature and circumstances of such breach, as well as the actions the Company has taken to address and remediate the situation, which explanation the United States shall consider in determining whether to pursue prosecution of the Company.

16. In the event that the United States determines that the Company has breached this Agreement: (a) all statements made by or on behalf of the Company to the United States or to the Court, including the Statement of Facts, and any testimony given by the Company before a grand jury, a court, or any tribunal, or at any legislative hearings, whether prior or subsequent to this Agreement, and any leads derived from such statements or testimony, shall be admissible in evidence in any and all criminal proceedings brought by the United States against the Company; and (b) the Company shall not assert any claim under the United States Constitution, Rule 11(f) of the Federal Rules of Criminal Procedure, Rule 410 of the Federal Rules of Evidence, or any other federal rule that any such statements or testimony made by or on behalf of the Company prior or subsequent to this Agreement, or any leads derived therefrom, should be suppressed or are otherwise inadmissible. The decision whether conduct or statements of any current director, officer or employee, or any person acting on behalf of, or at the direction of, the Company, will be imputed to the Company for the purpose of determining whether the Company has violated any provision of this Agreement shall be in the sole discretion of the United States.

17. The Company acknowledges that the United States has made no representations, assurances, or promises concerning what sentence may be imposed by the Court if the Company breaches this Agreement and this matter proceeds to judgment. The Company further acknowledges that any such sentence is solely within the discretion of the Court and that nothing in this Agreement binds or restricts the Court in the exercise of such discretion.

18. On the date that the period of deferred prosecution specified in this Agreement expires, the Company, by the Chief Executive Officer of the Company and the Chief Financial Officer of the Company, will certify to the United States that the Company has met its disclosure obligations pursuant to Paragraph 6 of this Agreement. Each certification will be deemed a material statement and representation by the Company to the executive branch of the United States for purposes of Title 18, United States Code, Sections 1001 and 1519, and it will be deemed to have been made in the judicial district in which this Agreement is filed.

Sale, Merger, or Other Change in Corporate Form of Company

19. Except as may otherwise be agreed by the parties in connection with a particular transaction, the Company agrees that in the event that, during the Term, it undertakes any change in corporate form, including if it sells, merges, or transfers business operations that are material to the Company's consolidated operations, or to the operations of any subsidiaries or affiliates involved in the conduct described in the Statement of Facts, as they exist as of the date of this Agreement, whether such sale is structured as a sale, asset sale, merger, transfer, or other change in corporate form, it shall include in any contract for sale, merger, transfer, or other change in corporate form a provision binding the purchaser, or any successor in interest thereto, to the obligations described in this Agreement. The purchaser or successor in interest must also agree in writing that the United States' ability to breach under this Agreement is applicable in full force to that entity. The Company agrees that the failure to include these provisions in the transaction will make any such transaction null and void. The Company shall provide notice to the United States at least thirty (30) days prior to undertaking any such sale, merger, transfer, or other change in corporate form. The United States shall notify the Company prior to such transaction (or series of transactions) if they determine that the transaction(s) will have the effect of circumventing or frustrating the enforcement purposes of this Agreement. If at any time during the Term the Company engages in a transaction(s) that has the effect of circumventing or frustrating the enforcement purposes of this Agreement, the United States may deem it a breach of this Agreement pursuant to Paragraphs 14 through 18 of this Agreement. Nothing herein shall restrict the Company from indemnifying (or otherwise holding harmless) the purchaser or successor in interest for penalties or other costs arising from any conduct that may have occurred prior to the date of the

transaction, so long as such indemnification does not have the effect of circumventing or frustrating the enforcement purposes of this Agreement, as determined by the United States.

Public Statements by the Company

20. The Company expressly agrees that it shall not, through present or future attorneys, officers, directors, employees, agents, or any other person authorized to speak for the Company, make any public statement, in litigation or otherwise, contradicting the acceptance of responsibility by the Company set forth above or the facts described in the Statement of Facts. Any such contradictory statement shall, subject to cure rights of the Company described below, constitute a breach of this Agreement, and the Company thereafter shall be subject to prosecution as set forth in Paragraphs 14 through 18 of this Agreement. The decision whether any public statement by any such person contradicting a fact contained in the Statement of Facts will be imputed to the Company for the purpose of determining whether it has breached this Agreement shall be at the sole discretion of the United States. If the United States determines that a public statement by any such person contradicts in whole or in part a statement contained in the Statement of Facts, the United States shall so notify the Company, and the Company may avoid a breach of this Agreement by publicly repudiating such statement(s) within five business days after notification. The Company shall be permitted to raise defenses and to assert affirmative claims in other proceedings relating to the matters set forth in the Statement of Facts provided that such defenses and claims do not contradict, in whole or in part, a statement contained in the Statement of Facts. This Paragraph does not apply to any statement made by any present or former officer, director, employee, or agent of the Company in the course of any criminal, regulatory, or civil case initiated against such individual, unless such individual is speaking on behalf of the Company.

21. The Company agrees that if it or any of its direct or indirect subsidiaries or affiliates issues a press release or holds any press conference in connection with this Agreement, the Company shall first consult with the United States to determine (a) whether the text of the release or proposed statements at the press conference are true and accurate with respect to matters between the United States and the Company; and (b) whether the United States has any objection to the release.

22. The United States agrees, if requested to do so, to bring to the attention of law enforcement and regulatory authorities the facts and circumstances relating to the nature of the conduct underlying this Agreement, including the nature and quality of the Company's cooperation and remediation. By agreeing to provide this information to such authorities, the United States is not agreeing to advocate on behalf of the Company, but rather is agreeing to provide facts to be evaluated independently by such authorities.

Limitations on Binding Effect of Agreement

23. This Agreement is binding on the Company, the Fraud Section, and the Office but specifically does not bind any other component of the Department of Justice, other federal agencies, or any state, local or foreign law enforcement or regulatory agencies, or any other authorities, although the United States will bring the cooperation of the Company and its compliance with its other obligations under this Agreement to the attention of such agencies and authorities if requested to do so by the Company.

Notice

24. Any notice to the United States under this Agreement shall be given by personal delivery, overnight delivery by a recognized delivery service, or registered or certified mail, addressed to Chief, FCPA Unit, Fraud Section, Criminal Division, U.S. Department of Justice, 1400 New York Ave, NW, 11th Floor, Washington, DC 20530, and Chief, Securities and Commodities Fraud Task Force, United States Attorney's Office for the Southern District of New York, 1 St. Andrew's Plaza New York City, NY 10007. Any notice to the Company under this Agreement shall be given by personal delivery, overnight delivery by a recognized delivery service, registered or certified mail, or electronic mail addressed to Henry Wang, Esq., Executive Vice President & General Counsel, Herbalife Nutrition, Ltd., 800 West Olympic Boulevard, Los Angeles, CA 90015; Patrick F. Stokes, Barry Goldsmith, and M. Jonathan Seibald, Esqs., Gibson, Dunn & Crutcher LLP, 1050 Connecticut Avenue, N.W., Washington, DC 20036-5306; and Stephen L. Cohen, Esq., Sidley Austin LLP, 1501 K Street, N.W., Washington, D.C. 20005. Notice shall be effective upon actual receipt by the United States or the Company.

Complete Agreement

25. This Agreement, including its attachments, sets forth all the terms of the agreement between the Company and the United States. No amendments, modifications or additions to this Agreement shall be valid unless they are in writing and signed by the United States, the attorneys for the Company, and a duly authorized representative of the Company.

AGREED:

FOR HERBALIFE NUTRITION LTD:

Date: August 24, 2020

/s/Henry Wang, Esq.
Henry Wang, Esq.
Executive Vice President and
General Counsel
Herbalife Nutrition Ltd.

Date: 8/25/2020

/s/Patrick F. Stokes, Esq.
Patrick F. Stokes, Esq.
Barry Goldsmith, Esq.
M. Jonathan Seibald, Esq.
Gibson, Dunn & Crutcher LLP

Date: 8/24/2020

DocuSigned **by:**
/s/ Stephen L. Cohen
686BB34375244C8
Stephen L. Cohen, Esq.
Sidley Austin LLP

FOR THE DEPARTMENT OF JUSTICE:

AUDREY STRAUSS
Acting United States Attorney
Southern District of New York

By: /s/ Joshua A. Naftalis
Joshua A. Naftalis
Scott A. Hartman
Assistant United States Attorneys

ROBERT A. ZINK
Chief, Fraud Section
Criminal Division
United States Department of Justice

By: /s/Jason M. Manning
Lorinda Laryea
Assistant Chief
Jason M. Manning
Trial Attorney

Date: August 24, 2020

COMPANY OFFICER'S CERTIFICATE

I have read this Agreement and carefully reviewed every part of it with outside counsel for Herbalife Nutrition Ltd. (the "Company"). I understand the terms of this Agreement and voluntarily agree, on behalf of the Company, to each of its terms. Before signing this Agreement, I consulted outside counsel for the Company. Counsel fully advised me of the rights of the Company, of possible defenses, of the Sentencing Guidelines' provisions, and of the consequences of entering into this Agreement.

I have carefully reviewed the terms of this Agreement with the Board of Directors of the Company. I have advised and caused outside counsel for the Company to advise the Board of Directors fully of the rights of the Company, of possible defenses, of the Sentencing Guidelines' provisions, and of the consequences of entering into the Agreement.

No promises or inducements have been made other than those contained in this Agreement. Furthermore, no one has threatened or forced me, or to my knowledge any person authorizing this Agreement on behalf of the Company, in any way to enter into this Agreement. I am also satisfied with outside counsel's representation in this matter. I certify that I am the Executive Vice President and General Counsel for the Company and that I have been duly authorized by the Company to execute this Agreement on behalf of the Company.

Date: August 24, 2020

Herbalife Nutrition Ltd.

By: /s/ Henry Wang, Esq.
Henry Wang, Esq.
Executive Vice President and General Counsel
Herbalife Nutrition Ltd.

CERTIFICATE OF COUNSEL

I am counsel for Herbalife Nutrition Ltd. (the "Company") in the matter covered by this Agreement. In connection with such representation, I have examined relevant Company documents and have discussed the terms of this Agreement with the Company Board of Directors. Based on our review of the foregoing materials and discussions, I am of the opinion that the representative of the Company has been duly authorized to enter into this Agreement on behalf of the Company and that this Agreement has been duly and validly authorized, executed, and delivered on behalf of the Company and is a valid and binding obligation of the Company. Further, I have carefully reviewed the terms of this Agreement with the Board of Directors and the Executive Vice President and General Counsel of the Company. I have fully advised them of the rights of the Company, of possible defenses, of the Sentencing Guidelines' provisions and of the consequences of entering into this Agreement. To my knowledge, the decision of the Company to enter into this Agreement, based on the authorization of the Board of Directors, is an informed and voluntary one.

Date: 8/25/2020

By: /s/ Patrick F. Stokes, Esq.
Patrick F. Stokes, Esq.
Barry Goldsmith, Esq.
M. Jonathan Seibald, Esq.
Gibson, Dunn & Crutcher LLP

Stephen L. Cohen, Esq.
Sidley Austin LLP

Counsel for Herbalife Nutrition Ltd.

ATTACHMENT A

STATEMENT OF FACTS

1. The following Statement of Facts is incorporated by reference as part of the Deferred Prosecution Agreement (the "Agreement") between the United States Department of Justice, Criminal Division, Fraud Section (the "Fraud Section") and the United States Attorney's Office for the Southern District of New York (the "Office") (collectively, the "United States"), and the defendant Herbalife Nutrition Ltd. ("Herbalife" or the "Company"). Certain of the facts herein are based on information obtained from third parties by the United States through its investigation and described to Herbalife. Herbalife hereby agrees and stipulates that the following facts and conclusions of law are true and accurate. Herbalife admits, accepts, and acknowledges that it is responsible for the acts of its officers, directors, employees, and agents as set forth below.

Relevant Entities and Individuals

2. Herbalife was a company that sold health care, personal care, and other products in more than 90 countries around the world, including China. Herbalife was headquartered in Los Angeles, California and maintained a class of securities pursuant to Section 12(b) of the Securities Exchange Act of 1934, which traded on the New York Stock Exchange under the ticker symbol HLF. Herbalife was required to file periodic reports with the United States Securities and Exchange Commission (the "SEC") under Section 15(d) of the Securities Exchange Act. Herbalife was an "issuer" as that term is used in the Foreign Corrupt Practices Act ("FCPA"), Title 15, United States Code, Sections 78dd-1(a) and 78m.

3. Herbalife conducted business operations in China through a group of wholly-owned subsidiaries based in China: Herbalife (Shanghai) Management Co., Ltd.; Herbalife (China) Health Products Ltd.; Herbalife (Jiangsu) Health Products Ltd.; and Herbalife NatSource (Hunan) Natural Products Co. Ltd. (collectively "Herbalife China"). By 2016, Herbalife China was responsible for approximately $860 million, or approximately 20%, of Herbalife's worldwide annual net sales, which exceeded $4 billion.

4. In China, to engage in direct selling—selling a company's products through independent sales representatives—Chinese law required a company to obtain a direct selling license from national authorities as well as local authorities for each province in which a company intended to engage in direct selling. Between March 2007 through 2016, Herbalife China obtained licenses to engage in direct sales in 28 provinces.

5. Herbalife China's External Affairs Department ("EA") was responsible for interfacing with Chinese governmental agencies and Chinese government-owned media entities on behalf of Herbalife in China.

6. Yangliang Li, a/k/a "Jerry Li," was the Director of Sales and/or Sales Vice President at Herbalife China from in or about 2004 through in or about December 2007, and then the Managing Director of Herbalife China from in or about December 2007 through in or about April 2017. As the Managing Director of Herbalife China, Li was Herbalife's most senior employee in China, and he was primarily responsible for many of Herbalife China's day-to-day operations, including sales. From in or about December 2012 through in or about February 2017, Li also held the title of Senior Vice President at Herbalife.

7. Hongwei Yang, a/k/a "Mary Yang," was a high-level executive at Herbalife China and the head of EA from in or about 2006 through in or about April 2017. Li was Yang's direct supervisor.

8. "Herbalife China Executive 1," whose identity is known to the United States and Herbalife, was a high-level executive of Herbalife China from at least January 2005 through in or about August 2007.

9. "Herbalife China Executive 2," whose identity is known to the United States and Herbalife, was an employee of Herbalife China with responsibility for certain aspects of Herbalife China's finances and internal accounting controls from at least in or about 2007 through at least in or about April 2017.

10. Various provincial and central levels of a Chinese government agency (collectively, "Chinese Government Agency 1") were responsible, at least in part, for issuing licenses required for companies, such as Herbalife China, to conduct direct selling in China. Chinese Government Agency 1 was a "department" and "agency" of a foreign government, as those terms are used in the FCPA, Title 15, United States Code, Section 78dd-1(f)(1)(A).

11. Various provincial and central levels of a Chinese government agency (collectively, "Chinese Government Agency 2") were responsible, at least in part, for enforcing compliance with Chinese laws applicable to direct selling companies, such as Herbalife China. Chinese Government Agency 2 had the authority to conduct investigations into direct selling companies and to pursue and impose fines and other penalties against direct selling companies that it deemed non-compliant with applicable laws. Chinese Government Agency 2 was a "department" and "agency" of a foreign government, as those terms are used in the FCPA, Title 15, United States Code, Section 78dd-1(f)(1)(A).

12. State-Owned Media Outlet, a media company in China that published articles about business and other issues in China, was owned and controlled by an agency or department of the Chinese government, and it performed a function of the Chinese government. State-Owned Media Outlet was an "instrumentality" of a foreign government, as that term is used in the FCPA, Title 15, United States Code, Section 78dd-1(f)(1)(A).

Overview of the Scheme

13. Beginning in or about at least 2007 through in or about 2016, the Company, through Li and others, engaged in a scheme to falsify books and records and provide corrupt payments and benefits to Chinese government officials, including officials of Chinese Government Agencies 1 and 2 and State-Owned Media Outlet, for the purpose of obtaining, retaining, and increasing Herbalife's business in China by, among other things, (1) obtaining and retaining certain of Herbalife China's direct selling licenses; (2) improperly influencing certain Chinese governmental investigations into Herbalife China's compliance with Chinese laws applicable to its business; and (3) improperly influencing certain Chinese state-owned and state-controlled media for the purpose of removing negative media reports about Herbalife China.

14. During this timeframe, in order to conceal these improper payments and benefits, Herbalife, through Li and others, knowingly and willfully conspired and agreed with others to maintain false accounting records that did not accurately and fairly reflect the transactions and dispositions of Herbalife's assets, by, among other things, falsely recording certain improper payments and benefits as "travel and entertainment expenses" and maintaining false Sarbanes-Oxley sub-certification letters in Herbalife's books, records, and accounts.

Improper Payments and Benefits and Falsification of Related Records in Connection with Herbalife China's First Direct Selling License and Investigations

15. In or about late 2006, Herbalife China applied to the Chinese government for its first direct selling license, which was for two cities in one province in China (the "Province"). Chinese Government Agency 1 was the Chinese government agency responsible for awarding direct selling licenses in China, and Chinese Government Agency 1 also was required to solicit input from Chinese Government Agency 2 during the licensing process. During the time period that Herbalife China's application for its first direct selling-license was pending—from at least in or about December 2006 through in or about March 2007—the Company provided improper payments and benefits to officials of Chinese Government Agencies 1 and 2, and falsely recorded and booked them.

16. For example, in or about December 2006, Chinese Government Agency 2 officials closed an Herbalife China store in a provincial capital. A few days later, during a telephone call in or about December 2006, two sales managers at Herbalife China discussed paying provincial officials in order to lower the fine amount associated with the closing of the store. One of them said to the other: "I told Mary [Yang] that we should start negotiation at 80 and then lower it down to 70. I told the district bureau director that I would give 3 yuan for every 10 yuan lowered."[1]

17. In or about December 2006, Li and Yang discussed Li's approval of giving "red envelopes"— *i.e.*, cash payments—to Chinese Government Agency 2 officials, and obtaining reimbursement from Herbalife China for these red envelopes through reimbursement requests that falsely represented the expenditure.

18. In or about January 2007, Li and Yang discussed that Yang had "taken care of" a Chinese Government Agency 1 official before Yang had to address questions from that official related to Herbalife China's pending direct selling license application for the Province. Li stated, "[T]he money works well on him!"

19. In or about March 2007, Li asked Yang if she agreed with making cash payments totaling 35,000 yuan to various Chinese Government Agency 2 officials, including 10,000 yuan to an official whom Li identified as a deputy director, for the purpose of minimizing future penalties against Herbalife China. Yang responded, "Okay," so long as their colleague could "guarantee this to be effective." Li then said, "I was thinking it would be better to spend money beforehand than spend money afterwards. This money is a small sum after all, and if we were to be penalized, the figure will be much greater."

20. In or about March 2007, Yang told an Herbalife China EA employee to distribute gift cards to Chinese government officials, including Chinese Government Agency 1 officials who were involved in Herbalife China's pending direct selling license application in the Province, and one non-government official potentially involved in media relations. Yang instructed, "Grab a pen and write down the gift list. Tell [another Herbalife China employee] you will go and pick up the money this afternoon. . . . Ask for 260,000 [yuan]. It will be sufficient." Yang directed that 200,000 yuan be provided to the non-government official, with the remaining amount distributed in gift cards to the government officials.

21. That same day, Herbalife China Executive 1 and Li discussed making payments to Chinese government officials in connection with Herbalife China's pending direct selling application in the Province. Herbalife China Executive 1 told Li that he was calling to talk about "what I spent to take care of things for our license." Herbalife China Executive 1 added that "[Yang] is pressing me about that. I already took 10 out of the bank and gave it to her."

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[1] All the conversations that are quoted in this Statement of Facts, unless otherwise noted, occurred in Mandarin and have been translated into English.

22. The following day, Herbalife Executive 1, who was then an officer and high-level executive of Herbalife, had a telephone call with Herbalife China Executive 1. During the call, which occurred in English, Herbalife China Executive 1 described to Herbalife Executive 1 how Herbalife China had obtained a license from Chinese Government Agency 1 for two cities in the Province and the plan to obtain licenses in other provinces. Herbalife China Executive 1 then raised concerns regarding an addendum to the "Improper Payments and Related Actions" policy—which had been enacted just three days earlier—that required approval from Herbalife's senior management in Los Angeles for Herbalife China personnel to entertain any Chinese government official more than six times per year. In response to these concerns, Herbalife Executive 1 suggested that Herbalife China personnel falsify the details of the requests and the associated expense reimbursement documents:

Herbalife Executive 1:	I am sure there [are] a lot of government officials, you can put different names down.
Herbalife China Executive 1:	Yes.
Herbalife Executive 1:	With six-person dinner, but I didn't tell you that.
Herbalife China Executive 1:	Yeah, but again like with the license process, you know, it's tough for me to use all the names, so — it's something you guys want to think about. Is that do you want to put the onuses back on your folks or [Herbalife Executive 2], which is not fair, I think.
Herbalife Executive 1:	How would anybody ever know, [Herbalife China Executive 1]?
Herbalife China Executive 1:	Yeah, okay, sure, I understand.
Herbalife Executive 1:	Right.
Herbalife China Executive 1:	Okay, the situation looks very good.
Herbalife Executive 1:	All the auditor is going to do is pick up your receipts, your expense reports and say, "Oh, he did Mr. X, Mr. A, Mr. B, Mr. C, Mr. D, and he did a few of these guys a couples of time but that was it."

23. That same day, Herbalife China Executive 1 and Yang discussed a meeting between Yang and a Chinese government official. Herbalife China Executive 1 asked Yang, "did you pay him off today?" Yang responded, "definitely." Also on that day, Chinese Government Agency 1 issued to Herbalife China its first direct selling license for two cities in the Province.

Further Improper Payments and Benefits to Government Officials and Further Falsification of Books and Records

24. After Herbalife China obtained its first direct selling license, the Company, through Li and others, continued to provide improper payments and benefits to Chinese government officials, and to falsely record them. The foreign officials who benefited from this scheme included officials of Chinese Government Agencies 1 and 2 and State-Owned Media Outlet. For example:

a. In or about May 2007, Yang had a telephone call with Herbalife China Executive 1 during which they discussed paying 10,000 yuan to a Chinese government official to reduce a government fine to the equivalent of $100,000 or less. About one week later, in or about June 2007, Herbalife China Executive 1 told Herbalife Executive 2, who was then an officer and a high-level executive of Herbalife: "So it looks like it's going to be less than or close to a 100,000 fine and that's it. The rest of it, you know, the consultants are taking care of this."

b. In or about January 2012, an EA Assistant Director spoke during a telephone call with an EA Assistant Manager responsible for processing reimbursement requests, and the EA Assistant Manager proposed that the EA Assistant Director submit false reimbursement requests related to the submission of approximately $87,000 of fake meal and gift invoices.

c. In or about September 2012, Yang told Li during a telephone call about an issue that Herbalife China was facing with Chinese Government Agency 2 in a particular municipality. Yang then told Li that EA had several months earlier spent approximately 20,000 yuan on a shopping trip and a spa visit for a senior Chinese Government Agency 2 official in the municipality, his daughter, and her classmates.

d. In or about November 2012, Yang told Li during a telephone call: "[T]he son of [a senior municipal Chinese Government Agency 2 official] is studying at [a Chinese University]. They have a thing about going to a work unit for an internship, they require reviews from the places where he did the internships. Our company is on his list of internships. I don't know why. His dad saw that and asked us if our company could help him out and provide his son with a review . . . and affix our company's stamp." Li responded, "Sure, no big deal."

e. In or about January 2013, Li and Herbalife China Executive 2 agreed during a telephone call to open a bank account at a Chinese bank for the purpose of benefiting the son of a Chinese Government Agency 2 official, who had recently begun working at the bank. Li and Herbalife China Executive 2 agreed to do so even though there was no legitimate business purpose for Herbalife China to open the new account.

f. In or about April 2013, Yang told Li during a telephone call that she had met with an official at State-Owned Media Outlet who previously had refused to withdraw certain articles about Herbalife China. Yang told Li that the official "ate what he should eat, drank what he should drink, and used what he should use." Yang

further told Li that after she said to the official, "[I]f you destroy[] us, where could you get money?", the official had agreed to withdraw the articles. Li responded, "You have done a great job!"

g. In or about March 2014, an EA Assistant Director and another EA employee, during a call, discussed falsifying a reimbursement request in the amount of 20,000 yuan related to expenditures involving deputy directors of an unspecified government agency.

25. Yang and other EA employees routinely falsified expense reports and receipts. For example, in the six-month period between in or about July 2012 and in or about December 2012, Yang received approximately (a) $772,433 in reimbursement for purportedly entertaining 4,312 government officials and media personnel at 239 meals, or more than one meal per day, and (b) $248,622 in reimbursement for purported gifts to Chinese officials and media personnel. Herbalife employees and executives, including Li, Herbalife Executive 1, and others, regularly received and reviewed reports from Herbalife's Internal Audit department showing the purported expenditures by Yang and EA on entertaining government officials and media personnel, including these purported meals and gifts.

26. In another example, between in or about September 2015 and in or about October 2016, Li, Yang, and others approved reimbursement of 920,000 yuan for the purported purchase of gifts from a particular vendor. These gifts, which were purportedly for Chinese government officials and media personnel, were fruits and vegetables from a farm near the city where Li and Yang were from. Li, and in some instances Yang, approved reimbursement to Yang and other EA employees for receipts showing more than 30 tons of purported produce purchases—without any documentation indicating that any produce was actually shipped.

27. In or about November 2007, Herbalife Executive 3, who was then an officer and a high-level executive of Herbalife, told Li: "I kind of want to live in Shanghai, but for legal reasons . . . if I live in Shanghai, it's too risky for me. . . . There's something called the FCPA, the Foreign Corrupt Practices Act and all of that stuff."

28. Between in or about 2007 and in or about 2016, Herbalife's books reflected that Herbalife China reimbursed EA employees more than $25 million for purportedly entertaining and giving gifts to Chinese government officials and Chinese media personnel, including Chinese state-owned media personnel, some of which was used for improper purposes.

Herbalife's False Books and Records

29. Herbalife, as an issuer of securities, was required to make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflected the transactions and dispositions of its assets. 15 U.S.C. § 78m(b)(2). Herbalife China's books, records, and accounts were consolidated into Herbalife's financial statements, including the financial statements that Herbalife filed with the SEC. Herbalife, through Li and others, knowingly and willfully conspired and agreed with others to falsely record in the Company's internal accounting records reimbursement of the improper payments and benefits that were provided in association with the schemes described above. By recording reimbursements for these payments and benefits as legitimate expenses, such as travel and entertainment expenses, the Company, through Li and others, concealed the true nature of these payments and benefits and maintained false books, records, and accounts that did not accurately and fairly reflect the transactions and dispositions of its assets.

30. Furthermore, as part of the conspiracy, from at least in or about 2008 to in or about February 2017, on a quarterly and annual basis, Li, who participated in the scheme to falsify books and records and provide improper payments and benefits to Chinese government officials, signed and transmitted false Sarbanes-Oxley sub-certification letters in connection with the Company's quarterly and annual filings with the SEC ("SOX Sub-Certifications"). These false SOX Sub-Certifications were maintained by Herbalife as part of its books, records, and accounts.

ATTACHMENT B

CERTIFICATE OF CORPORATE RESOLUTIONS

WHEREAS, Herbalife Nutrition Ltd. (the "Company") has been engaged in discussions with the United States Department of Justice, Criminal Division, Fraud Section (the "Fraud Section") and the United States Attorney's Office for the Southern District of New York (the "Office," and together with the Fraud Section, the "United States") regarding issues arising in relation to certain improper payments and benefits provided to Chinese officials to obtain and retain business for the Company, and the making and keeping of false books and records; and

WHEREAS, in order to resolve such discussions, it is proposed that the Company enter into a certain agreement with the United States; and

WHEREAS, the Company's Executive Vice President and General Counsel, Henry Wang, together with outside counsel for the Company, have advised the Board of Directors of the Company of its rights, possible defenses, the Sentencing Guidelines' provisions, and the consequences of entering into such agreement with the United States;

Therefore, the Board of Directors has RESOLVED that:

1. The Company (a) acknowledges the filing of the one-count Information charging the Company with conspiracy to commit an offense against the United States, in violation of Title 18, United States Code, Section 371, that is, to violate the books and records provision of the Foreign Corrupt Practices Act of 1977 ("FCPA"), as amended, *see* Title 15, United States Code, Sections 78m(b)(2)(A), 78m(b)(5), and 78ff(a); (b) waives indictment on such charge and enters into a deferred prosecution agreement with the United States; and (c) agrees to accept a monetary penalty against Company totaling $55,743,093, and to pay such penalty to the United States Treasury with respect to the conduct described in the Information;

2. The Company accepts the terms and conditions of this Agreement, including, but not limited to, (a) a knowing waiver of its rights to a speedy trial pursuant to the Sixth Amendment to the United States Constitution, Title 18, United States Code, Section 3161, and Federal Rule of Criminal Procedure 48(b); and (b) a knowing waiver for purposes of this Agreement and any charges by the United States arising out of the conduct described in the Statement of Facts of any objection with respect to venue and consents to the filing of the Information, as provided under the terms of this Agreement, in the United States District Court for the Southern District of New York; and (c) a knowing waiver of any defenses based on the statute of limitations for any prosecution relating to the conduct described in the Statement of Facts or relating to conduct known to the United States prior to the date

on which this Agreement was signed that is not time-barred by the applicable statute of limitations on the date of the signing of this Agreement;

3. The Executive Vice President and General Counsel of the Company, Henry Wang, is hereby authorized, empowered and directed, on behalf of the Company, to execute the Deferred Prosecution Agreement substantially in such form as reviewed by this Board of Directors at this meeting with such changes as the Executive Vice President and General Counsel of Company, Henry Wang, may approve;

4. The Executive Vice President and General Counsel of the Company, Henry Wang, is hereby authorized, empowered and directed to take any and all actions as may be necessary or appropriate and to approve the forms, terms or provisions of any agreement or other documents as may be necessary or appropriate, to carry out and effectuate the purpose and intent of the foregoing resolutions; and

5. All of the actions of the Executive Vice President and General Counsel of the Company, Henry Wang, which actions would have been authorized by the foregoing resolutions except that such actions were taken prior to the adoption of such resolutions, are hereby severally ratified, confirmed, approved, and adopted as actions on behalf of the Company.

Date: August 24, 2020

By: /s/ Henry Wang, Esq.
Corporate Secretary
Herbalife Nutrition Ltd.

ATTACHMENT C

CORPORATE COMPLIANCE PROGRAM

In order to address any deficiencies in its internal controls, compliance code, policies, and procedures regarding compliance with the Foreign Corrupt Practices Act ("FCPA"), 15 U.S.C. §§ 78dd-1, *et seq.,* and other applicable anti-corruption laws, Herbalife Nutrition Ltd. ("Herbalife" or the "Company") agrees to continue to conduct, in a manner consistent with all of its obligations under this Agreement, appropriate reviews of its existing internal controls, policies, and procedures.

Where necessary and appropriate, the Company agrees to modify its compliance program, including internal controls, compliance policies, and procedures in order to ensure that it maintains: (a) an effective system of internal accounting controls designed to ensure the making and keeping of fair and accurate books, records, and accounts; and (b) a rigorous anti-corruption compliance program that incorporates relevant internal accounting controls, as well as policies and procedures designed to effectively detect and deter violations of the FCPA and other applicable anti-corruption laws. At a minimum, this should include, but not be limited to, the following elements to the extent they are not already part of the Company's existing internal controls, compliance code, policies, and procedures:

Commitment to Compliance

1. The Company will ensure that its directors and senior management provide strong, explicit, and visible support and commitment to its corporate policy against violations of the anti-corruption laws and its compliance codes, and demonstrate rigorous adherence by example. The Company will also ensure that middle management, in turn, reinforce those standards and encourage employees to abide by them. The Company will create and foster a culture of ethics and compliance with the law in its day-to-day operations at all levels of the company.

Policies and Procedures

2. The Company will develop and promulgate a clearly articulated and visible corporate policy against violations of the FCPA and other applicable foreign law counterparts (collectively, the "anti-corruption laws,"), which policy shall be memorialized in a written compliance code.

3. The Company will develop and promulgate compliance policies and procedures designed to reduce the prospect of violations of the anti-corruption laws and the Company's compliance code, and the Company will take appropriate measures to encourage and support the observance of ethics and compliance policies and procedures against violation of the anti-corruption laws by personnel at all levels of the Company. These anti-

corruption policies and procedures shall apply to all directors, officers, and employees and, where necessary and appropriate, outside parties acting on behalf of the Company in a foreign jurisdiction, including but not limited to, agents and intermediaries, consultants, representatives, distributors, teaming partners, contractors and suppliers, consortia, and joint venture partners (collectively, "agents and business partners"). The Company shall notify all employees that compliance with the policies and procedures is the duty of individuals at all levels of the company. Such policies and procedures shall address:

a. gifts;

b. hospitality, entertainment, and expenses;

c. customer travel;

d. political contributions;

e. charitable donations and sponsorships;

f. facilitation payments; and

g. solicitation and extortion.

4. The Company will ensure that it has a system of financial and accounting procedures, including a system of internal controls, reasonably designed to ensure the maintenance of fair and accurate books, records, and accounts. This system shall be designed to provide reasonable assurances that:

a. transactions are executed in accordance with management's general or specific authorization;

b. transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and to maintain accountability for assets;

c. access to assets is permitted only in accordance with management's general or specific authorization; and

d. the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

Periodic Risk-Based Review

5. The Company will develop these compliance policies and procedures on the basis of a periodic risk assessment addressing the individual circumstances of the Company, in particular the foreign bribery risks facing the Company, including, but not limited to, its geographical organization, interactions with various types and levels of government officials, industrial sectors of operation, potential clients and business partners, use of third parties, gifts, travel and entertainment expenses, charitable and political donations, involvement in joint venture arrangements, importance of licenses and permits in the Company's operations, degree of governmental oversight and inspection, and volume and importance of goods and personnel clearing through customs and immigration.

6. The Company shall review its anti-corruption compliance policies and procedures no less than annually and update them as appropriate to ensure their continued effectiveness, taking into account relevant developments in the field and evolving international and industry standards.

Proper Oversight and Independence

7. The Company will assign responsibility to one or more senior corporate executives of the Company for the implementation and oversight of the Company's anti-corruption compliance code, policies, and procedures. Such corporate official(s) shall have the authority to report directly to independent monitoring bodies, including internal audit, the Company's Board of Directors, or any appropriate committee of the Board of Directors, and shall have an adequate level of stature and autonomy from management as well as sufficient resources and authority to maintain such autonomy.

Training and Guidance

8. The Company will implement mechanisms designed to ensure that its anti-corruption compliance code, policies, and procedures are effectively communicated to all directors, officers, employees, and, where necessary and appropriate, agents and business partners. These mechanisms shall include: (a) periodic training for all directors and officers, all employees in positions of leadership or trust, positions that require such training (e.g., internal audit, sales, legal, compliance, finance), or positions that otherwise pose a corruption risk to the Company, and, where necessary and appropriate, agents and business partners; and (b) corresponding certifications by all such directors, officers, employees, agents, and business partners, certifying compliance with the training requirements. The Company will conduct training in a manner tailored to the audience's size, sophistication, or subject matter expertise and, where appropriate, will discuss prior compliance incidents.

9. The Company will maintain, or where necessary establish, an effective system for providing guidance and advice to directors, officers, employees, and, where necessary and appropriate, agents and business partners, on complying with the Company's anti-corruption compliance code, policies, and procedures, including when they need advice on an urgent basis or in any foreign jurisdiction in which the Company operates.

Internal Reporting and Investigation

10. The Company will maintain, or where necessary establish, an effective system for internal and, where possible, confidential reporting by, and protection of, directors, officers, employees, and, where appropriate, agents and business partners concerning violations of the anti-corruption laws or the Company's anti-corruption compliance code, policies, and procedures.

11. The Company will maintain, or where necessary establish, an effective and reliable process with sufficient resources for responding to, investigating, and documenting allegations of violations of the anti-corruption laws or the Company's anti-corruption compliance code, policies, and procedures. The Company will handle the investigations of such complaints in an effective manner, including routing the complaints to proper personnel, conducting timely and thorough investigations, and following up with appropriate discipline where necessary.

Enforcement and Discipline

12. The Company will implement mechanisms designed to effectively enforce its compliance code, policies, and procedures, including appropriately incentivizing compliance and disciplining violations.

13. The Company will institute appropriate disciplinary procedures to address, among other things, violations of the anti-corruption laws and the Company's anti-corruption compliance code, policies, and procedures by the Company's directors, officers, and employees. Such procedures should be applied consistently, fairly, and in a manner commensurate with the violation, regardless of the position held by, or perceived importance of, the director, officer, or employee. The Company shall implement procedures to ensure that where misconduct is discovered, reasonable steps are taken to remedy the harm resulting from such misconduct, and to ensure that appropriate steps are taken to prevent further similar misconduct, including assessing the internal controls, compliance code, policies, and procedures and making modifications necessary to ensure the overall anti-corruption compliance program is effective.

Third-Party Relationships

14. The Company will institute appropriate risk-based due diligence and compliance requirements pertaining to the retention and oversight of all agents and business partners, including:

a. properly documented due diligence pertaining to the hiring and appropriate and regular oversight of agents and business partners;

b. informing agents and business partners of the Company's commitment to abiding by anti-corruption laws, and of the Company's anti-corruption compliance code, policies, and procedures; and

c. seeking a reciprocal commitment from agents and business partners. The Company will understand and record the business rationale for using a third party in a transaction, and will conduct adequate due diligence with respect to the risks posed by a third-party partner such as a third-party partner's reputations and relationships, if any, with foreign officials. The Company will ensure that contract terms with third parties specifically describe the services to be performed, that the third party is actually performing the described work, and that its compensation is commensurate with the work being provided in that industry and geographical region. The Company will engage in ongoing monitoring of third-party relationships through updated due diligence, training, audits, and/or annual compliance certifications by the third party.

15. Where necessary and appropriate, the Company will include standard provisions in agreements, contracts, and renewals thereof with all agents and business partners that are reasonably calculated to prevent violations of the anti-corruption laws, which may, depending upon the circumstances, include: (a) anti-corruption representations and undertakings relating to compliance with the anti-corruption laws; (b) rights to conduct audits of the books and records of the agent or business partner to ensure compliance with the foregoing; and (c) rights to terminate an agent or business partner as a result of any breach of the anti-corruption laws, the Company's compliance code, policies, or procedures, or the representations and undertakings related to such matters.

Mergers and Acquisitions

16. The Company will develop and implement policies and procedures for mergers and acquisitions requiring that the Company conduct appropriate risk-based due diligence on potential new business entities, including appropriate FCPA and anti-corruption due diligence by legal, accounting, and compliance personnel.

17. The Company will ensure that the Company's compliance code, policies, and procedures regarding the anti-corruption laws apply as quickly as is practicable to newly acquired businesses or entities merged with the Company and will promptly:

a. train the directors, officers, employees, agents, and business partners consistent with Paragraph 8 above on the anti-corruption laws and the Company's compliance code, policies, and procedures regarding anti-corruption laws; and

b. where warranted, conduct an FCPA-specific audit of all newly acquired or merged businesses as quickly as practicable.

Monitoring, Testing, and Remediation

18. In order to ensure that its compliance program does not become stale, the Company will conduct periodic reviews and testing of its anti-corruption compliance code, policies, and procedures designed to evaluate and improve their effectiveness in preventing and detecting violations of anti-corruption laws and the Company's anti-corruption code, policies, and procedures, taking into account relevant developments in the field and evolving international and industry standards. The Company will ensure that compliance and control personnel have sufficient direct or indirect access to relevant sources of data to allow for timely and effective monitoring and/or testing of transactions. Based on such review and testing and its analysis of any prior misconduct, the Company will conduct a thoughtful root cause analysis and timely and appropriately remediate to address the root causes.

ATTACHMENT D

REPORTING REQUIREMENTS

Herbalife Nutrition Ltd. (the "Company") agrees that it will report to the United States periodically, at no less than twelve-month intervals during a three-year term, regarding remediation and implementation of the compliance program and internal controls, policies, and procedures described in Attachment C. During this three-year period, the Company shall: (1) conduct an initial review and submit an initial report, and (2) conduct and prepare at least two (2) follow-up reviews and reports, as described below:

a. By no later than one year from the date this Agreement is executed, the Company shall submit to the United States a written report setting forth a complete description of its remediation efforts to date, its proposals reasonably designed to improve the Company's internal controls, policies, and procedures for ensuring compliance with the FCPA and other applicable anti-corruption laws, and the proposed scope of the subsequent reviews. The report shall be transmitted to Chief, Securities and Commodities Fraud Task Force, United States Attorney's Office for the Southern District of New York, 1 St. Andrew's Plaza New York City, NY 10007, and Chief - FCPA Unit, Fraud Section, Criminal Division, U.S. Department of Justice, 1400 New York Ave, NW, 11th Floor, Washington, DC 20005. The Company may extend the time period for issuance of the report with prior written approval of the United States.

b. The Company shall undertake at least two follow-up reviews and reports, incorporating the United States' views on the Company's prior reviews and reports, to further monitor and assess whether the Company's policies and procedures are reasonably designed to detect and prevent violations of the FCPA and other applicable anti-corruption laws.

c. The first follow-up review and report shall be completed by no later than one year after the initial report is submitted to the United States. The second follow-up review and report shall be completed and delivered to the United States no later than thirty days before the end of the Term.

d. The reports will likely include proprietary, financial, confidential, and competitive business information. Moreover, public disclosure of the reports could discourage cooperation, impede pending or potential government investigations, and thus undermine the objectives of the reporting requirement. For these reasons, among others, the reports and the contents thereof are intended to remain and shall remain non-public, except as otherwise agreed to by the parties in writing, or except to the extent that the United States determine in their sole discretion that disclosure would be in furtherance of the United States' discharge of its duties and responsibilities or is otherwise required by law.

e. The Company may extend the time period for submission of any of the follow-up reports with prior written approval of the United States.

Exhibit 10.40

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 89704 / August 28, 2020

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 4165 / August 28, 2020

ADMINISTRATIVE PROCEEDING
File No. 3-19948

In the Matter of **HERBALIFE NUTRITION LTD.,** **Respondent.**	**ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 ("Exchange Act"), against Herbalife Nutrition, Ltd. ("Herbalife" or "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, Respondent admits the Commission's jurisdiction over it and the subject matter of these proceedings, and consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

Summary

1. This matter concerns violations of the books and records and internal accounting controls provisions of the Foreign Corrupt Practices Act ("FCPA") by Herbalife, a direct selling company incorporated in the Cayman Islands with headquarters in the United States.

2. From 2006 to 2016, Herbalife's Chinese subsidiaries ("Herbalife China") engaged in a scheme to offer corrupt payments and other improper benefits to Chinese government officials. Between 2012 and 2016, Herbalife China employees, including Herbalife China's then-Managing Director ("Managing Director") and Herbalife China's then-Director of External Affairs ("EA Director"), provided improper benefits of cash, gifts, travel, alcohol, meals, and entertainment to Chinese government officials. Certain Herbalife executives received reports of high travel and entertainment spending in China and violations of Herbalife's internal FCPA policies, but failed to detect and prevent improper payments and benefits and falsifications of expense reports. By 2016, Herbalife China was responsible for approximately twenty percent of Herbalife's worldwide net sales. The improper benefits provided by Herbalife China were not accurately reflected in Herbalife's books and records, and Herbalife failed to devise and maintain a sufficient system of internal accounting controls.

3. As a result, Herbalife violated Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act.

Respondent

4. **Herbalife** is a direct selling company incorporated in the Cayman Islands with headquarters in the United States. Herbalife's common stock is registered with the Commission pursuant to Section 12(b) of the Exchange Act. At all relevant times, its stock has been listed on the New York Stock Exchange (Ticker: HLF), and it has been an "issuer" within the meaning of the FCPA.

Relevant Entity and Persons

5. **Herbalife China** is a group of wholly-owned, China-based subsidiaries of Herbalife. Throughout the relevant period, Herbalife China's financial statements were consolidated with those of Herbalife.

1 The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

6. **Managing Director** is a Chinese national residing in China and was Herbalife China's Managing Director from December 2007 to May 2017. Prior to becoming Managing Director, he was the Director of Sales for Herbalife China in 2006 and 2007.

7. **EA Director** is a Chinese national who resides in China. From 2006 to May 2017, she served as the head of the External Affairs department ("External Affairs") for Herbalife China.

Facts

Herbalife China Provided Improper Benefits to Chinese Government Officials in Connection with Licenses

8. From at least 2006, External Affairs, headed by EA Director, was responsible for obtaining direct selling licenses from the Chinese government – a prerequisite for Herbalife China to conduct its direct selling business in China. External Affairs was also responsible for promoting Herbalife China's interests to the Chinese government, responding to inquiries and investigative requests from the Chinese government, and marketing Herbalife China through the Chinese media.

9. In late 2006, Herbalife China submitted an application to the Chinese government for its first direct selling license, which was ultimately granted for two cities in one province (the "Province"). To facilitate approval of its license application, Herbalife China provided improper benefits, including payments, to government officials including those employed by Chinese Government Agency 1, the agency responsible for awarding direct selling licenses in China. For example, in a January 10, 2007 telephone call, Managing Director (serving then as the Director of Sales for Herbalife China) asked EA Director whether Herbalife China had "taken care of" an official at Chinese Government Agency 1 ("Official 1"). Managing Director then asked, "We have given the money to [Official 1], haven't we?" to which EA Director replied, "Of course we have." Managing Director then stated, "The money works well on him."[2]

10. In March 2007, Chinese government officials informed Herbalife China that it would receive its first direct selling license for the two cities in the Province. During a March 22, 2007 telephone call, Herbalife China's Managing Director at the time ("Former MD") congratulated EA Director on acquiring the license. EA Director told Former MD, "I will take care of those people. I will still have to invite them out for dinner next time I come anyway." Former MD responded, "Right, good idea. We will talk later about how you are going to take care of them." Later that day, during a call, EA Director spoke with a senior manager of External Affairs ("Senior Manager"). EA Director told Senior Manager to "grab a pen and write down the gift list." After listing the names of 17 individuals, including Chinese Government Agency 1 officials who were involved in application process for Herbalife China's pending direct selling license application, EA Director told Senior Manager to "go and get 260,000 yuan (approximately $33,700) and then divide the money among them, with a total of approximately 60,000 yuan (approximately $7,800) distributed to 16 Chinese Government Agency 1 officials"

2 The telephone discussions between Herbalife China employees described in this Order were in Chinese, and the quoted excerpts are English translations of those discussions.

11. During a telephone call later that same day, Former MD told Managing Director (serving then as the Director of Sales for Herbalife China) that Former MD wanted to talk "about what I spent to take care of things for our license." Managing Director told Former MD that Managing Director had withdrawn over 200,000 yuan, and Former MD responded that EA Director "is pressing me about that. I already took [100,000 yuan] out of the bank and gave it to [EA Director]."

12. The following day, on March 23, 2007, Former MD spoke with a (now former) senior Herbalife executive in the U.S. ("Senior Executive"). During that call, Former MD complained about Herbalife's internal policy of limiting dinners with any Chinese government official to six dinners per year. Former MD said that he was concerned about this limitation "because the people that does [sic] your license are those people, okay. You have far more than just six dinners." Former MD told Senior Executive that this policy will put the onus on U.S. executives to approve any dinners in excess of six times per year, "I can always write back to you folks and ask for approvals but then it's like putting the onus back on you folks to answer future questions." Former MD stated that he "disagree[d] that having dinners with officials, that you will influence them but it's just part

of the way of doing business." Senior Executive told Former MD that "I am sure there are a lot of government officials, you can put different names down…but I didn't tell you that." After Former MD explained that "with the license process, you know, it is tough for me to use all the names," Senior Executive responded, "How would anybody ever know?" Former MD said he understood, and Senior Executive told Former MD, "All an auditor is going to do is pick up your receipts, your expense report, oh he did Mr. X, Mr. A, Mr. B, Mr. C, Mr. D., and if he did a few of these guys a couple times but that was it."

13. Thereafter, Herbalife China provided improper benefits to a Chinese government official in connection with a license. On September 8, 2009, Managing Director spoke with an official from a government agency responsible, at least in part, for enforcing compliance with Chinese laws applicable to direct selling licenses ("Official 2"). Managing Director thanked Official 2 for helping Herbalife China in connection with a license: "You have certainly helped us to get this done." Official 2 asked to be a "consultant" for Herbalife to help pay for his "son's house purchasing fund," but Official 2 also said that he did not "want to discuss too much [ ] over the phone."

14. Herbalife China employees continued to influence government officials through lavish meals and gifts. Consistent with the lack of commitment to compliance and accurate record keeping demonstrated by Senior Executive, Herbalife China employees funded those meals and gifts through falsified expense reimbursements until 2016.

Herbalife China Provided Chinese Government Officials with Improper Benefits including Cash, Gifts, Meals, and Entertainment

15. Herbalife China provided improper benefits of cash, gifts, meals, and entertainment to Chinese government officials. For example, during a call on March 15, 2007, Managing Director (serving then as the Director of Sales for Herbalife China) and EA Director discussed paying certain provincial officials. Managing Director told EA Director that he had been told to pay 35,000 yuan (approximately $4,500) to the officials. Managing Director then asked, "Do you think we should give more?" EA Director responded that, "Okay. But he has to guarantee this…to be effective." Managing Director explained that "we need to build the connection…I was thinking it is better to spend money beforehand than spending money afterwards. This money is a small sum after all, and if we were to be penalized, the figure will be much greater."

16. Herbalife China continued to influence Chinese government officials with improper gifts of meals and entertainment. An Herbalife China External Affairs manager ("EA Manager") developed a relationship with a municipal government official ("Official 3"). During telephone conversations, EA Manager and Official 3 discussed treating Chinese government officials to expensive meals, alcohol, karaoke, and luxury gifts. For example, on January 11, 2012, EA Manager told Official 3 that EA Manager had entertained several government officials with dinners, karaoke, and alcohol. EA Manager said that one government official who coordinated a dinner had been direct about his expectations: "He was straight forward to me, because I'm not going to go invite people for dinner empty-handed…He said, 'you be prepared.' I said I understood. I can't leave him empty-handed." EA Manager also said that he had "taken care" of other Chinese government officials.

17. On March 31, 2012, EA Manager told Official 3 that EA Manager treated Chinese government officials to expensive meals with alcohol. EA Manager said that one evening was "so expensive, my hands were shaky." Later, EA Manager asked Official 3 for names of government officials that EA Manager could write on his expense reports because he spent so much money that he needed to add names to get under the company's per head spending limitation.

18. Other Herbalife China External Affairs employees also falsified expense reports to collect reimbursement for purported gifts and meals to Chinese government officials. For example, on January 11, 2012, an External Affairs employee spoke with the External Affairs assistant manager responsible for processing expense reimbursement requests ("EA Assistant Manager"). EA Assistant Manager asked the employee to submit falsified reimbursement requests supported by false meal and gift invoices totaling 577,000 yuan (approximately $91,000).

19. Herbalife China also provided improper benefits, including payments, to Chinese government officials, to curtail government investigations of Herbalife China and to prevent or reduce fines issued to Herbalife China by the Chinese government. For example, on August 8, 2012, Managing Director and EA Director discussed an investigation in Nanjing. EA Director told Managing Director that a Chinese government official had helped stop an investigation involving Herbalife China, and that EA Director was going to obtain the interview records and police report for the investigation. Managing Director told EA Director to thank the government official, and she responded that she had already done so when he came to Beijing. Managing Director told EA Director to give the government official the money that the company otherwise would have paid as a penalty, "Let's give the fine to him." EA Director responded that they should not discuss this over the phone.

20. The above-described conduct by External Affairs employees continued until 2016. According to internal audit reports, Herbalife China employees continued excessive spending on gifts, meals, and entertainment for Chinese government officials.

Herbalife China Provided Improper Benefits to Chinese State-Owned Media to Remove Negative Media Coverage of Herbalife China

21. Herbalife China also provided improper benefits to government officials at state-owned media outlets in China to delete negative media coverage of Herbalife China. For example, in January 2013, a state-owned media outlet ("Media Outlet 1") published a negative article about Herbalife China. In an April 22, 2013 telephone call, EA Director told Managing Director that she had met with an official of Media Outlet 1 ("Media Official 1") and asked him to remove the negative article. EA Director told Managing Director: "He already took what he should take, ate what he should eat, drank what he should drink, and used what he should use. It's up to him." Managing Director responded: "It is time for him to get to work, right?" EA Director told Managing Director that she told Media Official 1 that "if you destroyed us, where could you get money?" to which Media Official 1 laughed and agreed to remove the negative articles. Managing Director praised EA Director: "You have done a great job!"

22. In 2013, another state-owned media outlet ("Media Outlet 2") published several negative articles about Herbalife China. In an August 28, 2013 telephone call, EA Manager told Managing Director that he had met with a senior editor of Media Outlet 2 ("Media Outlet 2 Editor"), who "had agreed that they would stop after publishing two articles and we would start to negotiate collaboration." EA Manager told Managing Director that when Media Outlet 2 Editor escorted him out, EA Manager "put our 'goodwill' on the desk. He pretended he did not see it. This should not be a problem."

Herbalife China Employees Submitted and Approved False Expenses

23. External Affairs employees submitted fake invoices and false expense reports to get reimbursed for improper benefits they provided to government officials. For example, on January 31, 2012, EA Manager asked Official 3 for names of government officials that EA Manager could list on a falsified expense report. EA manager told Official 3 that a local government official had called EA Manager to ask EA Manager to pay for a meal for the official and his family during a family road trip. EA Manager explained that the official "knows that [EA Manager] can arrange for any place all over the country." EA Manager said that the official "has

helped [EA Manager] a lot before." EA Manager asked for names of officials that he could list on the expense report because "it's not appropriate for [EA Manager] to write down [the official's] name too many times."

24. During a telephone call on April 6, 2012, EA Manager told Official 3 that he went to buy fake receipts "to cover the gifts" for government officials, bags that were "very expensive by Prada." During a call on August 1, 2013, EA Manager and EA Director discussed whether to purchase fake meal invoices or fake gift invoices to best avoid internal audit oversight. They also discussed how EA Manager's usual fake invoice supplier was no longer available and his other sources could not provide enough fake invoices.

25. During a telephone call on March 21, 2014, two External Affairs employees discussed how to submit falsified expense reports for 20,000 yuan for claimed expenses regarding gifts to government officials. The two employees discussed splitting the gift expenses into two applications and revising the list of purported participants because the original list of 20 supposed deputy directors was not realistic.

26. In 2015 and 2016, Managing Director approved several expense applications submitted by an External Affairs employee for a reimbursement of approximately $150,000 claimed to have been paid to a farm, purportedly for shipping fruit and vegetable gifts to Chinese government officials and media, including state-owned media officials. The amount of produce purportedly purchased at the farm would have weighed approximately 34.5 metric tons, or 135 pounds per purported gift recipient, and, thus, could not have been the actual purpose of the $150,000 reimbursed. The expense applications and attached invoices were false, and the expenditures was improperly recorded in Herbalife's financial records.

27. Between 2012 and 2016, Herbalife China failed to accurately record gifts, meals, entertainment, and other expenditures provided for government officials on its books, records and accounts.

28. Herbalife China's financial statements were consolidated into Herbalife's reported financial statements, which were filed in the United States. Therefore, these falsified and/or fake expenses recorded by Herbalife China were incorporated into Herbalife's financial statements.

Herbalife Executives Received Internal Audit Reports Showing High Spending in China and Violations of Internal Policies

29. At all relevant times, Herbalife's Internal Audit department ("IA") was headed by Herbalife's Senior Vice President, Internal Audit ("IA Director"), who reported directly to Herbalife's Audit Committee. The IA in China ("China IA"), which reported directly to IA Director, audited External Affairs' expenses approximately twice a year. At the conclusion of each audit, China IA reported its results to IA, which then circulated a revised version of this report to Managing Director and Herbalife's management ("EA Audit Report"). The EA Audit Reports showed large expenses and identified violations of Herbalife China's internal policies regarding compliance with FCPA, including fake receipts and verbal approval of expenses when prior, written approval had been required.

30. For example, in 2014, an EA Audit Report covering expenses for the last six months of 2012 found that, during this six-month period, EA Director had been reimbursed over $1 million on claimed meals and gifts for Chinese government officials and media, including state-owned media officials. According to the report, EA Director submitted expenses claiming to have attended 239 such meals, with a total of 4,312 participants, averaging $3,232 per meal. These numbers were extraordinarily high, as there were only 184 days (including weekends) during those six months. According to the EA Audit Report, during those six months, External Affairs, as a whole, submitted expenses claiming to have treated 30,076 Chinese government officials and media members to meals, and was reimbursed, as a whole, a total of approximately $3.7 million for claimed meals, gifts, and entertainment of government officials and media, including state-owned media officials.

31. In March 2016, another EA Audit Report covering expenses for the first six months of 2015 stated that EA Director submitted expenses claiming to have attended 115 restaurant meals with Chinese government officials and media, including state-owned media officials, during that six-month period. The average cost per meal was $1,472. During that same period, according to the EA Audit Report, EA Director submitted expenses claiming to have provided gifts to 828 government officials and media, including state-owned media officials, totaling $146,485. The report stated that "vendor receipts were replaced when problems were found," highlighting Herbalife China's practice of allowing External Affairs to replace problematic receipts, and failing to highlight those problems on the final reports. Despite this practice of replacing problematic receipts, the report still found violations, such as restaurant receipts submitted by different employees with very close transaction times in the same restaurant. The report also found that External Affairs had expended a total of $811,465 without the corporate approvals required for those particular expenses, and that seven External Affairs employees (including EA Director) had relied solely upon verbal approvals for more than 50% of their expense applications, despite Herbalife China's internal policy that such verbal approval could be used only for emergency expenditures.

32. After receiving the March 2016 IA report, a member of Herbalife's Board of Directors emailed the Audit Committee and IA Director asking whether the high spending by China EA was reasonable. Another Board member responded: "Please note I have questioned this every year I have been on the board, and the company has defended its position that these are reasonable within FCPA guidelines." IA Director responded that "the findings are the typical issues in these audits" and are within "tolerance."

33. Between 2012 and 2016, Herbalife reimbursed External Affairs employees for over $7.2 million in questionable External Affairs meal and gift expenditures in connection with Chinese officials and media, including state-owned media officials. Herbalife obtained approximately $58.7 million in benefit based on the conduct described above.

Legal Standards and Violations

34. Under Section 21C of the Exchange Act, the Commission may impose a cease-and-desist order upon any person who is violating, has violated, or is about to violate any provision of the Exchange Act or any rule or regulation thereunder, and upon any other person that is, was, or would be a cause of the violation, due to an act or omission the person knew or should have known would contribute to such violation.

35. As a result of the conduct described above, Herbalife violated Section 13(b)(2)(A) of the Exchange Act, which requires issuers that have a class of securities registered pursuant to Section 12 of the Exchange Act and issuers with reporting obligations pursuant to Section 15(d) of the Exchange Act to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect their transactions and disposition of their assets. [15 U.S.C. § 78m(b)(2)(A)].

36. As a result of the conduct described above, Herbalife violated Section 13(b)(2)(B) of the Exchange Act, which requires issuers that have a class of securities registered pursuant to Section 12 of the Exchange Act and issuers with reporting obligations pursuant to Section 15(d) of the Exchange Act to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary (I) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and (II) to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. [15 U.S.C. § 78m(b)(2)(B)].

Herbalife's Cooperation and Remedial Efforts

37. In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent and cooperation afforded the Commission staff. Herbalife's remediation included terminating employees involved in the violative conduct, hiring a dedicated Chief Compliance Officer, enhancing internal accounting controls and compliance functions, and adopting a new compliance structure. Herbalife's cooperation included timely sharing of facts developed during the course of an internal investigation and voluntarily producing documents.

Undertakings

38. Respondent has undertaken to:

(1) Report to the Commission staff periodically during a three-year term, the status of its remediation and implementation of compliance measures, particularly as to the areas of due diligence on prospective and existing third-party consultants and vendors, FCPA training, and the testing of relevant controls including the collection and analysis of compliance data.

(2) During this period, should Herbalife discover credible evidence, not already reported to the Commission staff, that questionable or corrupt payments or questionable or corrupt transfers of value may have been offered, promised, paid, or authorized by Herbalife, or any entity or person acting on behalf of Herbalife, or that related false books and records have been maintained, Herbalife shall promptly report such conduct to the Commission staff.

(3) During this three-year period, Herbalife shall: (1) conduct an initial review and submit an initial report and (2) conduct and prepare two follow-up reviews and reports, as described below:

a. Herbalife shall submit to the Commission staff a written report within 365 calendar days of the entry of this Order setting forth a complete description of its FCPA and anti-corruption related remediation efforts to date, its proposals reasonably designed to improve Herbalife's policies and procedures for the purpose of compliance with FCPA and other applicable anticorruption laws, and the parameters of the subsequent review (the "Initial Report"). The Initial Report shall be transmitted to Gerald A. Gross, Assistant Regional Director, United States Securities and Exchange Commission, New York Regional Office, 200 Vesey Street, Suite 400, New York, New York 10128. Herbalife may extend the time period for issuance of the Initial Report with prior written approval of the Commission staff.

b. Herbalife shall undertake two follow-up reviews, incorporating any comments provided by the Commission staff on the previous report, to further monitor and assess whether Herbalife's policies and procedures are reasonably designed to detect and prevent violations of the FCPA and other applicable anti-corruption laws (the "Follow-Up Reports").

c. The first Follow-up Report shall be completed by no later than 365 days after the Initial Report. The second Follow-up Report shall be completed by no later than 700 days after the completion of the Initial Report. Herbalife may extend the time period for issuance of the Follow-up Reports with prior written approval of the Commission staff.

d. The periodic reviews and reports submitted by Herbalife will likely include confidential financial, proprietary, competitive business or commercial information. Public disclosure of the reports could discourage cooperation, impede pending or potential government investigations or undermine the objectives of the reporting requirement. For these reasons, among others, the reports and the contents thereof are intended to remain and shall remain non-

public, except (1) pursuant to court order, (2) as agreed to by the parties in writing, (3) to the extent that the Commission determines in its sole discretion that disclosure would be in furtherance of the Commission's discharge of its duties and responsibilities, or (4) is otherwise required by law.

e. During this three-year period of review, Herbalife shall provide its external auditors with its annual internal audit plan and reports of the results of internal audit procedures and, subject to attorney-client privilege and attorney work product protections, its assessment of its FCPA compliance policies and procedures.

f. During the three-year period of review, Herbalife shall provide Commission staff with any written reports or recommendations provided by Herbalife's external auditors in response to Herbalife's annual internal audit plan, reports of the results of internal audit procedures, and its assessments of its FCPA compliance policies and procedures.

(4) Certify, in writing, compliance with the undertakings set forth above. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Commission staff may make reasonable requests for further evidence of compliance, and Respondent agrees to provide such evidence. The certification and supporting material shall be submitted to Gerald A. Gross, Assistant Regional Director, United States Securities and Exchange Commission, New York Regional Office, 200 Vesey Street, Suite 400, New York, New York 10128, with a copy to the Office of Chief Counsel of the Enforcement Division, no later than sixty (60) days from the date of the completion of the undertakings.

39. Respondent undertakes to do the following: in connection with this action and any related judicial or administrative proceeding or investigation commenced by the Commission or to which the Commission is a party, Respondent (i) agrees to appear and be interviewed by Commission staff at such times and places as the staff requests upon reasonable notice; (ii) will accept service by mail or facsimile transmission of notices or subpoenas issued by the Commission for documents or testimony at depositions, hearings, or trials, or in connection with any related investigation by Commission staff; (iii) appoints Respondent's undersigned attorney as agent to receive service of such notices and subpoenas; (iv) with respect to such notices and subpoenas, waives the territorial limits on service contained in Rule 45 of the Federal Rules of Civil Procedure and any applicable local rules, provided that the party requesting the testimony reimburses Respondent's travel, lodging, and subsistence expenses at the then-prevailing U.S. Government per diem rates; and (v) consents to personal jurisdiction over Respondent in any United States District Court for purposes of enforcing any such subpoena.

In determining whether to accept the Offer, the Commission has considered the undertakings set forth in Paragraph 39.

Deferred Prosecution Agreement

40. Herbalife has entered into a three-year deferred prosecution agreement with the United States Department of Justice that acknowledges responsibility for criminal conduct relating to certain findings in the Order.

Non-Imposition of a Civil Penalty

41. Herbalife acknowledges that the Commission is not imposing a civil penalty based upon the imposition of a $55,743,093 criminal fine as part of its resolution with the Department of Justice.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent Herbalife's Offer.

Accordingly, it is hereby ORDERED that**:**

A. Pursuant to Section 21C of the Exchange Act, Respondent Herbalife cease and desist from committing or causing any violations and any future violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act.

B. Respondent shall comply with the undertakings enumerated in Paragraph 38 above.

C. Respondent shall, within 10 days of the entry of this Order, pay disgorgement of $58,669,993.00 and prejudgment interest of $8,643,504.50 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600.

Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Herbalife as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Sanjay Wadhwa, Senior Associate Director, New York Regional Office, Securities and Exchange Commission, 200 Vesey Street, Suite 400, New York, NY 10281-1022.

By the Commission.

Vanessa A. Countryman
Secretary

Exhibit 31.1

RULE 13a-14(a) CERTIFICATION

I, Dr. John O. Agwunobi, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Herbalife Nutrition Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ DR. JOHN O. AGWUNOBI
Dr. John O. Agwunobi
Chairman of the Board and Chief Executive Officer

Dated: November 5, 2020

Exhibit 31.2

RULE 13a-14(a) CERTIFICATION

I, Bosco Chiu, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Herbalife Nutrition Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ BOSCO CHIU
Bosco Chiu
Executive Vice President, Chief Financial Officer

Dated: November 5, 2020

Exhibit 32.1

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

In connection with the Quarterly Report of Herbalife Nutrition Ltd., or the Company, on Form 10-Q for the period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof, or the Report, and pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of the Company certify that: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DR. JOHN O. AGWUNOBI
Dr. John O. Agwunobi
Chairman of the Board and Chief Executive Officer

Dated: November 5, 2020

/s/ BOSCO CHIU
Bosco Chiu
Executive Vice President, Chief Financial Officer

Dated: November 5, 2020

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