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

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**Form 10-Q**

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(Mark One)

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

For the quarterly period ended March 31, 2019

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

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**HERBALIFE NUTRITION LTD.**

*(Exact name of registrant as specified in its charter)*

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**Cayman Islands**  
*(State or other jurisdiction of  
incorporation or organization)*

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

**P.O. Box 309GT**  
**Ugland House, South Church Street**  
**Grand Cayman, Cayman Islands**  
*(Address of principal executive offices) (Zip code)*  
**(213) 745-0500**  
*(Registrant's telephone number, including area code)*

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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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

<u>Title of each class:</u> Common Shares, par value \$0.0005 per share	<u>Trading Symbol(s):</u> HLF	<u>Name of each exchange on which registered:</u> New York Stock Exchange
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Number of shares of registrant's common shares outstanding as of April 25, 2019 was 151,150,838.

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PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements*

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

	March 31, 2019	December 31, 2018
<i>(in millions, except share and par value amounts)</i>		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,209.0	\$ 1,198.9
Receivables, net of allowance for doubtful accounts	92.6	70.5
Inventories	407.5	381.8
Prepaid expenses and other current assets	126.0	153.8
<b>Total current assets</b>	<b>1,835.1</b>	<b>1,805.0</b>
Property, plant, and equipment, at cost, net of accumulated depreciation and amortization	359.4	360.0
Operating lease right-of-use assets	172.5	—
Marketing-related intangibles and other intangible assets, net	310.1	310.1
Goodwill	92.0	92.9
Other assets	213.7	221.8
<b>Total assets</b>	<b>\$ 2,982.8</b>	<b>\$ 2,789.8</b>
<b>LIABILITIES, TEMPORARY EQUITY, AND SHAREHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 82.8	\$ 81.1
Royalty overrides	260.4	281.4
Current portion of long-term debt	686.2	678.9
Other current liabilities	501.7	547.4
<b>Total current liabilities</b>	<b>1,531.1</b>	<b>1,588.8</b>
Long-term debt, net of current portion	1,775.5	1,774.9
Non-current operating lease liabilities	151.1	—
Other non-current liabilities	142.9	149.5
<b>Total liabilities</b>	<b>3,600.6</b>	<b>3,513.2</b>
Commitments and contingencies		
Temporary equity	11.3	—
Shareholders' deficit:		
Common shares, \$0.0005 par value; 2.0 billion shares authorized; 141.1 million (2019) and 142.8 million (2018) shares outstanding	0.1	0.1
Paid-in capital in excess of par value	333.8	341.5
Accumulated other comprehensive loss	(204.1)	(209.8)
Accumulated deficit	(430.0)	(526.3)
Treasury stock, at cost, 10.0 million (2019) and 10.0 million (2018) shares	(328.9)	(328.9)
<b>Total shareholders' deficit</b>	<b>(629.1)</b>	<b>(723.4)</b>
<b>Total liabilities, temporary equity, and shareholders' deficit</b>	<b>\$ 2,982.8</b>	<b>\$ 2,789.8</b>

See the accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended	
	March 31, 2019	March 31, 2018
	<i>(in millions, except per share amounts)</i>	
Net sales	\$ 1,172.2	\$ 1,176.9
Cost of sales	241.6	239.9
Gross profit	930.6	937.0
Royalty overrides	359.5	337.3
Selling, general, and administrative expenses	435.4	460.1
Other operating income	(27.3)	(16.2)
Operating income	163.0	155.8
Interest expense, net	36.1	39.9
Other (income) expense, net	(8.5)	24.4
Income before income taxes	135.4	91.5
Income taxes	39.1	9.4
Net income	<u>\$ 96.3</u>	<u>\$ 82.1</u>
Earnings per share:		
Basic	\$ 0.70	\$ 0.57
Diluted	\$ 0.66	\$ 0.54
Weighted-average shares outstanding:		
Basic	137.1	145.3
Diluted	145.5	152.7

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	
	March 31, 2019	March 31, 2018
	<i>(in millions)</i>	
Net income	\$ 96.3	\$ 82.1
Other comprehensive income:		
Foreign currency translation adjustment, net of income taxes of \$0.5 and \$1.1 for the three months ended March 31, 2019 and 2018, respectively	7.1	21.2
Unrealized loss on derivatives, net of income taxes of \$— for both the three months ended March 31, 2019 and 2018	(1.4)	(3.1)
<b>Total other comprehensive income</b>	<b>5.7</b>	<b>18.1</b>
<b>Total comprehensive income</b>	<b>\$ 102.0</b>	<b>\$ 100.2</b>

See the accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended	
	March 31, 2019	March 31, 2018
	<i>(in millions)</i>	
Cash flows from operating activities:		
Net income	\$ 96.3	\$ 82.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24.4	25.6
Share-based compensation expenses	10.6	9.8
Non-cash interest expense	13.9	15.7
Deferred income taxes	0.4	3.3
Inventory write-downs	5.3	12.1
Foreign exchange transaction loss	4.5	0.5
Loss on extinguishment of debt	—	13.1
Other	(6.8)	12.4
Changes in operating assets and liabilities:		
Receivables	(23.1)	(16.1)
Inventories	(27.9)	8.4
Prepaid expenses and other current assets	26.9	(11.9)
Accounts payable	2.0	16.4
Royalty overrides	(21.5)	(12.6)
Other current liabilities	(72.2)	(3.7)
Other	5.7	1.1
Net cash provided by operating activities	<u>38.5</u>	<u>156.2</u>
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(27.0)	(15.6)
Net cash used in investing activities	<u>(27.0)</u>	<u>(15.6)</u>
Cash flows from financing activities:		
Principal payments on senior secured credit facility and other debt	(5.1)	(24.5)
Proceeds from convertible senior notes	—	550.0
Repurchase of convertible senior notes	—	(582.5)
Debt issuance costs	—	(11.7)
Share repurchases	(7.6)	(54.2)
Proceeds from settlement of capped call transactions	—	27.1
Other	0.8	0.6
Net cash used in financing activities	<u>(11.9)</u>	<u>(95.2)</u>
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	4.4	6.1
Net change in cash, cash equivalents, and restricted cash	4.0	51.5
Cash, cash equivalents, and restricted cash, beginning of period	1,215.0	1,295.5
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 1,219.0</u>	<u>\$ 1,347.0</u>

See the accompanying notes to unaudited condensed consolidated financial statements.

**HERBALIFE NUTRITION LTD. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**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, 2018 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 March 31, 2019 and for the three months ended March 31, 2019 and 2018 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 March 31, 2019 and for the three months ended March 31, 2019 and 2018. 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, 2018, or the 2018 10-K. Operating results for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

*Reclassifications*

Certain reclassifications were made to the prior period condensed consolidated statement of cash flows to conform to the current period presentation.

*Recently Adopted Pronouncements*

In February 2016, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2016-02, *Leases (Topic 842)*, and subsequently issued additional updates to Accounting Standards Codification, or ASC, Topic 842, or ASC 842. The updated guidance requires lessees to recognize a lease liability and a right-of-use asset, measured at the present value of the future minimum lease payments, at the lease commencement date. The amendments also require certain quantitative and qualitative disclosures. ASU 2016-02 is effective for all interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The update requires entities to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach or allows entities to initially apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company adopted ASC 842 at the adoption date with the initial application date as of January 1, 2019. Under this adoption method, prior period amounts have not been adjusted. The Company elected to apply the package of practical expedients which allows entities to not reassess whether expired or existing contracts contain leases, not reassess the classification of existing leases, and not reassess initial direct costs for existing leases. Additionally, the Company did not apply hindsight in the determination of the lease term and assessing impairment of right-of-use assets for existing leases. As a result, the Company did not make any adjustments to beginning retained earnings. As part of the Company’s updated lease accounting policies, leases with an initial term of twelve months or less are not recorded on the balance sheet. Additionally, the Company elected to account for lease and non-lease components as a single lease component in the measurement of its lease liabilities and right-of-use assets. On January 1, 2019, the Company recorded total operating lease liabilities of \$189.1 million and total operating lease right-of-use assets of \$176.9 million, net of certain deferred rent liabilities and prepaid rent, which had no impact to the Company’s condensed consolidated statements of cash flows. See Note 4, *Leases*, for additional information.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities*. This ASU improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and makes certain targeted improvements to simplify the application of existing hedge accounting guidance. The Company has elected to record changes in the fair value of amounts excluded from the assessment of effectiveness currently in earnings. The adoption of this guidance during the first quarter of 2019 did not have a material impact on the Company's condensed consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement — Reporting Comprehensive Income (Topic 220)*. This ASU allows a reclassification from accumulated other comprehensive income to retained earnings for tax effects of items within accumulated other comprehensive income, or stranded tax effects, resulting from the Tax Cuts and Jobs Act and requires certain disclosures about those stranded tax effects. The Company has elected to not reclassify the income tax effects of the Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings. The adoption of this guidance during the first quarter of 2019 did not have a material impact on the Company's condensed consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, *Compensation — Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. This ASU expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The adoption of this guidance during the first quarter of 2019 did not have a material impact on the Company's condensed consolidated financial statements.

In November 2018, SEC Release No. 33-10532, *Disclosure Update and Simplification*, became effective which amended and simplified certain disclosure requirements including the requirement to present an analysis of changes in shareholders' equity for interim periods. The Company has included a reconciliation of the changes in its shareholders' deficit in Note 11, *Shareholders' Deficit*.

#### *New Accounting Pronouncements*

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

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 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 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 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 \$73.3 million and \$52.7 million as of March 31, 2019 and December 31, 2018, respectively. Substantially all credit card receivables were current as of March 31, 2019 and December 31, 2018. The Company recorded \$0.6 million and \$0.1 million during the three months ended March 31, 2019 and 2018, respectively, in bad-debt expense related to allowances for the Company's receivables. As of both March 31, 2019 and December 31, 2018, the Company's allowance for doubtful accounts was \$1.5 million. As of March 31, 2019 and December 31, 2018, 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 three months ended March 31, 2019, the Company recognized substantially all of the revenues that were included within advance sales deposits as of December 31, 2018 and any remaining such balance was not material as of March 31, 2019. Advance sales deposits are included in Other current liabilities on the Company's condensed consolidated balance sheets. See Note 14, *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 \$4.7 million and \$4.9 million as of March 31, 2019 and December 31, 2018, 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 regions with the Company's Primary Reporting Segment. See Note 7, *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 6, *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 March 31, 2019, 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 of approximately \$21.3 million and \$16.2 million during the three months ended March 31, 2019 and 2018, respectively, in other operating income within its condensed consolidated statements of income, related to its regional headquarters and distribution centers within China. The Company intends to continue applying for government grants in China when programs are available; however, there is no assurance that the Company will receive grants in future periods.

During the three months ended March 31, 2019, the Company 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 2018 10-K for further discussion.

#### *Other (Income) Expense, Net*

During the three months ended March 31, 2019, the Company recognized a gain of \$8.5 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 11, *Shareholders' Deficit*, for further information on the CVR) in other (income) expense, net within its condensed consolidated statements of income. During the three months ended March 31, 2018, the Company recognized a loss of \$11.3 million on the revaluation of the CVR and a \$13.1 million loss on extinguishment of \$475.0 million aggregate principal amount of the Company's convertible senior notes due 2019 (See Note 5, *Long-Term Debt*) in other (income) expense, net within its condensed consolidated statements of income. These non-cash expenses are included as non-cash adjustments 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:

	March 31, 2019	December 31, 2018
	<i>(in millions)</i>	
Cash and cash equivalents	\$ 1,209.0	\$ 1,198.9
Restricted cash included in Prepaid expenses and other current assets	2.2	3.3
Restricted cash included in Other assets	7.8	12.8
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 1,219.0</u>	<u>\$ 1,215.0</u>

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.

### 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:

	March 31, 2019	December 31, 2018
	<i>(in millions)</i>	
Raw materials	\$ 55.7	\$ 51.9
Work in process	9.4	7.1
Finished goods	342.4	322.8
Total	<u>\$ 407.5</u>	<u>\$ 381.8</u>

### 4. Leases

Generally, the Company leases certain office space, warehouses, distribution centers, manufacturing centers, and equipment. A contract is or contains a lease if the contract conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. The Company also rents or subleases certain real estate to third parties. Sublease income was not material for the three months ended March 31, 2019 and 2018.

In general, the Company's leases include one or more options to renew, with renewal terms that generally vary from one to ten years. The exercise of lease renewal options is generally at the Company's sole discretion. Certain leases also include options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Leases with an initial term of twelve months or less are not recorded on the Company's condensed consolidated balance sheets, and the Company does not separate nonlease components from lease components. The Company's lease assets and liabilities recognized within its condensed consolidated balance sheets were as follows:

	<b>March 31, 2019</b>	<b>Balance Sheet Location</b>
	<i>(in millions)</i>	
<b>ASSETS:</b>		
Operating lease right-of-use assets	\$ 172.5	Operating lease right-of-use assets
		Property, plant, and equipment, at cost, net of accumulated depreciation and amortization(1)
Finance lease right-of-use assets	0.7	
Total lease assets	<u>\$ 173.2</u>	
<b>LIABILITIES:</b>		
<b>Current:</b>		
Operating lease liabilities	\$ 35.4	Other current liabilities
Finance lease liabilities	0.4	Current portion of long-term debt
<b>Non-current:</b>		
Operating lease liabilities	151.1	Non-current operating lease liabilities
Finance lease liabilities	0.4	Long-term debt, net of current portion
Total lease liabilities	<u>\$ 187.3</u>	

- (1) Finance lease assets are recorded net of accumulated amortization of \$1.0 million as of March 31, 2019.

Lease cost is recognized on a straight-line basis over the lease term. The components of lease cost are as follows:

	<b>Three Months Ended March 31, 2019</b>
	<i>(in millions)</i>
Operating lease cost(1)(2)	\$ 15.8
Finance lease cost	
Amortization of right-of-use assets	0.1
Interest on lease liabilities	—
Net lease cost	<u>\$ 15.9</u>

- (1) Includes short-term leases and variable lease costs, which are \$2.7 million and \$0.3 million, respectively. Variable lease costs, which include items such as real estate taxes, common area maintenance, and changes based on an index or rate, are not included in the calculation of the right-of-use assets and are recognized as incurred.
- (2) Amounts include \$15.0 million recorded to selling, general, and administrative expenses within the Company's condensed consolidated statements of income and \$0.8 million capitalized as part of the cost of another asset, which includes inventories. During the three months ended March 31, 2018, the Company recognized rental expense of \$14.7 million in selling, general, and administrative expenses within the Company's condensed consolidated statements of income pursuant to FASB ASC Topic 840, *Leases*.

As of March 31, 2019, annual scheduled lease payments were as follows:

	<b>Operating Leases(1)</b>	<b>Finance Leases(2)</b>
	<i>(in millions)</i>	
2019	\$ 26.4	\$ 0.4
2020	38.3	0.4
2021	29.5	—
2022	24.3	—
2023	14.4	—
Thereafter	117.9	—
<b>Total lease payments</b>	<b>250.8</b>	<b>0.8</b>
Less: imputed interest	64.3	—
<b>Present value of lease liabilities</b>	<b>\$ 186.5</b>	<b>\$ 0.8</b>

- (1) Operating lease payments exclude \$3.9 million of legally binding minimum lease payments for leases signed but not yet commenced.  
(2) Finance lease payments exclude an immaterial amount of legally binding minimum lease payments for leases signed but not yet commenced.

In general, for the majority of the Company's material leases, the renewal options are not included in the calculation of its right-of-use assets and lease liabilities, as the Company does not believe that it is reasonably certain that these renewal options will be exercised. Periodically, the Company assesses its leases to determine whether it is reasonably certain that these renewal options will be exercised.

As of December 31, 2018, future minimum rental commitments for non-cancelable operating leases were as follows:

	<b>Operating Leases</b>
	<i>(in millions)</i>
2019	\$ 43.1
2020	36.3
2021	27.4
2022	23.0
2023	12.5
Thereafter	111.4
<b>Total</b>	<b>\$ 253.7</b>

The majority of the Company's leases are for real estate and in general, the individual lease contracts do not provide information about the rate implicit in the lease. Because the Company is not able to determine the rate implicit in its leases, it instead generally uses its incremental borrowing rate to determine the present value of lease liabilities. In determining its incremental borrowing rate, the Company reviewed the terms of its leases, its senior secured credit facility, swap rates, and other factors. The weighted-average remaining lease term and weighted-average discount rate used to calculate the present value of lease liabilities are as follows:

	<b>March 31, 2019</b>
<b>Weighted-average remaining lease term:</b>	
Operating leases	9.0 years
Finance leases	1.9 years
<b>Weighted-average discount rate:</b>	
Operating leases	5.9%
Finance leases	5.7%

Supplemental cash flow information related to leases is as follows:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2019</b>	
	<i>(in millions)</i>	
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>		
Operating cash flows for operating leases	\$	10.2
Operating cash flows for finance leases		—
Financing cash flows for finance leases		0.1
<b>Right-of-use assets obtained in exchange for new lease liabilities:</b>		
Operating leases		6.1
Finance leases		—

## 5. Long-Term Debt

Long-term debt consists of the following:

	<b>March 31,</b>	<b>December 31,</b>
	<b>2019</b>	<b>2018</b>
	<i>(in millions)</i>	
Borrowings under senior secured credit facility, carrying value	\$ 979.1	\$ 983.6
2.00% convertible senior notes due 2019, carrying value of liability component	663.7	656.4
2.625% convertible senior notes due 2024, carrying value of liability component	421.1	416.0
7.250% senior notes due 2026, carrying value	394.9	394.8
Other	2.9	3.0
<b>Total</b>	<b>2,461.7</b>	<b>2,453.8</b>
<b>Less: current portion</b>	<b>686.2</b>	<b>678.9</b>
<b>Long-term portion</b>	<b>\$ 1,775.5</b>	<b>\$ 1,774.9</b>

### *Senior Secured Credit Facility*

On March 9, 2011, the Company entered into a senior secured credit facility, or the 2011 Credit Facility, which initially consisted of a \$700.0 million revolving credit facility, or the 2011 Revolving Credit Facility, with a syndicate of financial institutions as lenders. The 2011 Credit Facility was subsequently amended on July 26, 2012 to include a \$500.0 million term loan, or the 2011 Term Loan, with a syndicate of financial institutions as lenders. On May 4, 2015, the Company amended the 2011 Credit Facility to extend the maturity date of the 2011 Revolving Credit Facility by one year to March 9, 2017. The 2011 Term Loan matured on March 9, 2016 and the \$229.7 million outstanding was repaid in full. Prior to its termination, the 2011 Term Loan most recently bore interest at either LIBOR plus the applicable margin between 2.00% and 3.00% or the base rate plus the applicable margin between 1.00% and 2.00%, based on the Company's consolidated leverage ratio. The Company terminated the 2011 Revolving Credit Facility on February 15, 2017 and the \$410.0 million outstanding was repaid in full. Prior to its termination, the 2011 Revolving Credit Facility most recently bore interest at either LIBOR plus the applicable margin between 4.00% and 5.00% or the base rate plus the applicable margin between 3.00% and 4.00%, based on the Company's consolidated leverage ratio.

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 new \$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. The 2018 Term Loan A and 2018 Revolving Credit Facility both mature on August 16, 2023 and the 2018 Term Loan B matures on August 18, 2025. However, the 2018 Term Loan B will mature on either: (i) May 16, 2019 if the outstanding principal on the 2019 Convertible Notes, as defined below, exceeds \$350.0 million and the Company exceeds certain leverage ratios on such date; 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 on such 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 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.

Borrowings under both the 2018 Term Loan A and 2018 Revolving Credit Facility bear interest at either the eurocurrency rate plus a margin of 3.00% or the base rate plus a margin of 2.00%. Borrowings under the 2018 Term Loan B bear interest at either the eurocurrency rate plus a margin of 3.25% or the base rate plus a margin of 2.25%. The eurocurrency rate is based on adjusted LIBOR. 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 0.50% 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 March 31, 2019 and December 31, 2018, 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 and 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.

As of March 31, 2019 and December 31, 2018, the weighted-average interest rate for borrowings under the 2018 Credit Facility was 5.71% and 6.80%, respectively.

During the three months ended March 31, 2019, the Company repaid a total amount of \$5.0 million on amounts outstanding under the 2018 Credit Facility. During the three months ended March 31, 2018, the Company repaid a total amount of \$24.4 million on amounts outstanding under the 2017 Credit Facility. As of March 31, 2019 and December 31, 2018, the U.S. dollar amount outstanding under the 2018 Credit Facility was \$990.0 million and \$995.0 million, respectively. Of the \$990.0 million outstanding under the 2018 Credit Facility as of March 31, 2019, \$243.8 million was outstanding under the 2018 Term Loan A and \$746.2 million was outstanding under the 2018 Term Loan B. Of the \$995.0 million outstanding under the 2018 Credit Facility as of December 31, 2018, \$246.9 million was outstanding under the 2018 Term Loan A and \$748.1 million was outstanding under the 2018 Term Loan B. There were no borrowings outstanding under the 2018 Revolving Credit Facility as of March 31, 2019 and December 31, 2018. There were no outstanding foreign currency borrowings under the 2018 Credit Facility as of March 31, 2019 and December 31, 2018.

During the three months ended March 31, 2019 and 2018, the Company recognized \$15.0 million and \$24.2 million, respectively, of interest expense relating to the 2018 Credit Facility and 2017 Credit Facility, which included \$0.1 million and \$1.1 million, respectively, relating to non-cash interest expense relating to the debt discount and \$0.4 million and \$1.0 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 13, *Fair Value Measurements*. As of March 31, 2019 and December 31, 2018, the carrying value of the 2018 Term Loan A was \$242.4 million and \$245.4 million, respectively, and the fair value was approximately \$244.6 million and \$240.7 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 13, *Fair Value Measurements*. As of March 31, 2019 and December 31, 2018, the carrying amount of the 2018 Term Loan B was \$736.7 million and \$738.2 million, respectively, and the fair value was approximately \$748.6 million and \$729.3 million, respectively.

### *Convertible Senior Notes due 2019*

During 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 during February 2014, resulting in a total issuance of \$1.15 billion aggregate principal amount of 2019 Convertible Notes. The 2019 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 2019 Convertible Notes pay interest at a rate of 2.00% per annum payable semiannually in arrears on February 15 and August 15 of each year, beginning on August 15, 2014. The 2019 Convertible Notes mature on August 15, 2019, unless earlier repurchased or converted. The Company may not redeem the 2019 Convertible Notes prior to their stated maturity date. Holders of the 2019 Convertible Notes may convert their notes at their option under the following circumstances: (i) during any calendar quarter commencing after the calendar quarter ending March 31, 2014, if the last reported sale price of the Company's common shares for at least 20 trading days (whether or not consecutive) in a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter exceeds 130% of the conversion price for the 2019 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 2019 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 2019 Convertible Notes for each such day; or (iii) upon the occurrence of specified corporate events. On and after May 15, 2019, holders may convert their 2019 Convertible Notes at any time, regardless of the foregoing circumstances. Upon conversion, the 2019 Convertible Notes will be settled in cash and, if applicable, the Company's common shares, based on the applicable conversion rate at such time. The 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 conversion rate is subject to adjustment upon the occurrence of certain events and was 23.2245 common shares per \$1,000 principal amount of the 2019 Convertible Notes, or a conversion price of approximately \$43.06 per common share, as of March 31, 2019. As of March 31, 2019, the if-converted value of the 2019 Convertible Notes exceeded their outstanding principal amount by \$155.7 million since the closing price of the Company's common shares was \$52.99 compared to the conversion price of \$43.06. The Company entered into capped call transactions with respect to its common shares in connection with the issuance of the 2019 Convertible Notes, as summarized below, which are 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 is greater than the strike price of the capped call transactions. See Note 11, *Shareholders' Deficit*, for additional discussion on the capped call transactions.

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 are being amortized over the contractual term of the 2019 Convertible Notes using the effective-interest method.

During 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 must still settle these 2019 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 2019 Convertible Notes remain outstanding. The effective-interest rate on the 2019 Convertible Notes is approximately 6.2% per annum. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

During 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 is recorded in other (income) expense, net within the Company's condensed consolidated statement of income. The accounting impact of the new 2024 Convertible Notes is described in further detail below.

As of March 31, 2019, the remaining outstanding principal on the 2019 Convertible Notes was \$675.0 million, the unamortized debt discount and debt issuance costs were \$11.3 million, and the carrying amount of the liability component was \$663.7 million, which was recorded to current portion of long-term debt within the Company's condensed consolidated balance sheet. As of December 31, 2018, the outstanding principal on the 2019 Convertible Notes was \$675.0 million, the unamortized debt discount and debt issuance costs were \$18.6 million, and the carrying amount of the liability component was \$656.4 million, which was recorded to current portion of long-term debt within the Company's condensed consolidated balance sheet. The fair value of the liability component relating to the 2019 Convertible Notes was approximately \$669.0 million and \$662.1 million as of March 31, 2019 and December 31, 2018, respectively.

During the three months ended March 31, 2019 and 2018, the Company recognized \$10.7 million and \$18.7 million, respectively, of interest expense relating to the 2019 Convertible Notes, which included \$6.7 million and \$10.4 million, respectively, relating to non-cash interest expense relating to the debt discount and \$0.7 million and \$1.0 million, respectively, 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 11, *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.

#### *Temporary Equity*

During the fourth quarter of 2018, the last reported sale price of the Company's common shares exceeded 130% of the conversion price for the 2019 Convertible Notes for at least 20 trading days in the period of 30 consecutive trading days ending on, and including, the last trading day of the quarter. As such, the 2019 Convertible Notes were convertible at the holders' option during the first quarter of 2019. The Company reclassified the difference between the aggregate principal amount and the carrying value of the 2019 Convertible Notes of approximately \$11.3 million from additional paid-in capital to temporary equity on its condensed consolidated balance sheet as of March 31, 2019.

During the first quarter of 2019, the last reported sale price of the Company's common shares exceeded 130% of the conversion price for the 2019 Convertible Notes for at least 20 trading days in the period of 30 consecutive trading days ending on, and including, the last trading day of the quarter. As such, the 2019 Convertible Notes continue to remain convertible at the holders' option.

### *Convertible Senior Notes due 2024*

During 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. The 2024 Convertible Notes mature on March 15, 2024, unless redeemed, repurchased or converted in accordance with their terms prior to such date. 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 March 31, 2019.

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 consolidated balance sheet, are being amortized over the contractual term of the 2024 Convertible Notes using the effective-interest method.

During 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 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 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 March 31, 2019, the outstanding principal on the 2024 Convertible Notes was \$550.0 million, the unamortized debt discount and debt issuance costs were \$128.9 million, and the carrying amount of the liability component was \$421.1 million, which was recorded to long-term debt within the Company's condensed consolidated balance sheet. As of December 31, 2018, the outstanding principal on the 2024 Convertible Notes was \$550.0 million, the unamortized debt discount and debt issuance costs were \$134.0 million, and the carrying amount of the liability component was \$416.0 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 \$476.4 million and \$448.1 million as of March 31, 2019 and December 31, 2018, respectively.

During the three months ended March 31, 2019 and 2018, the Company recognized \$8.8 million and \$0.8 million, respectively, of interest expense relating to the 2024 Convertible Notes, which included \$4.9 million and \$0.5 million, respectively, relating to non-cash interest expense relating to the debt discount and \$0.3 million and an immaterial amount, respectively, relating to amortization of debt issuance costs.

### Senior Notes due 2026

During 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 consolidated balance sheet, are being amortized over the contractual term of the 2026 Notes using the effective-interest method.

As of March 31, 2019, the outstanding principal on the 2026 Notes was \$400.0 million, the unamortized debt issuance costs were \$5.1 million, and the carrying amount was \$394.9 million, which was recorded to long-term debt within the Company's condensed consolidated balance sheet. As of December 31, 2018, the outstanding principal on the 2026 Notes was \$400.0 million, the unamortized debt issuance costs were \$5.2 million, and the carrying amount was \$394.8 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 \$413.1 million and \$394.6 million as of March 31, 2019 and December 31, 2018, respectively, and was determined by utilizing over-the-counter market quotes and yield curves, which are considered Level 2 inputs as defined in Note 13, *Fair Value Measurements*.

During the three months ended March 31, 2019, the Company recognized \$7.4 million of interest expense relating to the 2026 Notes, which included \$0.1 million 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 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 \$42.4 million and \$44.6 million for the three months ended March 31, 2019 and 2018, respectively, which was recognized within its condensed consolidated statements of income.

As of March 31, 2019, annual scheduled principal payments of debt were as follows:

	<u>Principal Payments</u> <i>(in millions)</i>
2019	\$ 692.4
2020	22.0
2021	26.3
2022	27.8
2023	188.7
Thereafter	1,660.6
<b>Total</b>	<u>\$ 2,617.8</u>

Certain vendors and government agencies may require letters of credit or similar guaranteeing arrangements to be issued or executed. As of March 31, 2019, the Company had \$38.3 million of issued but undrawn letters of credit or similar arrangements, which included the Mexico Value Added Tax, or VAT, related surety bonds described in Note 6, *Contingencies*.

### 6. 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 of approximately \$15.1 million, translated at the March 31, 2019 spot rate, 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 litigation is ongoing. The Company has not recognized a loss as the Company does not believe a loss is probable. The Company issued a surety bond in the amount of \$18.6 million, translated at the March 31, 2019 spot rate, through an insurance company to guarantee payment of the tax assessment as required while the Company pursues an appeal of the assessment, and the surety bond remained effective as of March 31, 2019.

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 March 31, 2019, the Company had \$32.3 million of Mexico VAT related assets, of which \$20.6 million was within non-current other assets and \$11.7 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.

With respect to these Mexican matters, the Company is currently unable to reasonably estimate a possible loss or range of loss that could result from an unfavorable outcome if an assessment was re-issued or any additional assessments were to be issued for these or other periods. The Company believes that it has meritorious defenses if an assessment is re-issued or would have meritorious defenses if any additional assessment is issued.

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 \$15.6 million, translated at the March 31, 2019 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 \$41.0 million, translated at the March 31, 2019 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 is currently pending. During August 2017, for the state of São Paulo, the Company received an assessment in the aggregate amount of approximately \$15.2 million, translated at the March 31, 2019 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. During September 2018, for the State of Rio de Janeiro, the Company received an assessment in the aggregate amount of approximately \$9.0 million, translated at the March 31, 2019 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 \$11.1 million, translated at the March 31, 2019 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 \$6.4 million, translated at the March 31, 2019 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 \$10.4 million, translated at the March 31, 2019 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 \$31.2 million, translated at the March 31, 2019 spot rate. The Company has paid the assessment and has recognized these payments within other assets on its condensed consolidated balance sheet. 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 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 has responded to the various points relating to income tax and non-income tax matters initially raised by the tax authorities to date. The Italian tax authorities are discussing certain of its preliminary findings with the Company. It is possible that the Company could receive a final assessment from the Italian authorities after these discussions. The Company believes that it has adequately accrued for income tax matters that are known to date. In regards to non-income tax matters, the Company has not recognized a loss as it does not believe a loss is probable. The Company believes that it has meritorious defenses if a formal assessment is issued by the Italian tax authorities. The Company is currently unable to reasonably estimate the amount of loss that may result from an unfavorable outcome if a formal assessment is issued by the Italian tax authorities.

During March 2018, the Chinese Customs Service began an audit of the Company's Chinese importations covering the periods 2015 through 2017. The Company has responded to the initial questions from the Customs Service and the audit is ongoing. The Company is currently unable to determine the outcome of this audit and reasonably estimate the amount of loss if an assessment is issued.

#### *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, have been conducting investigations into the Company's compliance with the Foreign Corrupt Practices Act, or FCPA, in China, which are mainly focused on the Company's China external affairs expenditures relating to its China business activities and the adequacy of and compliance with the Company's internal controls relating to such expenditures. These investigations are proceeding, the government is continuing to request documents and other information relating to these matters, and the Company has commenced discussions with the government regarding possible resolution of these matters. The Company is conducting its own review and has taken remedial and improvement measures based upon this review, including but not limited to replacement of a number of employees and enhancements of Company policies and procedures in China. The Company is continuing to cooperate with the SEC and DOJ. Although a likely outcome could include resolution or government action, the Company cannot predict the eventual scope, duration, or outcome of the government investigations at this time, including potential monetary payments, injunctions, or other relief, the results of which may be materially adverse to the Company, its financial condition, its results of operations, and its operations. At the present time, the Company is unable to reasonably estimate the amount of loss relating to these matters.

As previously disclosed, the SEC has also requested from the Company documents and other information relating to the Company's disclosures regarding its marketing plan in China. The Company is discussing a possible resolution with the SEC and, based on the course of these discussions to date, the Company has recorded an accrued liability of \$8 million within its condensed consolidated balance sheet as of March 31, 2019. However, the Company is unable to predict whether a settlement will be reached or, if so, the amount of any such settlement, and the actual loss incurred in connection with this matter could exceed the amount accrued. In the event a settlement is not reached, litigation may ensue. While the Company believes this investigation is nearing conclusion, the Company cannot predict the eventual scope, duration, or outcome of this investigation at this time. The possible range of outcomes continues to include discussions leading to a settlement which could include a monetary payment and other relief, the filing by the SEC of a litigated civil complaint or administrative action, or the closure of this matter without action, the results of which may be materially adverse to the Company, its financial condition, its results of operations, and its operations. 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 this matter.

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.

## **7. 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 March 31, 2019, the Company sold products in 94 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.

The operating information for the two reportable segments is as follows:

	Three Months Ended	
	March 31, 2019	March 31, 2018
	<i>(in millions)</i>	
<b>Net sales:</b>		
Primary Reporting Segment	\$ 1,021.8	\$ 964.7
China	150.4	212.2
Total net sales	<u>\$ 1,172.2</u>	<u>\$ 1,176.9</u>
<b>Contribution margin(1):</b>		
Primary Reporting Segment	\$ 438.0	\$ 414.3
China(2)	133.1	185.4
Total contribution margin	<u>\$ 571.1</u>	<u>\$ 599.7</u>
Selling, general, and administrative expenses(2)	435.4	460.1
Other operating income	(27.3)	(16.2)
Interest expense, net	36.1	39.9
Other (income) expense, net	(8.5)	24.4
Income before income taxes	135.4	91.5
Income taxes	39.1	9.4
Net income	<u>\$ 96.3</u>	<u>\$ 82.1</u>

- (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 \$76.5 million and \$110.9 million for the three months ended March 31, 2019 and 2018, respectively, are included in selling, general, and administrative expenses.

The following table sets forth net sales by geographic area:

	Three Months Ended	
	March 31, 2019	March 31, 2018
	<i>(in millions)</i>	
<b>Net sales:</b>		
United States	\$ 250.7	\$ 225.5
China	150.4	212.2
Mexico	119.3	114.0
Others	651.8	625.2
Total net sales	<u>\$ 1,172.2</u>	<u>\$ 1,176.9</u>

## 8. 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 2018 10-K. During the three months ended March 31, 2019, the Company granted restricted stock units subject to service conditions and service and performance conditions.

Share-based compensation expense amounted to \$10.6 million and \$9.8 million for the three months ended March 31, 2019 and 2018, respectively. As of March 31, 2019, the total unrecognized compensation cost related to all non-vested stock awards was \$81.0 million and the related weighted-average period over which it is expected to be recognized is approximately 1.1 years.

The following table summarizes the activity for stock appreciation rights, or SARs, under all share-based compensation plans for the three months ended March 31, 2019:

	<u>Number of Awards</u>	<u>Weighted-Average Exercise Price Per Award</u>	<u>Weighted-Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value(1)</u>
	<i>(in thousands)</i>			<i>(in millions)</i>
Outstanding as of December 31, 2018(2)(3)	8,470	\$ 26.82	6.1 years	\$ 272.1
Granted	—	\$ —		
Exercised(4)	(360)	\$ 23.93		
Forfeited(5)	(203)	\$ 29.77		
Outstanding as of March 31, 2019(2)(3)	<u>7,907</u>	\$ 26.88	5.8 years	\$ 206.5
Exercisable as of March 31, 2019(6)	<u>5,347</u>	\$ 25.41	5.0 years	\$ 147.5
Vested and expected to vest as of March 31, 2019	<u>7,894</u>	\$ 26.87	5.8 years	\$ 206.2

- (1) The intrinsic value is the amount by which the current market value of the underlying stock exceeds the exercise price of the stock awards.  
(2) Includes less than 0.1 million market condition SARs as of both March 31, 2019 and December 31, 2018.  
(3) Includes 2.9 million and 3.1 million performance condition SARs as of March 31, 2019 and December 31, 2018, respectively, which represent the maximum amount that can vest.  
(4) Includes less than 0.1 million performance condition SARs.  
(5) Includes 0.2 million performance condition SARs.  
(6) Includes less than 0.1 million market condition and 1.9 million performance condition SARs.

There were no SARs granted during the three months ended March 31, 2019 and 2018. The total intrinsic value of SARs exercised during the three months ended March 31, 2019 and 2018 was \$11.9 million and \$122.2 million, respectively.

The following table summarizes the activities for stock units under all share-based compensation plans for the three months ended March 31, 2019:

	<u>Number of Shares</u>	<u>Weighted-Average Grant Date Fair Value Per Share</u>
	<i>(in thousands)</i>	
Outstanding and nonvested as of December 31, 2018(1)	1,611	\$ 42.09
Granted(2)	881	\$ 56.13
Vested	(159)	\$ 43.15
Forfeited(3)	(403)	\$ 39.50
Outstanding and nonvested as of March 31, 2019(1)	<u>1,930</u>	\$ 48.95
Expected to vest as of March 31, 2019(4)	<u>1,662</u>	\$ 48.98

- (1) Includes 556,504 and 708,836 performance-based stock unit awards as of March 31, 2019 and December 31, 2018, respectively, which represents the maximum amount that can vest.  
(2) Includes 204,700 performance-based stock unit awards, which represents the maximum amount that can vest.  
(3) Includes 357,032 performance-based stock unit awards.  
(4) Includes 355,437 performance-based stock unit awards.

The total vesting date fair value of stock units which vested during the three months ended March 31, 2019 was \$9.0 million. The total vesting date fair value of stock units which vested during the three months ended March 31, 2018 was less than \$0.1 million.

## 9. Income Taxes

Income taxes were \$39.1 million and \$9.4 million for the three months ended March 31, 2019 and 2018, respectively. The effective income tax rate was 28.9% and 10.3% for the three months ended March 31, 2019 and 2018, respectively. The increase in the effective tax rate for the three months ended March 31, 2019 as compared to the same period in 2018 was primarily due to the decrease in net benefits from discrete events, partially offset by changes in the geographic mix of the Company's income. Included in the discrete events for the three months ended March 31, 2019 and 2018 was the impact of \$2.4 million and \$19.4 million, respectively, of excess tax benefits from share-based compensation arrangements.

As of March 31, 2019, the total amount of unrecognized tax benefits, including related interest and penalties, was \$67.0 million. If the total amount of unrecognized tax benefits was recognized, \$45.8 million of unrecognized tax benefits, \$10.2 million of interest, and \$1.8 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 \$2.8 million within the next twelve months. Of this possible decrease, \$0.5 million would be due to the settlement of audits or resolution of administrative or judicial proceedings. The remaining possible decrease of \$2.3 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 6, *Contingencies*.

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act of 2017, or the Act. The Act, which is also commonly referred to as "U.S. Tax Reform," significantly changed U.S. corporate income tax laws by, among other things, reducing the U.S. corporate income tax rate to 21% starting in 2018 and creating a modified territorial tax system with a one-time mandatory tax on previously deferred foreign earnings of U.S. subsidiaries. During both the fourth quarters of 2018 and 2017, the Company recorded valuation allowances related to its continued inability to fully utilize foreign tax credits generated. See Note 12, *Income Taxes*, to the Consolidated Financial Statements included in the 2018 10-K for additional discussion on U.S. Tax Reform.

## 10. Derivative Instruments and Hedging Activities

### *Foreign Currency Instruments*

The Company designates certain foreign currency derivatives, primarily comprised of foreign currency forward contracts, as freestanding derivatives for which hedge accounting does not apply. The changes in the fair market value of these freestanding derivatives are included in selling, general, and administrative expenses in the Company's condensed consolidated statements of income. The Company 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, excluding forward points, designated as cash flow hedges are recorded as a component of accumulated other comprehensive loss within shareholders' deficit, and are recognized in cost of sales in the condensed consolidated statement of income during the period which approximates the time the hedged inventory is sold. The Company also hedges forecasted intercompany management fees over specific months. These contracts allow the Company to sell Euros in exchange for U.S. dollars at specified contract rates. Changes in the fair value of these forward contracts, excluding forward points, designated as cash flow hedges 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.

As of March 31, 2019 and December 31, 2018, the aggregate notional amounts of all foreign currency contracts outstanding designated as cash flow hedges were approximately \$23.4 million and \$43.8 million, respectively. As of March 31, 2019, these outstanding contracts were expected to mature over the next eight 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 March 31, 2019, the Company recorded assets at fair value of \$0.3 million and liabilities at fair value of \$1.3 million relating to all outstanding foreign currency contracts designated as cash flow hedges. As of December 31, 2018, the Company recorded assets at fair value of \$0.5 million and liabilities at fair value of \$0.7 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 March 31, 2019 and December 31, 2018.

As of March 31, 2019 and December 31, 2018, the majority of the Company's outstanding foreign currency forward contracts had maturity dates of less than twelve months with the majority of freestanding derivatives expiring within one month as of March 31, 2019 and December 31, 2018. As of March 31, 2019, the Company had aggregate notional amounts of approximately \$312.4 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 months ended March 31, 2019 and 2018 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 months ended March 31, 2019 and 2018:

	<b>Amount of Loss Recognized in Other Comprehensive Income</b>	
	<b>Three Months Ended</b>	
	<b>March 31, 2019</b>	<b>March 31, 2018</b>
	<i>(in millions)</i>	
<b>Derivatives designated as hedging instruments:</b>		
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	\$ (1.0)	\$ (4.0)

As of March 31, 2019, 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 \$0.3 million.

The effect of cash flow hedging relationships on the Company's condensed consolidated statements of income for the three months ended March 31, 2019 and 2018 is as follows:

	<b>Location and Amount of Gain (Loss) Recognized in Income on Cash Flow Hedging Relationships</b>			
	<b>Three Months Ended</b>			
	<b>March 31, 2019</b>		<b>March 31, 2018</b>	
	<b>Cost of sales</b>	<b>Selling, general, and administrative expenses</b>	<b>Cost of sales</b>	<b>Selling, general, and administrative expenses</b>
	<i>(in millions)</i>			
Total amounts presented in the condensed consolidated statements of income	\$ 241.6	\$ 435.4	\$ 239.9	\$ 460.1
<b>Foreign exchange currency contracts relating to inventory hedges:</b>				
Amount of gain reclassified from accumulated other comprehensive loss to income	—	—	0.5	—
Amount of (loss) gain excluded from assessment of effectiveness recognized in income(1)	(0.7)	—	—	(2.3)
<b>Foreign exchange currency contracts relating to intercompany management fee hedges:</b>				
Amount of gain (loss) reclassified from accumulated other comprehensive loss to income	—	0.4	—	(2.4)
Amount of gain excluded from assessment of effectiveness recognized in income	—	—	—	0.3

- (1) As a result of adopting ASU 2017-12 during the first quarter of 2019, for the three months ended March 31, 2019, the Company recognized gains (losses) excluded from the assessment of effectiveness on foreign exchange currency contracts relating to inventory hedges in cost of sales within its condensed consolidated statements of income. Prior to the adoption of ASU 2017-12, for the three months ended March 31, 2018, the Company recognized gains (losses) excluded from the assessment of effectiveness on foreign exchange currency contracts relating to inventory hedges in selling, general, and administrative expenses within its condensed consolidated statements of income.

The following table summarizes gains (losses) recorded to income relating to derivative instruments not designated as hedging instruments during the three months ended March 31, 2019 and 2018:

	<b>Amount of Gain (Loss) Recognized in Income</b>		<b>Location of Gain (Loss) Recognized in Income</b>
	<b>Three Months Ended</b>		
	<b>March 31, 2019</b>	<b>March 31, 2018</b>	
	<i>(in millions)</i>		
<b>Derivatives not designated as hedging instruments:</b>			
Foreign exchange currency contracts	\$ 2.3	\$ (2.7)	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 13, *Fair Value Measurements*, for information on derivative fair values and their condensed consolidated balance sheets location as of March 31, 2019 and December 31, 2018.

## 11. Shareholders' Deficit

Changes in shareholders' deficit for the three months ended March 31, 2019 and 2018 were as follows:

	Three Months Ended March 31, 2019					
	Common Shares	Treasury Stock	Paid-in Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Deficit
	<i>(in millions)</i>					
Beginning balance	\$ 0.1	\$ (328.9)	\$ 341.5	\$ (209.8)	\$ (526.3)	\$ (723.4)
Issuance of 0.4 common shares from exercise of stock options, SARs, restricted stock units, employee stock purchase plan, and other	—		0.6			0.6
Additional capital from share-based compensation			10.6			10.6
Repurchases of 0.1 common shares	—		(7.6)			(7.6)
Forward Counterparties' delivery of 2.0 common shares to the Company	—		—			—
Reclassification to temporary equity			(11.3)			(11.3)
Net income					96.3	96.3
Foreign currency translation adjustment, net of income taxes of \$0.5				7.1		7.1
Unrealized loss on derivatives, net of income taxes of \$—				(1.4)		(1.4)
Ending balance	<u>\$ 0.1</u>	<u>\$ (328.9)</u>	<u>\$ 333.8</u>	<u>\$ (204.1)</u>	<u>\$ (430.0)</u>	<u>\$ (629.1)</u>

	Three Months Ended March 31, 2018					
	Common Shares	Treasury Stock	Paid-in Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Deficit
	<i>(in millions)</i>					
Beginning balance	\$ 0.1	\$ (328.6)	\$ 407.3	\$ (165.4)	\$ (248.1)	\$ (334.7)
Issuance of 2.7 common shares from exercise of stock options, SARs, restricted stock units, employee stock purchase plan, and other	—		0.5			0.5
Additional capital from share-based compensation			9.8			9.8
Repurchases of 1.1 common shares	—	(0.3)	(49.7)			(50.0)
Issuance of convertible senior notes			136.5			136.5
Repurchase of convertible senior notes			(123.0)			(123.0)
Unwind of capped call transactions			44.0			44.0
Net income					82.1	82.1
Foreign currency translation adjustment, net of income taxes of \$1.1				21.2		21.2
Unrealized loss on derivatives, net of income taxes of \$—				(3.1)		(3.1)
Cumulative effect of accounting change					(2.3)	(2.3)
Ending balance	<u>\$ 0.1</u>	<u>\$ (328.9)</u>	<u>\$ 425.4</u>	<u>\$ (147.3)</u>	<u>\$ (168.3)</u>	<u>\$ (219.0)</u>

### Dividends

The declaration of future dividends is subject to the discretion of the Company's board of directors and will depend upon various factors, including its earnings, financial condition, Herbalife 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 March 31, 2019, the remaining authorized capacity under the Company's \$1.5 billion share repurchase program was \$1.5 billion.

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 are treated as retired shares for basic and diluted EPS purposes. During the three months ended March 31, 2019, the Forward Counterparties delivered approximately 2.0 million shares to the Company, which were subsequently retired by the Company, and as a result, the Company expensed \$0.2 million of unamortized non-cash issuance costs relating to these shares, which is included in the non-cash interest expense amount disclosed below. As of March 31, 2019, approximately 4.0 million shares still 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 accumulated deficit 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 will be amortized to interest expense over the contractual term of the Forward Transactions. The Company recognized \$0.7 million and \$1.6 million for the three months ended March 31, 2019 and 2018, respectively, of non-cash interest expense within its condensed consolidated statements of income relating to amortization of these non-cash issuance costs.

During the three months ended March 31, 2019, the Company did not repurchase any of its common shares through open market purchases. During the three months ended March 31, 2018, an indirect wholly-owned subsidiary of the Company purchased 8,400 of Herbalife Nutrition Ltd.'s common shares through open market purchases at an aggregate cost of approximately \$0.3 million, or an average cost of \$33.90 per share. These share repurchases increased the Company's total 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. As of both March 31, 2019 and December 31, 2018, the Company held approximately 10.0 million of treasury shares for U.S. GAAP purposes.

In connection with the Company's October 2017 modified Dutch auction tender offer, the Company incurred \$1.6 million in transaction costs and also provided a non-transferable CVR for each share tendered, allowing participants in the tender offer to receive a contingent cash payment in the event Herbalife is acquired in a going-private transaction (as defined in the CVR Agreement) within two years of the commencement of the tender offer. The initial fair value of the CVR was \$7.3 million, which was recorded as a liability in the fourth quarter of 2017 with a corresponding decrease to shareholders' equity. In determining the initial fair value of the CVR, the Company used a lattice model, which included inputs such as the underlying stock price, strike price, time to expiration, and dividend yield. Subsequent changes in the fair value of the CVR liability, using a similar valuation approach as the initial fair value determination, are recognized within the Company's condensed consolidated balance sheets with corresponding gains or losses being recognized in other (income) expense, net within the Company's condensed consolidated statements of income during each reporting period until the CVR expires in August 2019 or is terminated due to a going-private transaction, which is also incorporated in the valuation of the CVR; this going-private probability input is considered to be a Level 3 input in the fair value hierarchy and any increase or decrease in this input could have significantly impacted the fair value of the CVR as of the reporting date. Any subsequent increase or decrease in this input or other inputs described above in subsequent valuations could significantly impact the fair value of the CVR. The Company recognized an \$8.5 million gain in other (income) expense, net within its condensed consolidated statement of income during the three months ended March 31, 2019 due to the change in the fair value of the CVR, which was primarily driven by a decrease in the market price of the Company's common shares and a decrease in the probability of a going-private transaction as a result of the shortening term of the CVR before it expires pursuant to its terms. The Company recognized an \$11.3 million loss in other (income) expense, net within its condensed consolidated statement of income during the three months ended March 31, 2018 due to the change in the fair value of the CVR, which was primarily driven by an increase in the market price of the Company's common shares. As of March 31, 2019 and December 31, 2018, the fair value of the CVR was \$7.2 million and \$15.7 million, respectively.

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 months ended March 31, 2019 and 2018, 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 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 three months ended March 31, 2019 and 2018, the Company's share repurchases, inclusive of transaction costs, were none and \$0.3 million, respectively, under the Company's share repurchase programs, and \$7.6 million and \$49.7 million, respectively, due to shares withheld for tax purposes related to the Company's share-based compensation plans. For the three months ended March 31, 2019 and 2018, the Company's total share repurchases, including shares withheld for tax purposes, were \$7.6 million and \$50.0 million, respectively, and have been recorded as an increase to shareholders' deficit within the Company's condensed consolidated balance sheets. The Company recorded \$54.2 million of total share repurchases within financing activities on its condensed consolidated statement of cash flows for the three months ended March 31, 2018, which includes \$4.2 million of share repurchases that were reflected as an increase to shareholders' deficit within the Company's condensed consolidated balance sheet as of December 31, 2017 but were subsequently paid during the three months ended March 31, 2018.

#### *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 are 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 is 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 are subject to certain adjustments under the terms of the Capped Call Transactions. Therefore, as a result of executing the Capped Call Transactions, the Company in effect will only be exposed to potential net dilution once the market price of its common shares exceeds the adjusted cap price. As of March 31, 2019, the weighted-average adjusted cap price was approximately \$54.24 per common share. 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.

#### Accumulated Other Comprehensive Loss

The following table summarizes changes in accumulated other comprehensive loss by component during the three months ended March 31, 2019 and 2018:

	Changes in Accumulated Other Comprehensive Loss by Component					
	Three Months Ended					
	March 31, 2019			March 31, 2018		
Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on Derivatives	Total	Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on Derivatives	Total	
<i>(in millions)</i>						
Beginning balance	\$ (211.6)	\$ 1.8	\$ (209.8)	\$ (170.6)	\$ 5.2	\$ (165.4)
Other comprehensive income (loss) before reclassifications, net of tax	7.1	(1.0)	6.1	21.2	(3.9)	17.3
Amounts reclassified from accumulated other comprehensive loss to income, net of tax(1)	—	(0.4)	(0.4)	—	0.8	0.8
Total other comprehensive income (loss), net of reclassifications	7.1	(1.4)	5.7	21.2	(3.1)	18.1
Ending balance	\$ (204.5)	\$ 0.4	\$ (204.1)	\$ (149.4)	\$ 2.1	\$ (147.3)

- (1) See Note 10, *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 March 31, 2019 and 2018.

Other comprehensive income before reclassifications was net of tax expense of \$0.5 million for foreign currency translation adjustments for the three months ended March 31, 2019.

Other comprehensive income before reclassifications was net of tax expense of \$1.1 million for foreign currency translation adjustments for the three months ended March 31, 2018.

#### 12. 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	
	March 31, 2019	March 31, 2018
<i>(in millions)</i>		
Weighted-average shares used in basic computations	137.1	145.3
Dilutive effect of exercise of equity grants outstanding	4.5	7.4
Dilutive effect of 2019 Convertible Notes	3.9	—
Weighted-average shares used in diluted computations	145.5	152.7

There were an aggregate of 1.4 million and 2.7 million of equity grants, consisting of SARs and stock units, that were outstanding during the three months ended March 31, 2019 and 2018, 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 will 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 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 2019 Convertible Notes. The dilutive impact for the three months ended March 31, 2019 is disclosed in the table above. For the three months ended March 31, 2018, the 2019 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 2019 Convertible Notes exceeded the average market price of the Company's common shares for the three months ended March 31, 2018. The initial conversion rate and conversion price for the 2019 Convertible Notes are described further in Note 5, *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 months ended March 31, 2019 and 2018, 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 months ended March 31, 2019 and 2018. The initial conversion rate and conversion price for the 2024 Convertible Notes are described further in Note 5, *Long-Term Debt*.

The Capped Call Transactions are excluded from the calculation of diluted earnings per share because their impact is always anti-dilutive. Additionally, the Forward Transactions are treated as retired shares for basic and diluted EPS purposes. See Note 11, *Shareholders' Deficit*, for additional discussion regarding the Capped Call Transactions and Forward Transactions.

See Note 11, *Shareholders' Deficit*, for a discussion of how common shares repurchased by the Company's indirect wholly-owned subsidiary are treated under U.S. GAAP.

### 13. Fair Value Measurements

The Company applies the provisions of FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, or ASC 820, for its financial and non-financial assets and liabilities. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a fair value hierarchy, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 inputs are unobservable inputs for the asset or liability.

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 are valued using standard calculations and models primarily based on inputs such as observable forward rates, spot rates and foreign currency exchange rates at the reporting period ended date. The Company's derivative assets and liabilities are measured at fair value and consisted of Level 2 inputs and their amounts are shown below at their gross values as of March 31, 2019 and December 31, 2018:

	Significant Other Observable Inputs (Level 2) Fair Value as of March 31, 2019	Significant Other Observable Inputs (Level 2) Fair Value as of December 31, 2018	Balance Sheet Location
<i>(in millions)</i>			
<b>ASSETS:</b>			
<b>Derivatives designated as hedging instruments:</b>			
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	\$ 0.3	\$ 0.5	Prepaid expenses and other current assets
<b>Derivatives not designated as hedging instruments:</b>			
Foreign exchange currency contracts	1.8	2.8	Prepaid expenses and other current assets
	<u>\$ 2.1</u>	<u>\$ 3.3</u>	
<b>LIABILITIES:</b>			
<b>Derivatives designated as hedging instruments:</b>			
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	\$ 1.3	\$ 0.7	Other current liabilities
<b>Derivatives not designated as hedging instruments:</b>			
Foreign exchange currency contracts	1.1	1.0	Other current liabilities
	<u>\$ 2.4</u>	<u>\$ 1.7</u>	

The Company's CVR liability is measured at fair value and consisted of Level 3 inputs. See Note 11, *Shareholders' Deficit*, for a further description of the CVR liability. The following is a reconciliation of the CVR liability reported in Other current liabilities within the Company's condensed consolidated balance sheet as of March 31, 2019:

	Contingent Value Right
<i>(in millions)</i>	
Fair value as of December 31, 2018	\$ 15.7
Net unrealized gain(1)	(8.5)
Fair value as of March 31, 2019	<u>\$ 7.2</u>

- (1) Unrealized gains and losses related to the revaluation of the CVR are recorded in other (income) expense, net within the Company's condensed consolidated statements of income.

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 2018 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 March 31, 2019 and December 31, 2018:

	<b>Offsetting of Derivative Assets</b>		
	<b>Gross Amounts of Recognized Assets</b>	<b>Gross Amounts Offset in the Balance Sheet</b>	<b>Net Amounts of Assets Presented in the Balance Sheet</b>
	<i>(in millions)</i>		
<b>March 31, 2019</b>			
Foreign exchange currency contracts	\$ 2.1	\$ (1.9)	\$ 0.2
Total	<u>\$ 2.1</u>	<u>\$ (1.9)</u>	<u>\$ 0.2</u>
<b>December 31, 2018</b>			
Foreign exchange currency contracts	\$ 3.3	\$ (1.2)	\$ 2.1
Total	<u>\$ 3.3</u>	<u>\$ (1.2)</u>	<u>\$ 2.1</u>

  

	<b>Offsetting of Derivative Liabilities</b>		
	<b>Gross Amounts of Recognized Liabilities</b>	<b>Gross Amounts Offset in the Balance Sheet</b>	<b>Net Amounts of Liabilities Presented in the Balance Sheet</b>
	<i>(in millions)</i>		
<b>March 31, 2019</b>			
Foreign exchange currency contracts	\$ 2.4	\$ (1.9)	\$ 0.5
Total	<u>\$ 2.4</u>	<u>\$ (1.9)</u>	<u>\$ 0.5</u>
<b>December 31, 2018</b>			
Foreign exchange currency contracts	\$ 1.7	\$ (1.2)	\$ 0.5
Total	<u>\$ 1.7</u>	<u>\$ (1.2)</u>	<u>\$ 0.5</u>

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 March 31, 2019 and December 31, 2018, all of the Company's derivatives were subject to master netting arrangements and no collateralization was required for the Company's derivative assets and derivative liabilities.

#### 14. 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 \$34.6 million and \$31.2 million and deferred tax assets of \$79.1 million as of both March 31, 2019 and December 31, 2018, respectively.

##### *Other Current Liabilities*

Other current liabilities consist of the following:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
	<i>(in millions)</i>	
Accrued compensation	\$ 93.5	\$ 137.9
Accrued service fees to China independent service providers	61.4	67.6
Accrued advertising, events, and promotion expenses	59.1	55.1
Current operating lease liabilities	35.4	—
Advance sales deposits	64.8	65.6
Income taxes payable	14.2	40.0
Other accrued liabilities	173.3	181.2
Total	<u>\$ 501.7</u>	<u>\$ 547.4</u>

*Other Non-Current Liabilities*

The Other non-current liabilities on the Company's accompanying condensed consolidated balance sheets include deferred compensation plan liabilities of \$57.2 million and \$51.3 million and deferred income tax liabilities of \$7.4 million and \$7.5 million as of March 31, 2019 and December 31, 2018, respectively. See Note 6, *Employee Compensation Plans*, to the Consolidated Financial Statements included in the 2018 10-K for a further description of the Company's deferred compensation plan assets and liabilities.

## **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, of this Quarterly Report on Form 10-Q, our consolidated financial statements appearing in our Annual Report on Form 10-K for the year ended December 31, 2018, or the 2018 10-K, and Part II, Item 1A, Risk Factors, of this Quarterly Report on Form 10-Q. 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 pursue our purpose to make the world healthier and happier by providing high quality, science-based 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 has established the Implementation Oversight Committee in connection with the Consent Order. The committee has met and will meet 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.

## 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. We are evaluating our current approach to assigning and maintaining Volume Point values for certain products or markets. Any changes to this approach may have an impact on the use of Volume Points as a proxy for sales trends in future periods.

Currently, 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. For strategic reasons, certain Volume Point values were adjusted during 2018 for certain markets in the North America and South and Central America regions. Volume Point adjustments during 2019 were not material. The reason Volume Points are used in the manner described above is that we use Volume Points for Member qualification and recognition purposes and therefore we 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.

	<b>Three Months Ended</b>		
	<b>March 31, 2019</b>	<b>March 31, 2018</b>	<b>% Change</b>
	<i>(Volume Points in millions)</i>		
North America(1)	330.7	303.2	9.1%
Mexico	224.9	221.8	1.4%
South and Central America(2)	133.8	148.5	(9.9)%
EMEA	325.5	294.7	10.5%
Asia Pacific	369.2	286.6	28.8%
China	96.3	141.1	(31.8)%
Worldwide(3)	<u>1,480.4</u>	<u>1,395.9</u>	6.1%

- (1) Excluding Volume Point adjustments made during 2018 for certain products in certain markets, the percent change for the three months ended March 31, 2019 would have been an increase of 7.5%.
- (2) Excluding Volume Point adjustments made during 2018 for certain products in certain markets, the percent change for the three months ended March 31, 2019 would have been a decrease of 11.1%.
- (3) Excluding the Volume Point adjustments made during 2018 for certain products in certain markets in the North America and South and Central America regions noted above, the percent change for the three months ended March 31, 2019 would have been an increase of 5.6%.

Volume Points increased 6.1% for the three months ended March 31, 2019 after having decreased 0.2% for the same period in 2018. Excluding the impact of the adjustments made during 2019 and 2018, Volume Points increased 5.6% for the three months ended March 31, 2019 after having decreased 0.5% for the same period in 2018. We believe North America's Volume Point increase, after a smaller increase for 2018, reflects the favorable impacts of both the segmentation of the Member base into distributors and preferred members and lower volume thresholds for sales leader qualification based on documented customer sales. We believe Mexico's increase for the period, after a decrease for the prior year period, reflects success with sales leader and Member promotions supported by targeted communications, partially offset, however, by continuing difficult economic conditions in the market as well as the adverse impact on the demand for our products of a 2% price surcharge we instituted during February 2019 to mitigate the impact of tariffs enacted by the Mexican government during 2018 on products imported from the United States, which are applicable to a significant portion of our product line. The South and Central America region saw a continuing decline in Volume Points for 2019 as Brazil, the most significant market for the region, continues to move more slowly than we have seen elsewhere toward sustainable, customer-oriented business practices and experienced intensified competitive pressures. The EMEA region saw continued Volume Point growth, a result, we believe, of customer-oriented efforts, including Member training, brand awareness, product line expansion, and enhanced technology tools. Increased Volume Point growth for the Asia Pacific region reflects a successful focus on customer-based business and daily consumption DMOs, including Nutrition Clubs, and expansion of our product lines, as well as a small increase in the South Korea market that had experienced several years of decline. We believe the Volume Point decrease in China for the period was driven by the Chinese government's recent 100-day review of the health product industry. Results 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 41.5% and 40.4% of retail value for the three months ended March 31, 2019 and 2018, respectively. Distributor allowances and Marketing Plan payouts generally utilize 90% to 95% of suggested retail price, depending on the product and market, to which we apply discounts of up to 50% for distributor allowances and payout rates of up to 15% for royalty overrides, up to 7% for production bonuses, and approximately 1% for the Mark Hughes bonus. 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 under ASC 606.

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 and (b) prices charged by our Members to their customers other than our suggested retail prices. 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*.

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) expense, net*” consists of non-operating income and expenses such as gains or losses on extinguishment of debt and 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 11, *Shareholders’ Deficit*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q 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 months ended March 31, 2019 were \$1,172.2 million. Net sales decreased \$4.7 million, or 0.4% (increased \$1.7 million, or 0.1% excluding Venezuela), for the three months ended March 31, 2019 as compared to the same period in 2018. In local currency, net sales increased 874.7% (5.9% excluding Venezuela) for the three months ended March 31, 2019 as compared to the same period in 2018. The 0.4% decrease in net sales for the three months ended March 31, 2019 was primarily driven by an 875.1% unfavorable impact of fluctuations in foreign currency exchange rates (5.8% unfavorable impact excluding Venezuela); partially offset by an increase in sales volume, as indicated by a 6.1% increase in Volume Points; and an 871.5% favorable impact of price increases (2.5% favorable impact excluding Venezuela).

Net income for the three months ended March 31, 2019 was \$96.3 million, or \$0.66 per diluted share. Net income increased \$14.2 million, or 17.3%, for the three months ended March 31, 2019 as compared to the same period in 2018. The increase in net income for the three months ended March 31, 2019 was mainly due to \$24.7 million lower selling, general, and administrative expenses; a \$19.8 million favorable impact due to an \$8.5 million gain on the revaluation of the CVR in 2019 as compared to an \$11.3 million loss on the revaluation of the CVR in 2018 (See Note 11, *Shareholders’ Deficit*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q); a \$13.1 million loss on the extinguishment of \$475.0 million of our 2019 Convertible Notes in 2018 (See Note 5, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q); \$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); and \$5.1 million higher grant income from China; partially offset by \$28.6 million lower contribution margin driven by lower sales in China; and \$29.7 million higher income taxes.

Net income for the three months ended March 31, 2019 included a \$21.3 million pre-tax favorable impact (\$14.7 million post-tax) of government grant income in China; a \$14.5 million pre-tax unfavorable impact (\$11.2 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 6, *Contingencies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q); a \$12.3 million pre-tax unfavorable impact (\$11.5 million post-tax) of non-cash interest expense related to the 2019 Convertible Notes, 2024 Convertible Notes, and the Forward Transactions (See Note 5, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q); an \$8.5 million pre-tax favorable impact (\$6.4 million post-tax) of gain on the revaluation of the CVR (See Note 11, *Shareholders’ Deficit*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q); and a \$6.0 million pre-tax favorable impact (\$4.5 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).

The income tax impact of the expenses discussed above is based on forecasted items affecting our 2019 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 March 31, 2018 included a \$16.2 million pre-tax favorable impact (\$10.4 million post-tax) of government grant income in China; a \$12.5 million pre-tax unfavorable impact (\$12.2 million post-tax) of non-cash interest expense related to the 2019 Convertible Notes, 2024 Convertible Notes, and the Forward Transactions (See Note 5, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q); a \$2.3 million pre-tax unfavorable impact (\$2.1 million post-tax) from expenses related to regulatory inquiries; a \$4.7 million pre-tax unfavorable impact (\$3.1 million post-tax) of foreign exchange losses related to Venezuela; a \$13.1 million pre-tax unfavorable impact (\$9.4 million post-tax) of loss on extinguishment of \$475.0 million of our 2019 Convertible Notes; and an \$11.3 million pre-tax unfavorable impact (\$8.0 million post-tax) of loss on valuation of the CVR.

## 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	
	March 31, 2019	March 31, 2018
<b>Operations:</b>		
Net sales	100.0%	100.0%
Cost of sales	20.6	20.4
Gross profit	79.4	79.6
Royalty overrides(1)	30.7	28.7
Selling, general, and administrative expenses(1)	37.1	39.1
Other operating income	(2.3)	(1.4)
Operating income	13.9	13.2
Interest expense, net	3.1	3.4
Other (income) expense, net	(0.7)	2.0
Income before income taxes	11.5	7.8
Income taxes	3.3	0.8
Net income	8.2%	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 7, *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 \$1,021.8 million for the three months ended March 31, 2019, representing an increase of \$57.1 million, or 5.9% (\$63.5 million, or 6.6% excluding Venezuela), for the three months ended March 31, 2019 as compared to the same period in 2018. In local currency, net sales increased 1,072.7% (12.8% excluding Venezuela) for the three months ended March 31, 2019 as compared to the same period in 2018. The 5.9% increase in net sales for the three months ended March 31, 2019 was primarily due to an increase in sales volume, as indicated by a 10.3% increase in Volume Points; a 1,063.2% favorable impact of price increases (3.1% favorable impact excluding Venezuela); partially offset by a 1,066.7% unfavorable impact of fluctuations in foreign currency exchange rates (6.1% unfavorable impact excluding Venezuela) and a 1.4% unfavorable impact of country sales mix.

For a discussion of China's net sales for the three months ended March 31, 2019, 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 \$438.0 million, or 42.9% of net sales, for the three months ended March 31, 2019, representing an increase of \$23.7 million, or 5.7% (\$28.5 million, or 7.0% excluding Venezuela), as compared to the same period in 2018. The 5.7% increase in contribution margin for the three months ended March 31, 2019 was primarily the result of a 1,613.7% favorable impact of price increases (4.7% favorable impact excluding Venezuela), a 10.3% favorable impact of volume increases, and a 1.5% favorable impact of lower inventory write-downs; partially offset by a 1,617.6% unfavorable impact of fluctuations in foreign currency exchange rates (8.0% unfavorable impact excluding Venezuela) and a 3.3% unfavorable impact of country sales mix.

China reported contribution margin of \$133.1 million for the three months ended March 31, 2019, representing a decrease of \$52.3 million, or 28.2%, as compared to the same period in 2018. The 28.2% decrease in contribution margin for the three months ended March 31, 2019 was primarily the result of a 31.8% unfavorable impact of volume decreases, a 4.7% unfavorable impact of fluctuations in foreign currency exchange rates; partially offset by a 5.3% favorable impact of timing differences between recognition of net sales and sales volume and a 3.5% favorable impact of sales mix.

### Sales by Geographic Region

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

	Three Months Ended										% Change in Net Sales
	March 31, 2019					March 31, 2018					
	Retail Value(1)	Distributor Allowance	Product Sales	Shipping and Handling	Net Sales	Retail Value(1)	Distributor Allowance	Product Sales	Shipping and Handling	Net Sales	
	<i>(Dollars in millions)</i>										
North America	\$ 425.8	\$ (194.3)	\$ 231.5	\$ 25.0	\$ 256.5	\$ 382.9	\$ (174.4)	\$ 208.5	\$ 22.7	\$ 231.2	10.9%
Mexico	202.2	(91.6)	110.6	8.7	119.3	196.7	(89.6)	107.1	6.9	114.0	4.6%
South and Central America	170.4	(76.3)	94.1	5.7	99.8	213.4	(95.9)	117.5	8.2	125.7	(20.6)%
EMEA	428.7	(191.8)	236.9	14.8	251.7	422.5	(189.0)	233.5	14.7	248.2	1.4%
Asia Pacific	504.3	(220.2)	284.1	10.4	294.5	419.8	(182.5)	237.3	8.3	245.6	19.9%
China	162.2	(12.6)	149.6	0.8	150.4	235.2	(24.2)	211.0	1.2	212.2	(29.1)%
Worldwide	<u>\$ 1,893.6</u>	<u>\$ (786.8)</u>	<u>\$ 1,106.8</u>	<u>\$ 65.4</u>	<u>\$ 1,172.2</u>	<u>\$ 1,870.5</u>	<u>\$ (755.6)</u>	<u>\$ 1,114.9</u>	<u>\$ 62.0</u>	<u>\$ 1,176.9</u>	(0.4)%

(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.

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 months ended March 31, 2019, as compared to the same period in 2018, 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 are evaluating our current approach to assigning and maintaining Volume Point values for certain products or markets. Any changes to this approach may have an impact on the use of Volume Points as a proxy for sales trends in future periods.

#### *North America*

The North America region reported net sales of \$256.5 million for the three months ended March 31, 2019. Net sales increased \$25.3 million, or 10.9%, for the three months ended March 31, 2019 as compared to the same period in 2018. In local currency, net sales increased 11.1% for the three months ended March 31, 2019 as compared to the same period in 2018. The 10.9% increase in net sales for the three months ended March 31, 2019 was primarily due to an increase in sales volume, as indicated by a 9.1% increase in Volume Points (7.5% excluding the impact of the Volume Point adjustments noted above in the *Volume Points by Geographic Region* section), and a 3.3% favorable impact of price increases.

Net sales in the U.S. were \$250.7 million for the three months ended March 31, 2019. Net sales increased \$25.2 million, or 11.2%, for the three months ended March 31, 2019 as compared to the same period in 2018.

The region is leveraging segmentation of the Member base into distributors and preferred members to target and refine our communications and promotions, and has piloted lower volume thresholds for sales leader qualification based on documented customer sales. North America has also implemented programs to encourage sponsorship and increase distributor, preferred member, and customer activity, and has continued to extend the product line.

### *Mexico*

The Mexico region reported net sales of \$119.3 million for the three months ended March 31, 2019. Net sales increased \$5.3 million, or 4.6%, for the three months ended March 31, 2019 as compared to the same period in 2018. In local currency, net sales increased 7.3% for the three months ended March 31, 2019 as compared to the same period in 2018. The 4.6% increase in net sales for the three months ended March 31, 2019 was due to an increase in sales volume, as indicated by a 1.4% increase in Volume Points, as well as a 3.9% favorable impact of price increases, partially offset by a 2.7% unfavorable impact of fluctuations in foreign currency exchange rates.

We believe the Volume Point increase for the quarter, after a decrease for the prior year quarter, reflects success with programs designed to increase the activity and productivity of sales leaders and promotions to encourage sponsorship and new Member activity, supported by communications targeted by Member level within our Marketing Plan and by distribution channel utilized. Results were weakened, however, by continuing difficult economic conditions in the market as well as the adverse impact on the demand for our products of a 2% price surcharge we instituted during February 2019 to mitigate the impact of tariffs enacted by the Mexican government during 2018 on products imported from the United States, which are applicable to a significant portion of our product line.

### *South and Central America*

The South and Central America region reported net sales of \$99.8 million for the three months ended March 31, 2019. Net sales decreased \$25.9 million, or 20.6% (\$19.5 million, or 16.4% excluding Venezuela), for the three months ended March 31, 2019 as compared to the same period in 2018. In local currency, net sales increased 8,130.8% (decreased 6.1% excluding Venezuela) for the three months ended March 31, 2019 as compared to the same period in 2018. The 20.6% decrease in net sales for the three months ended March 31, 2019 was due to an 8,151.3% unfavorable impact of fluctuations in foreign currency exchange rates (10.3% unfavorable impact excluding Venezuela), offset by an 8,140.0% favorable impact of price increases (4.1% favorable impact excluding Venezuela); and a decline in sales volume, as indicated by a 9.9% decrease in Volume Points (11.1% excluding the impact of the Volume Point Adjustments noted above in the *Volume Points by Geographic Region* section). Marketing Plan changes intended to build more sustainable business for our Members through a focus on daily product consumption and retailing are taking hold more slowly in certain markets in the region than elsewhere, including in Brazil, our largest market in the region. We are working with Member leadership to explore operational and promotional approaches both consistent with our direction and suitable to those markets, as well as exploring product affordability approaches for certain markets.

Net sales in Brazil were \$30.7 million for the three months ended March 31, 2019. Net sales decreased \$15.0 million, or 32.9%, for the three months ended March 31, 2019 as compared to the same period in 2018. In local currency, net sales decreased 22.1% for the three months ended March 31, 2019 as compared to the same period in 2018. The fluctuation of foreign currency exchange rates had an unfavorable impact of \$4.9 million on net sales for the three months ended March 31, 2019. As noted above, Marketing Plan changes intended to build more sustainable business for our Members through a focus on daily product consumption and retailing are taking hold more slowly in Brazil than we have seen elsewhere. The market continues to face an uncertain economic outlook as well as intensified competitive pressures within the direct selling industry. Additionally, Members in Brazil saw their product costs increase during the second and third quarters of 2018 when we implemented the pass through of certain indirect taxes that we had previously absorbed. We are exploring operational, promotional, and product affordability approaches for the market, as well as expanding our product offering.

Net sales in Peru were \$17.0 million for the three months ended March 31, 2019. Net sales increased \$0.3 million, or 1.9%, for the three months ended March 31, 2019 as compared to the same period in 2018. In local currency, net sales increased 4.6% for the three months ended March 31, 2019 as compared to the same period in 2018. The fluctuation of foreign currency exchange rates had an unfavorable impact of \$0.5 million on net sales for the three months ended March 31, 2019. Product prices in Peru were increased 3% in October 2018.

## *EMEA*

The EMEA region reported net sales of \$251.7 million for the three months ended March 31, 2019. Net sales increased \$3.5 million, or 1.4%, for the three months ended March 31, 2019 as compared to the same period in 2018. In local currency, net sales increased 12.9% for the three months ended March 31, 2019 as compared to the same period in 2018. The 1.4% increase in net sales for the three months ended March 31, 2019 was primarily due to an increase in sales volume, as indicated by a 10.5% increase in Volume Points, and a 2.8% favorable impact of price increases; partially offset by an 11.5% unfavorable impact of fluctuations in foreign currency exchange rates. Volume Point increases for the quarter, although largely offset within net sales by adverse foreign exchange rate movement, were broad-based across the EMEA region, generally reflecting, 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. The Volume Point and net sales growth for the period was led by Spain, South Africa, Turkey, and the United Kingdom.

Net sales in Spain were \$35.7 million for the three months ended March 31, 2019. Net sales increased \$5.8 million, or 19.4%, for the three months ended March 31, 2019 as compared to the same period in 2018. In local currency, net sales increased 29.3% for the three months ended March 31, 2019 as compared to the same period in 2018. The fluctuation of foreign currency exchange rates had an unfavorable impact of \$2.9 million on net sales for the three months ended March 31, 2019. Spain has benefited from ongoing programs of promotions and sponsorships, as well as enhanced technology tools supported by social media activity, that have raised brand awareness through healthy active lifestyle and contributed to momentum in the market.

Net sales in Italy were \$33.6 million for the three months ended March 31, 2019. Net sales decreased \$3.8 million, or 10.1%, for the three months ended March 31, 2019 as compared to the same period in 2018. In local currency, net sales decreased 2.8% for the three months ended March 31, 2019 as compared to the same period in 2018. The fluctuation of foreign currency exchange rates had an unfavorable impact of \$2.7 million on net sales for the three months ended March 31, 2019. Italy continues to see slight declines in sales volume and recruitment. In December 2018, we segmented our Member base in Italy into distributors and preferred customers, comparable to distributors and preferred members in the United States.

Net sales in Russia were \$31.6 million for the three months ended March 31, 2019. Net sales decreased \$3.8 million, or 10.7%, for the three months ended March 31, 2019 as compared to the same period in 2018. In local currency, net sales increased 3.4% for the three months ended March 31, 2019 as compared to the same period in 2018. The fluctuation of foreign currency exchange rates had an unfavorable impact of \$5.0 million on net sales for the three months ended March 31, 2019. Russia continues to focus on the Nutrition Club DMO, supported by new products, training and promotion for all levels of Membership, enhanced brand awareness activities, and product access expansion.

## *Asia Pacific*

The Asia Pacific region, which excludes China, reported net sales of \$294.5 million for the three months ended March 31, 2019. Net sales increased \$48.9 million, or 19.9%, for the three months ended March 31, 2019 as compared to the same period in 2018. In local currency, net sales increased 25.9% for the three months ended March 31, 2019 as compared to the same period in 2018. The 19.9% increase in net sales for the three months ended March 31, 2019 was primarily due to an increase in sales volume, as indicated by a 28.8% increase in Volume Points, and a 2.4% favorable impact of price increases, partially offset by a 6.0% unfavorable impact of fluctuations in foreign currency exchange rates and a 3.0% unfavorable impact of changes in country sales mix resulting from a lower percentage of our sales volume coming from markets with higher prices. Volume Point and net sales increased for the quarter for nearly all markets in the region, led by growth in India and Vietnam.

Net sales in India were \$72.7 million for the three months ended March 31, 2019. Net sales increased \$18.4 million, or 33.9%, for the three months ended March 31, 2019 as compared to the same period in 2018. In local currency, net sales increased 46.7% for the three months ended March 31, 2019 as compared to the same period in 2018. The fluctuation of foreign currency exchange rates had an unfavorable impact of \$7.0 million on net sales for the three months ended March 31, 2019. We continue to broaden our presence in the market, adding product access points including pickup locations in additional cities, and expand its product line.

Net sales in Indonesia were \$42.5 million for the three months ended March 31, 2019. Net sales increased \$7.0 million, or 19.7%, for the three months ended March 31, 2019 as compared to the same period in 2018. In local currency, net sales increased 24.7% for the three months ended March 31, 2019 as compared to the same period in 2018. The fluctuation of foreign currency exchange rates had an unfavorable impact of \$1.8 million on net sales for the three months ended March 31, 2019. Indonesia has continued to strengthen by focusing on a customer-based business and daily consumption through Nutrition Clubs and training activities, supported by increased product access in this expansive market.

Net sales in Vietnam were \$38.8 million for the three months ended March 31, 2019. Net sales increased \$14.0 million, or 56.2%, for the three months ended March 31, 2019 as compared to the same period in 2018. In local currency, net sales increased 59.4% for the three months ended March 31, 2019 as compared to the same period in 2018. The fluctuation of foreign currency exchange rates had an unfavorable impact of \$0.8 million on net sales for the three months ended March 31, 2019. Volume Point and net sales performance for Vietnam was strong during the latter half of 2018 and into the first quarter of 2019 in anticipation of an increase in direct selling regulatory requirements that commence during the first half of 2019; operational changes to meet the requirements could have an adverse impact on the market's sales in future quarters. Additionally, there was a fire at a third-party warehouse in Vietnam during April 2019, which destroyed a significant amount of our Vietnam inventory. While we have a recovery plan in place, this may have an adverse impact on second quarter 2019 sales for the market.

Net sales in South Korea were \$33.9 million for the three months ended March 31, 2019. Net sales increased \$1.2 million, or 3.7%, for the three months ended March 31, 2019 as compared to the same period in 2018. In local currency, net sales increased 8.8% for the three months ended March 31, 2019 as compared to the same period in 2018. The fluctuation of foreign currency exchange rates had an unfavorable impact of \$1.7 million on net sales for the three months ended March 31, 2019. South Korea achieved Volume Point and net sales growth for the quarter after several years of transitional impact from Marketing Plan changes, including certain changes unique to South Korea, that led to contraction in our business in the market. Management has been focused on fostering daily consumption practices, supported by promotional activities including a Member Activation Program. The near-term sales outlook for the market remains uncertain.

### China

The China region reported net sales of \$150.4 million for the three months ended March 31, 2019. Net sales decreased \$61.8 million, or 29.1%, for the three months ended March 31, 2019 as compared to the same period in 2018. In local currency, net sales decreased 24.8% for the three months ended March 31, 2019 as compared to the same period in 2018. The 29.1% decrease in net sales for the three months ended March 31, 2019 was primarily due to a decrease in sales volume, as indicated by a 31.8% decrease in Volume Points, and a 4.3% unfavorable impact of fluctuations in foreign currency exchange rates; partially offset by a 4.7% favorable impact of timing differences between the recognition of net sales and Volume Points, and a 3.0% favorable sales mix variance.

We believe the Chinese government's recent 100-day review, or Review, of the health products industry, which concluded in April 2019, negatively impacted our China net sales during the first quarter of 2019. While the Chinese government has conducted similar reviews in the past, we believe the confluence of the Review, combined with negative media coverage about the Review, has impacted our business as Members significantly reduced activities and sales meetings in their nutrition clubs during the duration of 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 local governments have begun to grant permits for meetings upon the conclusion of the Review, we expect the adverse impact of the Review to persist further through 2019.

### Sales by Product Category

	Three Months Ended										% Change in Net Sales
	March 31, 2019					March 31, 2018					
	Retail Value(2)	Distributor Allowance	Product Sales	Shipping and Handling	Net Sales	Retail Value(2)	Distributor Allowance	Product Sales	Shipping and Handling	Net Sales	
	<i>(Dollars in millions)</i>										
Weight Management	\$ 1,199.7	\$ (508.5)	\$ 691.2	\$ 41.5	\$ 732.7	\$ 1,215.6	\$ (501.2)	\$ 714.4	\$ 40.3	\$ 754.7	(2.9)%
Targeted Nutrition	493.2	(209.0)	284.2	17.0	301.2	468.6	(193.2)	275.4	15.5	290.9	3.5%
Energy, Sports, and Fitness	128.6	(54.5)	74.1	4.4	78.5	113.9	(47.0)	66.9	3.8	70.7	11.0%
Outer Nutrition	37.2	(15.8)	21.4	1.3	22.7	37.5	(15.5)	22.0	1.2	23.2	(2.2)%
Literature, Promotional, and Other(1)	34.9	1.0	35.9	1.2	37.1	34.9	1.3	36.2	1.2	37.4	(0.8)%
Total	<u>\$ 1,893.6</u>	<u>\$ (786.8)</u>	<u>\$ 1,106.8</u>	<u>\$ 65.4</u>	<u>\$ 1,172.2</u>	<u>\$ 1,870.5</u>	<u>\$ (755.6)</u>	<u>\$ 1,114.9</u>	<u>\$ 62.0</u>	<u>\$ 1,176.9</u>	(0.4)%

(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 increased for Targeted Nutrition and Energy, Sports, and Fitness and decreased for Weight Management; Outer Nutrition; and Literature, Promotional, and Other for the three months ended March 31, 2019 as compared to the same period in 2018. 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 \$930.6 million and \$937.0 million for the three months ended March 31, 2019 and 2018, respectively. Gross profit as a percentage of net sales was 79.4% and 79.6% for the three months ended March 31, 2019 and 2018, respectively, or an unfavorable net decrease of 23 basis points. The decrease in gross profit as a percentage of net sales for the three months ended March 31, 2019 as compared to the same period in 2018 included the unfavorable impact of foreign currency fluctuations of 17,485 basis points (unfavorable impact of 68 basis points excluding Venezuela) and unfavorable changes in country mix of 58 basis points, partially offset by the favorable impact of retail price increases of 17,460 basis points (favorable impact of 51 basis points excluding Venezuela), the favorable impact of lower inventory write-downs of 45 basis points, and other favorable cost changes of 15 basis points. The net unfavorable impact of foreign currency fluctuations and retail price increases in Venezuela for the three months ended March 31, 2019, as compared to the same period in 2018, was 8 basis points. 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 strategic sourcing, and inventory write-downs.

### **Royalty Overrides**

Royalty overrides were \$359.5 million and \$337.3 million for the three months ended March 31, 2019 and 2018, respectively. Royalty overrides as a percentage of net sales were 30.7% and 28.7% for the three months ended March 31, 2019 and 2018, respectively. The increase in royalty overrides as a percentage of net sales for the three months ended March 31, 2019 as compared to the same period in 2018 was primarily due to lower net sales in China as a proportion of our total worldwide net sales. 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 slightly from period to period due to changes in the mix of products and countries because full royalty overrides are not paid on certain products and in certain countries.

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

Selling, general, and administrative expenses were \$435.4 million and \$460.1 million for the three months ended March 31, 2019 and 2018, respectively. Selling, general, and administrative expenses as a percentage of net sales were 37.1% and 39.1% for the three months ended March 31, 2019 and 2018, respectively.

The decrease in selling, general, and administrative expenses for the three months ended March 31, 2019 as compared to the same period in 2018 was driven by \$34.4 million in lower service fees for China independent service providers due to lower sales in China and \$8.8 million in lower non-income tax expense; partially offset by \$20.4 million in higher professional fees and a legal accrual. This legal accrual relates to the SEC investigation relating to our disclosures regarding our marketing plan in China as further described in Note 6, *Contingencies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

### **Other Operating Income**

The \$27.3 million of other operating income for the three months ended March 31, 2019 consisted of \$21.3 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) 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).

The \$16.2 million of other operating income for the three months ended March 31, 2018 consisted of \$16.2 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).

## Interest Expense, Net

Interest expense, net is as follows:

	Three Months Ended	
	March 31, 2019	March 31, 2018
	<i>(in millions)</i>	
Interest expense	\$ 42.4	\$ 44.6
Interest income	(6.3)	(4.7)
Interest expense, net	<u>\$ 36.1</u>	<u>\$ 39.9</u>

The decrease in interest expense, net for the three months ended March 31, 2019 as compared to the same period in 2018 was primarily due to a decrease in our overall weighted-average interest rate and higher interest income earned, partially offset by an increase in our overall borrowings.

## Other (Income) Expense, Net

The \$8.5 million of other income, net for the three months ended March 31, 2019 consisted of an \$8.5 million gain on the revaluation of the CVR (See Note 11, *Shareholders' Deficit*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q).

The \$24.4 million of other expense, net for the three months ended March 31, 2018 consisted of an \$11.3 million loss on the revaluation of the CVR (See Note 11, *Shareholders' Deficit*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q); and a \$13.1 million loss on the extinguishment of \$475.0 million aggregate principal amount of our 2019 Convertible Notes (See Note 5, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q).

## Income Taxes

Income taxes were \$39.1 million and \$9.4 million for the three months ended March 31, 2019 and 2018, respectively. The effective income tax rate was 28.9% and 10.3% for the three months ended March 31, 2019 and 2018, respectively. The increase in the effective tax rate for the three months ended March 31, 2019 as compared to the same period in 2018 was primarily due to the decrease in net benefits from discrete events, partially offset by changes in the geographic mix of our income. Included in the discrete events for the three months ended March 31, 2019 and 2018 was the impact of \$2.4 million and \$19.4 million, respectively, of excess tax benefits from share-based compensation arrangements.

## 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, 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 \$4.5 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 \$1,209.0 million cash and cash equivalents 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 March 31, 2019 and December 31, 2018.

For the three months ended March 31, 2019, we generated \$38.5 million of operating cash flow as compared to \$156.2 million for the same period in 2018. The decrease in our operating cash flow was the result of \$26.0 million of lower net income excluding non-cash items disclosed within our condensed consolidated statement of cash flows and \$91.7 million of unfavorable changes in operating assets and liabilities. The \$26.0 million of lower net income excluding non-cash items was primarily the result of higher income taxes (See Note 9, *Income Taxes*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further discussion). The \$91.7 million change in operating assets and liabilities was primarily the result of unfavorable changes in inventories; accrued compensation, which included higher bonus payments in 2019; accounts payable; and royalty overrides, partially offset by favorable changes in income tax balances.

Capital expenditures, including accrued capital expenditures, for the three months ended March 31, 2019 and 2018 were \$22.7 million and \$14.6 million, 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 \$130 million to \$170 million for the full year of 2019.

In March 2019, we hosted our annual global Herbalife Honors event in Singapore where sales leaders from around the world met and shared best practices, conducted leadership training, and our management awarded Members \$70.7 million of Mark Hughes bonus payments related to their 2018 performance. In March 2018, our management awarded Members \$64.8 million of Mark Hughes bonus payments related to their 2017 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. 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 our consolidated leverage ratio.

On August 16, 2018, we entered into a new \$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. The 2018 Term Loan A and 2018 Revolving Credit Facility both mature on August 16, 2023 and the 2018 Term Loan B matures on August 18, 2025. However, the 2018 Term Loan B will mature on either: (i) May 16, 2019 if the outstanding principal on the 2019 Convertible Notes, as defined below, exceeds \$350.0 million and we exceed certain leverage ratios on such date; 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 on such 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 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 is recorded in other (income) expense, net within our condensed consolidated statements of income.

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 March 31, 2019 and December 31, 2018, 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 and 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.

During the three months ended March 31, 2019, we repaid a total amount of \$5.0 million on amounts outstanding under the 2018 Credit Facility. During the three months ended March 31, 2018, we repaid a total amount of \$24.4 million on amounts outstanding under the 2017 Credit Facility. As of March 31, 2019 and December 31, 2018, the U.S. dollar amount outstanding under the 2018 Credit Facility was \$990.0 million and \$995.0 million, respectively. Of the \$990.0 million outstanding under the 2018 Credit Facility as of March 31, 2019, \$243.8 million was outstanding under the 2018 Term Loan A and \$746.2 million was outstanding under the 2018 Term Loan B. Of the \$995.0 million outstanding under the 2018 Credit Facility as of December 31, 2018, \$246.9 million was outstanding under the 2018 Term Loan A and \$748.1 million was outstanding under the 2018 Term Loan B. There were no borrowings outstanding under the 2018 Revolving Credit Facility as of March 31, 2019 and December 31, 2018. There were no outstanding foreign currency borrowings under the 2018 Credit Facility as of March 31, 2019 and December 31, 2018. As of March 31, 2019 and December 31, 2018, the weighted-average interest rate for borrowings under the 2018 Credit Facility was 5.71% and 6.80%, respectively.

See Note 5, *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*

During 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 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 2019 Convertible Notes pay interest at a rate of 2.00% per annum payable semiannually in arrears on February 15 and August 15 of each year, beginning on August 15, 2014. The 2019 Convertible Notes mature on August 15, 2019, unless earlier repurchased or converted. The primary purpose of the issuance of the 2019 Convertible Notes was for share repurchase purposes.

During 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. As of March 31, 2019, the remaining outstanding principal on the 2019 Convertible Notes was \$675.0 million.

See Note 5, *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*

During 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. The 2024 Convertible Notes mature on March 15, 2024, unless redeemed, repurchased or converted in accordance with their terms prior to such date. The primary purpose of the issuance of the 2024 Convertible Notes was to repurchase a portion of the 2019 Convertible Notes. See Note 5, *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 2026*

During 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 5, *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 March 31, 2019 and December 31, 2018, the total amount of our foreign subsidiary cash and cash equivalents was \$820.9 million and \$870.3 million, respectively, of which \$293.9 million and \$309.4 million, respectively, was invested in U.S. dollars. As of March 31, 2019 and December 31, 2018, the total amount of cash and cash equivalents held by Herbalife Nutrition Ltd. and its U.S. entities, inclusive of U.S. territories, was \$388.1 million and \$328.6 million, respectively.

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, 2018, our U.S. consolidated group had approximately \$116.6 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, 2018, Herbalife Nutrition Ltd. had approximately \$2.3 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 Fund, approximately \$119.8 million of unremitted earnings were permanently reinvested as of December 31, 2018. As of March 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 2018 10-K for additional discussion on our unremitted earnings.

### *Off-Balance Sheet Arrangements*

As of March 31, 2019 and December 31, 2018, we had no material off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

### *Dividends*

The declaration of future dividends is subject to the discretion of our board of directors and will depend upon various factors, including our earnings, financial condition, 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 March 31, 2019, the remaining authorized capacity under our \$1.5 billion share repurchase program was \$1.5 billion.

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 11, *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.

During the three months ended March 31, 2019, we did not repurchase any of our common shares through open market purchases. During the three months ended March 31, 2018, an indirect wholly-owned subsidiary of ours purchased 8,400 of Herbalife Nutrition Ltd.'s common shares through open market purchases at an aggregate cost of approximately \$0.3 million, or an average cost of \$33.90 per share. These share repurchases increased our total 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. As of both March 31, 2019 and December 31, 2018, we held approximately 10.0 million of treasury shares for U.S. GAAP purposes.

In connection with our October 2017 modified Dutch auction tender offer, as described further in the 2018 10-K, we incurred \$1.6 million in transaction costs and also provided a CVR for each share tendered, allowing participants in the tender offer to receive a contingent cash payment in the event Herbalife is acquired in a going-private transaction (as defined in the CVR Agreement) within two years of the commencement of the tender offer. The initial fair value of the CVR was \$7.3 million, which was recorded as a liability in the fourth quarter of 2017 with a corresponding decrease to shareholders' equity. In determining the initial fair value of the CVR, we used a lattice model, which included inputs such as the underlying stock price, strike price, time to expiration, and dividend yield. Subsequent changes in the fair value of the CVR liability, using a similar valuation approach as the initial fair value determination, are recognized within our condensed consolidated balance sheets with corresponding gains or losses being recognized in other (income) expense, net within our condensed consolidated statements of income during each reporting period until the CVR expires in August 2019 or is terminated due to a going-private transaction, which is also incorporated in the valuation of the CVR; this going-private probability input is considered to be a Level 3 input in the fair value hierarchy and any increase or decrease in this input could have significantly impacted the fair value of the CVR as of the reporting date. Any subsequent increase or decrease in this input or other inputs described above in subsequent valuations could significantly impact the fair value of the CVR. We recognized an \$8.5 million gain in other (income) expense, net within our condensed consolidated statement of income during the three months ended March 31, 2019 due to the change in the fair value of the CVR, which was primarily driven by a decrease in the market price of our common shares and a decrease in the probability of a going-private transaction as a result of the shortening term of the CVR before it expires pursuant to its terms. We recognized an \$11.3 million loss in other (income) expense, net within our condensed consolidated statement of income during the three months ended March 31, 2018 due to the change in the fair value of the CVR, which was primarily driven by an increase in the market price of our common shares. As of March 31, 2019 and December 31, 2018, the fair value of the CVR was \$7.2 million and \$15.7 million, respectively. See Note 11, *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 CVR.

#### *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 are 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 is 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.

See Note 11, *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 March 31, 2019 and December 31, 2018, we had working capital of \$304.0 million and \$216.2 million, respectively, or an increase of \$87.8 million. The increase was primarily due to increases in receivables and inventories, and decreases in royalty overrides and other current liabilities, partially offset by a decrease in prepaid expenses and other current assets.

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 6, *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 March 31, 2019.

#### **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 March 31, 2019, we sold products in 94 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 both the three months ended March 31, 2019 and 2018.

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 \$31.0 million and \$29.8 million to present them at their lower of cost and net realizable value in our condensed consolidated balance sheets as of March 31, 2019 and December 31, 2018, respectively.

Goodwill and marketing-related intangible assets not subject to amortization are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value.

As 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 two-step 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 2018, 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 2018, 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 two-step process, we primarily use an income approach in order to estimate the fair value of goodwill. First, we determine the fair value of a reporting unit and compare it to its carrying amount. The determination of the fair value of the reporting units requires us to make significant estimates and assumptions. These estimates and assumptions include estimates of future revenues and expense growth rates, capital expenditures and the depreciation and amortization related to these capital expenditures, discount rates, and other inputs. Due to the inherent uncertainty involved in making these estimates, actual future results could differ. Changes in assumptions regarding future results or other underlying assumptions could have a significant impact on the fair value of the reporting unit. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill and other intangibles over the implied fair value as determined in Step 2 of the goodwill impairment test. Also, if during Step 1 of a goodwill impairment test we determine we have reporting units with zero or negative carrying amounts, then we perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. During Step 2 of a goodwill impairment test, the implied fair value of goodwill is determined in a similar manner as how the amount of goodwill recognized in a business combination is determined, in accordance with FASB ASC Topic 805, *Business Combinations*. We would assign the fair value of a reporting unit to all of the assets and liabilities of that reporting unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill.

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.

As of March 31, 2019 and December 31, 2018, we had goodwill of approximately \$92.0 million and \$92.9 million, respectively. As of both March 31, 2019 and December 31, 2018, we had marketing-related intangible assets of approximately \$310.0 million. The decrease in goodwill during the three months ended March 31, 2019 was due to foreign currency translation adjustments. No marketing-related intangibles or goodwill impairment was recorded during the three months ended March 31, 2019 and 2018.

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 2018 10-K for a further discussion of U.S. Tax Reform.

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 income (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 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 March 31, 2019 and December 31, 2018, the aggregate notional amounts of these contracts outstanding were approximately \$23.4 million and \$43.8 million, respectively. As of March 31, 2019, the outstanding contracts were expected to mature over the next eight 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, excluding forward points, designated as cash flow hedges 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, excluding forward points, designated as cash flow hedges 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 March 31, 2019, we recorded assets at fair value of \$0.3 million and liabilities at fair value of \$1.3 million relating to all outstanding foreign currency contracts designated as cash flow hedges. As of December 31, 2018, we recorded assets at fair value of \$0.5 million and liabilities at fair value of \$0.7 million relating to all outstanding foreign currency contracts designated as cash flow hedges. These hedges remained effective as of March 31, 2019 and December 31, 2018.

As of both March 31, 2019 and December 31, 2018, 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 March 31, 2019 and December 31, 2018.

The following table provides information about the details of all foreign currency forward contracts that were outstanding as of March 31, 2019:

	Weighted- Average Contract Rate	Notional Amount	Fair Value Gain (Loss)
<b>As of March 31, 2019</b>			
<i>(in millions, except weighted-average contract rate)</i>			
Buy British pound sell Euro	0.87	\$ 3.2	\$ —
Buy British pound sell U.S. dollar	1.33	1.4	—
Buy Chinese yuan sell Euro	7.75	60.3	0.7
Buy Colombian peso sell U.S. dollar	3,313.00	1.7	0.1
Buy Euro sell Australian dollar	1.58	1.5	—
Buy Euro sell British pound	0.86	10.5	0.1
Buy Euro sell Chilean peso	770.00	1.1	—
Buy Euro sell Ghanaian cedi	6.01	0.6	—
Buy Euro sell Hong Kong dollar	8.86	4.6	—
Buy Euro sell Indonesian rupiah	16,191.24	2.6	—
Buy Euro sell Japanese yen	124.32	0.4	—
Buy Euro sell Kazakhstani tenge	433.50	1.2	—
Buy Euro sell Korean won	1,285.30	1.5	—
Buy Euro sell Malaysian ringgit	4.61	3.8	—
Buy Euro sell Mexican peso	23.07	31.7	(1.3)
Buy Euro sell Peruvian nuevo sol	3.75	3.5	—
Buy Euro sell Philippine peso	60.11	3.6	—
Buy Euro sell Russian ruble	73.15	9.3	0.1
Buy Euro sell South African rand	16.45	4.6	—
Buy Euro sell Taiwan dollar	35.10	1.0	—
Buy Euro sell U.S. dollar	1.14	24.7	(0.3)
Buy Euro sell Ukrainian hryvnia	31.44	6.5	(0.1)
Buy Indonesian rupiah sell Euro	16,097.00	1.7	—
Buy Indonesian rupiah sell U.S. dollar	14,507.00	7.0	(0.1)
Buy Korean won sell U.S. dollar	1,118.50	5.8	(0.1)
Buy Malaysian ringgit sell Euro	4.58	2.5	—
Buy Mexican peso sell Euro	22.02	9.1	—
Buy Norwegian krone sell U.S. dollar	8.69	1.1	—
Buy Peruvian nuevo sol sell Euro	3.73	1.2	—
Buy Russian ruble sell Euro	73.38	2.8	—
Buy Swedish krona sell U.S. dollar	8.90	1.1	—
Buy Taiwan dollar sell U.S. dollar	30.17	9.4	(0.2)
Buy U.S. dollar sell Colombian peso	3,140.99	3.4	0.1
Buy U.S. dollar sell Euro	1.14	66.5	0.7
Buy U.S. dollar sell Korean won	1,127.37	5.8	—
Buy U.S. dollar sell Mexican peso	22.02	4.9	(0.1)
Buy U.S. dollar sell Turkish lira	5.61	4.5	0.1
Buy Ukrainian hryvnia sell Euro	31.22	6.3	—
Total forward contracts		<u>\$ 312.4</u>	<u>\$ (0.3)</u>

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 March 31, 2019, the aggregate annual maturities of the 2018 Credit Facility were expected to be \$15.0 million for the remainder of 2019, \$21.6 million for 2020, \$26.3 million for 2021, \$27.8 million for 2022, \$188.7 million for 2023, and \$710.6 million thereafter. As of March 31, 2019, the fair values of the 2018 Term Loan A and 2018 Term Loan B were approximately \$244.6 million and \$748.6 million, respectively, and the carrying values were \$242.4 million and \$736.7 million, respectively. As of December 31, 2018, the fair values of the 2018 Term Loan A and 2018 Term Loan B were approximately \$240.7 million and \$729.3 million, respectively, and the carrying values were \$245.4 million and \$738.2 million, respectively. There were no outstanding borrowings on the 2018 Revolving Credit Facility as of March 31, 2019 and December 31, 2018. The 2018 Credit Facility bears variable interest rates, and as of March 31, 2019 and December 31, 2018, the weighted-average interest rate for borrowings under the 2018 Credit Facility was 5.71% and 6.80%, respectively. Since our 2018 Credit Facility is based on variable interest rates, and as we have not entered into any interest swap arrangements, if interest rates were to increase or decrease by 1% for the year and our borrowing amounts stayed constant on our 2018 Credit Facility, our annual interest expense could increase or decrease by approximately \$9.9 million.

As of March 31, 2019, the fair values of the liability component of the 2019 Convertible Notes and the 2024 Convertible Notes were approximately \$669.0 million and \$476.4 million, respectively, and the carrying values were \$663.7 million and \$421.1 million, respectively. As of December 31, 2018, the fair values of the liability component of the 2019 Convertible Notes and the 2024 Convertible Notes were approximately \$662.1 million and \$448.1 million, respectively, and the carrying values were \$656.4 million and \$416.0 million, respectively. The 2019 Convertible Notes pay interest at a fixed rate of 2.00% per annum payable semiannually in arrears on February 15 and August 15 of each year, beginning on August 15, 2014. The 2019 Convertible Notes mature on August 15, 2019, unless earlier repurchased or converted. We may not redeem the 2019 Convertible Notes prior to their stated maturity date. 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. The 2024 Convertible Notes mature on March 15, 2024, unless redeemed, repurchased or converted in accordance with their terms prior to such date.

As of March 31, 2019, the fair value of the 2026 Notes was approximately \$413.1 million and the carrying value was \$394.9 million. As of December 31, 2018, the fair value of the 2026 Notes was approximately \$394.6 million and the carrying value was \$394.8 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 \$16.0 million or increase by approximately \$15.7 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 March 31, 2019.

*Changes in Internal Control over Financial Reporting.* There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## FORWARD-LOOKING STATEMENTS

*This document contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing. Forward-looking statements may include, 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, such as those disclosed or incorporated by reference in our filings with the Securities and Exchange Commission. Important factors that could cause our actual results, performance and achievements, or industry results to differ materially from estimates or projections contained in our forward-looking statements include, among others, the following:*

- 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, 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, 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 vote to exit from the European Union;

- restrictions imposed by covenants in our existing indebtedness;
- risks related to the convertible notes;
- uncertainties relating to the application of transfer pricing, duties, value added taxes, and other tax regulations, and changes thereto;
- changes in tax laws, treaties or 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
- share price volatility related to, among other things, speculative trading and certain traders shorting our common shares.

*Additional factors that could cause actual results to differ materially from our forward-looking statements are set forth in this Quarterly Report on Form 10-Q, including under the heading “Risk Factors,” “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, and forward-looking statements in documents attached that are incorporated by reference speak only as of the date of those documents. We do not undertake any obligation to update or release any revisions to any forward-looking statement or to report any events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law.*

## PART II. OTHER INFORMATION

### Item 1. *Legal Proceedings*

See discussion under Note 6, *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*

#### **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 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.

Our Member organization has a high turnover rate, which is a common characteristic found in the direct selling industry. See Part I, Item 1, *Business* of the 2018 10-K for additional information regarding sales leader retention rates.

***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 and network marketing program. 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. Violations by our independent Members of applicable law or of our policies and procedures in dealing with customers could reflect negatively on our products and operations and harm our business 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;
- the safety and quality of similar products and ingredients distributed by other companies;
- 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 enforcement 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. We cannot ensure that all of our Members will comply with applicable legal requirements relating to the advertising, labeling, licensing or distribution of our products.

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 thereby, 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 and 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. 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 customer and Member relationships 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 customers in a timely manner, some of our products 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 customers and Members, 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, 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 for global customers and Members with regard to weight management, nutritional supplement and personal care products. Our competitors include both direct selling companies such as NuSkin Enterprises, Nature's Sunshine, Altacor/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, Wal-Mart 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 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 negatively 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 representation regarding the 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, unless the representation is non-misleading and we possess competent and reliable evidence sufficient to substantiate that the representation is true. The Consent Order also prohibits us and other persons who act in active concert with us from representing 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 all information material to participation in the marketing program, including our refund and buyback policy before the participant pays any money to us.

On January 4, 2018, the FTC released its Business Guidance Concerning Multi-Level Marketing, or MLM Guidance, in order to help multi-level marketers, or MLMs, apply core consumer protection principles applicable to the multi-level marketing industry to their business practices. 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 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 weight management 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 which began on January 8, 2019 to investigate the unlawful promotion and sales of health products. This review was accompanied with negative media attention, and although the review ended on or about April 18, 2019, the effects of the negative publicity may result in a material adverse effect on our business in China.

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 SEC has requested from the Company documents and other information relating to the Company's disclosures regarding its marketing plan in China. The Company is discussing a possible resolution with the SEC and, based on the course of these discussions to date, the Company has recorded an accrued liability of \$8 million within its condensed consolidated balance sheet as of March 31, 2019. However, the Company is unable to predict whether a settlement will be reached or, if so, the amount of any such settlement, and the actual loss incurred in connection with this matter could exceed the amount accrued. In the event a settlement is not reached, litigation may ensue. While the Company believes this investigation is nearing conclusion, the Company cannot predict the eventual scope, duration, or outcome of this investigation at this time. The possible range of outcomes continues to include discussions leading to a settlement which could include a monetary payment and other relief, the filing by the SEC of a litigated civil complaint or administrative action, or the closure of this matter without action, the results of which may be materially adverse to the Company, its financial condition, its results of operations, and its operations.

***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 prevent us from conducting 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. 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 lead to our inability 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 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 FTC and the permanent injunction in California, and are compliant with the Consent Order, 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 and our board of directors has established the Implementation Oversight Committee, a committee which meets regularly with management to oversee our compliance with the terms of the Consent Order, there can be no assurances that the FTC or ICA would agree now or will agree in the future. 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 it has a negative impact on net sales, or if it leads to further legal, regulatory, or compliance claims, proceedings, or investigations or litigation.

***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 80% of our net sales for the year ended December 31, 2018 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 Mexican government during 2018 on products imported from the United States are applicable to a significant portion of our product line and the tariffs, along with any price increases we implemented or may implement in the future, may have an adverse impact on future sales if they 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. 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 expansion of operations into China and the continued success of our business in China are subject to risks and uncertainties related to general economic, political and legal developments in China, among other things. 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 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 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 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 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 business could be materially and adversely affected by natural disasters, other catastrophic events, acts of war or terrorism, cybersecurity incidents, 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; power loss or shortages; environmental disasters; telecommunications or business information systems failures; acts of war or terrorism; cybersecurity incidents, including malicious software attacks intended to render our internal operating systems 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. 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 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 any assurances that any future natural disasters, catastrophic events, acts of war or terrorism and other similar disruptions, including those due to cybersecurity incidents, ransomware, or other actions by third parties, will not adversely affect our ability to operate our business and our financial condition and results of operations.

***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 payment processor may also put us at a greater risk of being targeted by hackers. 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.

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. 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.

***Since 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 and which are manufactured in compliance with applicable laws, including the dietary supplement and OTC drug cGMPs, then our financial condition and operating results would be harmed.***

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. 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 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 2018, 2017, and 2016, 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 Chairman of the Board and Chief Executive Officer, Michael O. Johnson, and our senior management team as it works closely with the senior Member leadership to create an environment of inspiration, motivation and entrepreneurial business success. Effective January 8, 2019, our previous Chief Executive Officer resigned and Michael O. Johnson became Chief Executive Officer in addition to his role as Chairman of the Board. While Mr. Johnson previously served as our Chief Executive Officer for almost 15 years and Chairman of our Board of Directors for more than 10 years, 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 the 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.

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 our senior managers 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. 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 requiring 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 have been conducting investigations into the Company’s compliance with the FCPA in China, which are mainly focused on the Company’s China external affairs expenditures relating to its China business activities and the adequacy of and compliance with the Company’s internal controls relating to such expenditures. These investigations are proceeding, the government is continuing to request documents and other information relating to these matters, and the Company has commenced discussions with the government regarding possible resolution of these matters. The Company is conducting its own review and has taken remedial and improvement measures based upon this review, including but not limited to replacement of a number of employees and enhancements of Company policies and procedures in China. The Company is continuing to cooperate with the SEC and DOJ. Although a likely outcome could include resolution or government action, the Company cannot predict the eventual scope, duration, or outcome of the government investigations at this time, including potential monetary payments, injunctions, or other relief, the results of which may be materially adverse to the Company, its financial condition, its results of operations, and its operations.

***The United Kingdom’s vote to 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. The British government is currently in negotiations with the European Union to determine the terms of the U.K.’s exit. A 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 covenants in our existing indebtedness 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 indenture governing 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.

***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 February 2014, we issued convertible senior notes due on August 15, 2019, or the 2019 Convertible Notes, in the aggregate principal amount of \$1.15 billion, of which \$675 million aggregate principal amount remains outstanding. Additionally, 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 their respective maturity dates, we will have to pay the holders of the 2019 Convertible Notes and the 2024 Convertible Notes the full aggregate principal amount of the 2019 Convertible Notes or 2024 Convertible Notes then outstanding.

Holders of our 2019 Convertible Notes may convert their notes at their option under the following circumstances: (i) during any calendar quarter commencing after the calendar quarter ending March 31, 2014, if the last reported sale price of 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 2019 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 2019 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 2019 Convertible Notes for each such day; or (iii) upon the occurrence of specified corporate events. On and after May 15, 2019, holders may convert their 2019 Convertible Notes at any time, regardless of the foregoing circumstances.

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 their 2024 Convertible Notes at any time, regardless of the foregoing circumstances.

Upon conversion of the 2019 Convertible Notes, the principal amount is due in cash, and to the extent that the conversion value exceeds the principal amount, the difference is due in common shares. 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 2019 Convertible Notes or their 2024 Convertible Notes when conversion is permitted, we could be required to make cash payments equal to the par amount of each 2019 Convertible Note, and 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 2019 Convertible Notes or 2024 Convertible Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of our 2019 Convertible Notes or 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 2019 Convertible Notes or the 2024 Convertible Notes, or any adverse accounting treatment of the 2019 Convertible Notes or 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 2019 Convertible Notes, until May 15, 2019, and 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 2019 Convertible Notes and 2024 Convertible Notes. Upon conversion of the 2019 Convertible Notes, the principal amount is due in cash, and to the extent that the conversion value exceeds the principal amount, the difference is due in common shares. While we have entered into capped call transactions to effectively increase the conversion of the 2019 Convertible Notes and lessen the risk of dilution to shareholders upon conversion, if the market price of our common shares, as measured under the terms of the capped call transactions, exceeds the cap price of the capped call transactions, the number of our common shares we receive upon exercise of the capped call transactions will be capped. In that case, there would be dilution in respect of our common shares, because the number of our common shares or amounts of cash that we would owe upon conversion of the 2019 Convertible Notes in excess of the principal amount of converted 2019 Convertible Notes would exceed the number of common shares that we would be entitled to receive upon exercise of the capped call transactions, which would cause a dilutive effect that could cause our share price to go down. 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 similar arrangements to the capped call transactions in connection with the issuance of the 2024 Convertible Notes.

If any or all of the 2019 Convertible Notes or 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 2019 Convertible Notes as of February 7, 2014, the date of issuance thereof, was 11.5908 common shares per \$1,000 principal amount, or a conversion price of approximately \$86.28 per common share, and 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 2019 Convertible Notes was adjusted to 23.1816 common shares per \$1,000 principal amount, or a conversion price of approximately \$43.14 per common share, and 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 2019 Convertible Notes was further adjusted to 23.2245 common shares per \$1,000 principal amount, or a conversion price of approximately \$43.06 per common share, and 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 rates of the 2019 Convertible Notes and 2024 Convertible Notes adjust upward upon the occurrence of certain events, our existing shareholders may experience more dilution if any or all of the 2019 Convertible Notes or 2024 Convertible Notes are converted into common shares after the adjusted conversion rates 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 6, *Contingencies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for 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 2019 Convertible Notes and 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). Any shareholders who own, or contemplate owning, 10% or more of our shares (taking into account the impact of any share repurchases we may undertake as well as the impact of the constructive ownership rules) are urged to consult their tax advisors with respect to the special rules applicable to 10% U.S. Shareholders of CFCs.

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.

***We may be held responsible for 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 addition, 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 social security contributions, withholding and related taxes in those jurisdictions, plus any related assessments and penalties, which could harm our financial condition and operating results. See Note 6, *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 (2018 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 2/3% 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 merger provisions contained within Part XVI of the Companies Law do contain shareholder appraisal rights similar to those provided for under Delaware law. Such rights are limited to a merger under Part XVI and do not apply to schemes of arrangement as discussed below.

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 March 31, 2019, the remaining authorized capacity under our \$1.5 billion share repurchase program was \$1.5 billion. We did not repurchase any of our common shares during the three months ended March 31, 2019.

**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**

<b>Exhibit Number</b>	<b>Description</b>	<b>Reference</b>
3.1	<a href="#">Form of Amended and Restated Memorandum and Articles of Association of Herbalife Nutrition Ltd.</a>	(r)
4.1	<a href="#">Form of Share Certificate</a>	(c)
4.2	<a href="#">Indenture between Herbalife Ltd. and Union Bank, N.A., as trustee, dated February 7, 2014, governing the 2.00% Convertible Senior Notes due 2019</a>	(r)
4.3	<a href="#">Form of Global Note for 2.00% Convertible Senior Note due 2019 (included as Exhibit A to Exhibit 4.2 hereto)</a>	(r)
4.4	<a href="#">Indenture between Herbalife Ltd. and MUFG Union Bank, N.A., as trustee, dated March 23, 2018, governing the 2.625% Convertible Senior Notes due 2024</a>	(n)
4.5	<a href="#">Form of Global Note for 2.625% Convertible Senior Notes due 2024 (included as Exhibit A to Exhibit 4.4 hereto)</a>	(n)
4.6	<a href="#">Indenture, dated as of August 16, 2018 among HLF Financing SaRL, LLC, Herbalife International, Inc., the guarantors party thereto and MUFG Union Bank, N.A., as trustee governing the 7.250% Senior Notes due 2026</a>	(q)
4.7	<a href="#">Form of Global Note for 7.250% Senior Notes due 2026 (included as Exhibit A to Exhibit 4.6 hereto)</a>	(q)
10.1#	<a href="#">Herbalife International of America, Inc.'s Senior Executive Deferred Compensation Plan, effective January 1, 1996, as amended</a>	(a)
10.2#	<a href="#">Herbalife International of America, Inc.'s Management Deferred Compensation Plan, effective January 1, 1996, as amended</a>	(a)
10.3#	<a href="#">Herbalife International Inc. 401K Profit Sharing Plan and Trust, as amended</a>	(a)
10.4#	<a href="#">Notice to Distributors regarding Amendment to Agreements of Distributorship, dated as of July 18, 2002 between Herbalife International, Inc. and each Herbalife Distributor</a>	(a)
10.5#	<a href="#">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>	(a)
10.6	<a href="#">Form of Indemnification Agreement between Herbalife Ltd. and the directors and certain officers of Herbalife Ltd.</a>	(b)
10.7#	<a href="#">Amended and Restated Herbalife Ltd. 2005 Stock Incentive Plan</a>	(e)
10.8#	<a href="#">Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement</a>	(g)
10.9#	<a href="#">Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement</a>	(g)
10.10#	<a href="#">Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement</a>	(j)
10.11#	<a href="#">Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement</a>	(j)
10.12#	<a href="#">Herbalife Ltd. Employee Stock Purchase Plan</a>	(o)
10.13#	<a href="#">Amendment to Herbalife International Inc. 401K Profit Sharing Plan and Trust</a>	(d)
10.14#	<a href="#">Form of Independent Directors Stock Appreciation Right Award Agreement</a>	(e)
10.15#	<a href="#">Herbalife Ltd. Amended and Restated Independent Directors Deferred Compensation and Stock Unit Plan</a>	(e)
10.16#	<a href="#">Amended and Restated Non-Management Directors Compensation Plan</a>	(f)
10.17#	<a href="#">Form of Herbalife Ltd. 2005 Stock Incentive Plan Non-Employee Directors Stock Appreciation Right Award Agreement</a>	(f)
10.18#	<a href="#">Severance Agreement by and between John DeSimone and Herbalife International of America, Inc., dated as of February 23, 2011</a>	(g)
10.19#	<a href="#">Amended and Restated Severance Agreement, dated as of February 23, 2011, by and between Desmond Walsh and Herbalife International of America, Inc.</a>	(g)
10.20#	<a href="#">Amendment to Amended and Restated Herbalife Ltd. 2005 Stock Incentive Plan</a>	(g)
10.21	<a href="#">Form of Forward Share Repurchase Confirmation</a>	(r)
10.22	<a href="#">Form of Base Capped Call Confirmation</a>	(r)
10.23	<a href="#">Form of Additional Capped Call Confirmation</a>	(r)
10.24#	<a href="#">Form of Herbalife Ltd. 2005 Stock Incentive Plan Performance Condition Stock Appreciation Right Award Agreement</a>	(r)
10.25#	<a href="#">Amended and Restated Herbalife Ltd. 2014 Stock Incentive Plan</a>	(g)
10.26#	<a href="#">Herbalife Ltd. Executive Incentive Plan</a>	(g)
10.27	<a href="#">Stipulation to Entry of Order for Permanent Injunction and Monetary Judgment</a>	(h)

<b>Exhibit Number</b>	<b>Description</b>	<b>Reference</b>
10.28	<a href="#">Second Amended and Restated Support Agreement, dated July 15, 2016, by and among Herbalife Ltd., Carl C. Icahn, Icahn Partners Master Fund LP, Icahn Offshore LP, Icahn Partners LP, Icahn Onshore LP, Beckton Corp., Hopper Investments LLC, Barbery Corp., High River Limited Partnership, Icahn Capital LP, IPH GP LLC, Icahn Enterprises Holdings LP, and Icahn Enterprises GP Inc.</a>	(h)
10.29#	<a href="#">Amended and Restated Employment Agreement by and between Richard P. Goudis and Herbalife International of America, Inc., dated as of November 1, 2016</a>	(i)
10.30#	<a href="#">Letter Agreement by and between Michael O. Johnson and Herbalife International of America, Inc., dated November 1, 2016</a>	(i)
10.31#	<a href="#">Herbalife International of America, Inc. Executive Officer Severance Plan</a>	(i)
10.32#	<a href="#">Credit Agreement, dated as of February 15, 2017, by and among HLF Financing S.à r.l., HLF Financing US, LLC, Herbalife 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, Credit Suisse AG, Cayman Islands Branch, as Term Administrative Agent and Collateral Agent, and Coöperatieve Rabobank U.A., New York Branch, as an Issuing Bank and the Revolver Administrative Agent</a>	(i)
10.33#	<a href="#">Stock Unit Award Agreement (Performance-Vesting) by and between Herbalife Ltd. and Richard P. Goudis dated as of June 6, 2017</a>	(j)
10.34	<a href="#">Agreement by and among Herbalife Ltd. and Carl C. Icahn and his controlled affiliates, dated August 21, 2017</a>	(k)
10.35	<a href="#">Contingent Value Rights Agreement by and between Herbalife Ltd. and Computershare Trust Company, N.A., as Administrative Agent, dated as of October 11, 2017</a>	(l)
10.36#	<a href="#">Employment Agreement dated as of March 27, 2008 between Michael O. Johnson and Herbalife International of America, Inc.</a>	(o)
10.37#	<a href="#">Form of Herbalife Ltd. 2014 Stock Incentive Plan Stock Unit Award Agreement</a>	(m)
10.38#	<a href="#">Form of Herbalife Ltd. 2014 Stock Incentive Plan Stock Appreciation Right Award Agreement</a>	(m)
10.39#	<a href="#">Form of Herbalife Ltd. 2014 Stock Incentive Plan Lead Director Stock Unit Award Agreement</a>	(m)
10.40#	<a href="#">Form of Herbalife Ltd. 2014 Stock Incentive Plan Independent Directors Stock Unit Award Agreement</a>	(m)
10.41#	<a href="#">Form of Herbalife Ltd. 2014 Stock Incentive Plan Performance Based Stock Appreciation Right Award Agreement</a>	(m)
10.42#	<a href="#">Form of Herbalife Ltd. 2014 Stock Incentive Plan Restricted Cash Unit Award Agreement</a>	(m)
10.43	<a href="#">First Amendment, effective as of March 16, 2018, to the Credit Agreement, dated as of February 15, 2017, by and among HLF Financing S.à r.l., HLF Financing US, LLC, Herbalife 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, Credit Suisse AG, Cayman Islands Branch, as Term Administrative Agent and Collateral Agent, and Coöperatieve Rabobank U.A., New York Branch, as an Issuing Bank and the Revolver Administrative Agent</a>	(o)
10.44	<a href="#">Form of Capped Call Partial Unwind Agreement</a>	(o)
10.45	<a href="#">Amendment dated May 29, 2018 to the Letter Agreement by and between Michael O. Johnson and Herbalife International of America, Inc.</a>	(p)
10.46	<a href="#">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</a>	(q)
10.47#	<a href="#">Separation Agreement and General Release dated as of January 8, 2019, by and between Richard P. Goudis and Herbalife International of America, Inc.</a>	(r)
31.1	<a href="#">Rule 13a-14(a) Certification of Chief Executive Officer</a>	*
31.2	<a href="#">Rule 13a-14(a) Certification of Chief Financial Officer</a>	*
32.1	<a href="#">Section 1350 Certification of Chief Executive Officer and Chief Financial Officer</a>	*
101.INS	XBRL Instance Document	*
101.SCH	XBRL Taxonomy Extension Schema Document	*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	*

- \* Filed herewith.
- # Management contract or compensatory plan or arrangement.
- (a) Previously filed on October 1, 2004 as an Exhibit to the Company's registration statement on Form S-1 (File No. 333-119485) and is incorporated herein by reference.
- (b) Previously filed on 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 July 28, 2014 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 and is incorporated herein by reference.
- (e) 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.
- (f) 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.
- (g) 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.
- (h) 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.
- (i) 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.
- (j) 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.
- (k) 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.
- (l) Previously filed on October 11, 2017 as an Exhibit to the Company's Amendment No. 6 to its Tender Offer Statement on Schedule TO and is incorporated herein by reference.
- (m) 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.
- (n) 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.
- (o) 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.
- (p) 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.
- (q) 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.
- (r) 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.

**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: May 2, 2019

## RULE 13a-14(a) CERTIFICATION

I, Michael O. Johnson, 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/ MICHAEL O. JOHNSON

Michael O. Johnson

*Chairman of the Board and Chief Executive Officer*

Dated: May 2, 2019

## 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: May 2, 2019

**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 March 31, 2019 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/ MICHAEL O. JOHNSON  
\_\_\_\_\_  
Michael O. Johnson  
*Chairman of the Board and Chief Executive Officer*

Dated: May 2, 2019

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

Dated: May 2, 2019

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.