

HERBALIFE LTD.
Form 10-Q
July 30, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from to .

Commission file number: 1-32381

HERBALIFE LTD.

(Exact name of registrant as specified in its charter)

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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)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Number of shares of registrant's common shares outstanding as of July 25, 2012 was 111,842,796

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HERBALIFE LTD.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****HERBALIFE LTD.****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	June 30, 2012	December 31, 2011
	(In thousands, except share and par value amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 286,166	\$ 258,775
Receivables, net of allowance for doubtful accounts of \$2,800 (2012) and \$2,250 (2011)	108,633	89,660
Inventories	262,386	247,696
Prepaid expenses and other current assets	131,919	117,073
Deferred income taxes	56,998	55,615
Total current assets	846,102	768,819
Property, plant and equipment, at cost, net of accumulated depreciation and amortization of \$224,071 (2012) and \$193,735 (2011)	196,787	193,703
Deferred compensation plan assets	23,119	20,511
Deferred financing costs, net	4,222	4,797
Other assets	43,644	41,125
Marketing related intangibles and other intangible assets, net	311,428	311,764
Goodwill	105,490	105,490
Total assets	\$ 1,530,792	\$ 1,446,209
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 79,031	\$ 57,095
Royalty overrides	206,079	197,756
Accrued compensation	71,131	76,435
Accrued expenses	156,672	152,744
Current portion of long-term debt	763	1,542
Advance sales deposits	36,298	31,702
Income taxes payable	16,356	31,415
Total current liabilities	566,330	548,689
NON-CURRENT LIABILITIES:		
Long-term debt, net of current portion	555,051	202,079
Deferred compensation plan liability	27,118	23,702
Deferred income taxes	72,828	72,348
Other non-current liabilities	38,746	39,203

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Total liabilities	1,260,073	886,021
CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common shares, \$0.001 par value; 1.0 billion shares authorized; 111.8 million (2012) and 115.8 million (2011) shares outstanding		
	112	116
Paid-in-capital in excess of par value	288,050	291,950
Accumulated other comprehensive loss	(42,927)	(37,809)
Retained earnings	25,484	305,931
Total shareholders' equity	270,719	560,188
Total liabilities and shareholders' equity	\$ 1,530,792	\$ 1,446,209

See the accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**HERBALIFE LTD.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(In thousands, except per share amounts)			
Product sales	\$ 883,068	\$ 750,092	\$ 1,704,714	\$ 1,426,881
Shipping & handling revenues	148,880	129,562	291,409	247,869
Net sales	1,031,948	879,654	1,996,123	1,674,750
Cost of sales	203,737	171,023	399,881	333,816
Gross profit	828,211	708,631	1,596,242	1,340,934
Royalty overrides	335,195	289,232	652,728	553,609
Selling, general & administrative expenses	306,310	266,225	602,703	510,751
Operating income	186,706	153,174	340,811	276,574
Interest expense, net	3,169	855	4,542	3,503
Income before income taxes	183,537	152,319	336,269	273,071
Income taxes	50,169	41,139	94,739	73,872
NET INCOME	\$ 133,368	\$ 111,180	\$ 241,530	\$ 199,199
Earnings per share:				
Basic	\$ 1.14	\$ 0.93	\$ 2.08	\$ 1.68
Diluted	\$ 1.10	\$ 0.88	\$ 1.98	\$ 1.57
Weighted average shares outstanding:				
Basic	116,557	119,007	116,376	118,609
Diluted	121,482	126,617	122,182	126,610
Dividends declared per share	\$ 0.30	\$ 0.20	\$ 0.60	\$ 0.33

See the accompanying notes to unaudited condensed consolidated financial statements.

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	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2012	2011	2012	2011
	(In thousands)			
Net income	\$ 133,368	\$ 111,180	\$ 241,530	\$ 199,199
Other comprehensive income:				
Foreign currency translation adjustment, net of income taxes	(15,143)	5,256	(3,924)	20,198
Unrealized (loss) gain on derivatives, net of income taxes	528	(98)	(1,194)	171
Total other comprehensive income (loss)	(14,615)	5,158	(5,118)	20,369
Total comprehensive income	\$ 118,753	\$ 116,338	\$ 236,412	\$ 219,568

See the accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**HERBALIFE LTD.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Six Months Ended	
	June 30,	June 30,
	2012	2011
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 241,530	\$ 199,199
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	36,613	36,657
Excess tax benefits from share-based payment arrangements	(27,212)	(19,544)
Share-based compensation expenses	12,497	11,103
Amortization of discount and deferred financing costs	572	435
Deferred income taxes	(4,896)	671
Unrealized foreign exchange transaction (gain) loss	(4,909)	5,452
Write-off of deferred financing costs		914
Other	120	899
Changes in operating assets and liabilities:		
Receivables	(21,317)	(26,966)
Inventories	(14,476)	