

HERBALIFE LTD.
Form 10-Q
August 06, 2007

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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, 2007**
- OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Commission file number: 1-32381

HERBALIFE LTD.

(Exact name of registrant as specified in its charter)

Cayman Islands

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

98-0377871

*(I.R.S. Employer
Identification No.)*

P.O. Box 309GT

**Ugland House, South Church Street
Grand Cayman, Cayman Islands**

(Address of principal executive offices) (Zip code)

(310) 410-9600

(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

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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 31, 2007 was 69,153,728.

HERBALIFE LTD.

**Index to Financial Statements and Exhibits
Filed with the Quarterly Report of the Company on Form 10-Q
For the Six Months ended June 30, 2007**

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

	December 31, 2006	June 30, 2007 (Unaudited)
	(In thousands, except share amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 154,323	\$ 147,044
Receivables, net of allowance for doubtful accounts of \$6,917 (2006) and \$6,748 (2007)	51,758	49,609
Inventories, net	146,036	125,450
Prepaid expenses and other current assets	41,320	67,945
Deferred income taxes	60,190	62,352
Prepaid income taxes	2,080	
Total current assets	455,707	452,400
Property, at cost, net of accumulated depreciation and amortization of \$32,671 (2006) and \$48,251 (2007)	105,266	112,773
Deferred compensation plan assets	17,607	18,715
Deferred financing costs, net of accumulated amortization of \$268 (2006) and \$617 (2007)	2,063	1,714
Marketing related intangibles	310,000	310,000
Product certification, product formulas and other intangible assets, net of accumulated amortization of \$20,892 (2006) and \$22,441 (2007)	1,808	259
Goodwill	113,221	110,866
Other assets	11,261	11,523
Total assets	\$ 1,016,933	\$ 1,018,250
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 39,990	\$ 35,494
Royalty overrides	116,896	112,166
Accrued compensation	45,808	37,004
Accrued expenses	103,767	119,296

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Current portion of long term debt	5,599	65,018
Advance sales deposits	11,432	11,182
Income taxes payable		16,974
Total current liabilities	323,492	397,134
NON-CURRENT LIABILITIES:		
Long term debt, net of current portion	179,839	150,808
Deferred compensation	18,166	20,606
Deferred income taxes	126,152	126,169
Other non-current liabilities	15,394	17,236
Total liabilities	663,043	711,953
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS EQUITY:		
Common shares, \$0.002 par value, 175.0 million shares authorized, 71.6 million (2006) and 68.7 million (2007) shares issued and outstanding	143	137
Paid-in-capital in excess of par value	132,755	144,447
Accumulated other comprehensive loss	(782)	(117)
Retained earnings	221,774	161,830
Total shareholders equity	353,890	306,297
Total liabilities and shareholders equity	\$ 1,016,933	\$ 1,018,250

See the accompanying notes to consolidated financial statements

Table of Contents**HERBALIFE LTD.****CONSOLIDATED STATEMENTS OF INCOME**

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2006	2007	2006	2007
	(Unaudited)			
	(In thousands, except per share amounts)			
Product sales	\$ 402,841	\$ 456,907	\$ 796,445	\$ 894,900
Handling & freight income	63,146	73,193	125,330	143,299
Net sales	465,987	530,100	921,775	1,038,199
Cost of sales	92,640	111,361	184,006	218,644
Gross profit	373,347	418,739	737,769	819,555
Royalty overrides	167,351	188,509	332,649	368,769
Selling, general & administrative expenses	140,881	152,157	275,925	301,585
Operating income	65,115	78,073	129,195	149,201
Interest expense, net	4,955	2,274	10,970	4,478
Income before income taxes	60,160	75,799	118,225	144,723
Income taxes	23,834	27,690	43,203	55,434
Net income	\$ 36,326	\$ 48,109	\$ 75,022	\$ 89,289
Earnings per share:				
Basic	\$ 0.51	\$ 0.68	\$ 1.07	\$ 1.25
Diluted	\$ 0.49	\$ 0.65	\$ 1.01	\$ 1.20
Weighted average shares outstanding:				
Basic	70,647	70,616	70,297	71,180
Diluted	74,220	73,990	73,954	74,491

See the accompanying notes to consolidated financial statements

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	Six Months Ended	
	June 30,	June 30,
	2006	2007
	(Unaudited)	
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 75,022	\$ 89,289
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,323	17,046
Stock-based compensation expense	5,547	6,624
Excess tax benefits from share-based payment arrangements	(14,164)	(5,201)
Amortization of discount and deferred financing costs	531	145
Deferred income taxes	(6,344)	(596)
Unrealized foreign exchange loss (gain)	247	(1,464)
Write-off of deferred financing costs and unamortized discounts	181	204
Other		71
Changes in operating assets and liabilities:		
Receivables	(10,040)	3,771
Inventories	180	23,740
Prepaid expenses and other current assets	(5,171)	(28,384)
Other assets	(2,695)	(154)
Accounts payable	(3,680)	(5,343)
Royalty overrides	12,190	(5,900)
Accrued expenses and accrued compensation	5,964	6,728
Advance sales deposits	7,528	(432)
Income taxes payable	21,915	25,193
Deferred compensation liability	851	2,440
NET CASH PROVIDED BY OPERATING ACTIVITIES	102,385	127,777
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(24,642)	(20,713)
Proceeds from sale of property	36	65
Net changes in market securities	(38)	
Deferred compensation plan assets	(2,839)	(1,108)
NET CASH USED IN INVESTING ACTIVITIES	(27,483)	(21,756)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings from long-term debt		100,432
Principal payments on long-term debt	(15,769)	(71,990)
Dividends paid		(14,379)
Share repurchases		(138,863)
Exercise of stock options	6,130	3,672
Excess tax benefits from share-based payment arrangements	14,164	5,201

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	4,525	(115,927)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,637	2,627
NET CHANGE IN CASH AND CASH EQUIVALENTS	81,064	(7,279)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	88,248	154,323
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	\$ 169,312	\$ 147,044
CASH PAID FOR:		
Interest	\$ 11,619	\$ 6,643
Income taxes	\$ 28,656	\$ 38,837
NON-CASH ACTIVITIES:		
Acquisitions of property through capital leases	\$ 908	\$ 1,911

See the accompanying notes to consolidated financial statements

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HERBALIFE LTD.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

1. Organization

Herbalife Ltd. (and together with its subsidiaries, the Company) is a leading global network marketing company that sells weight management, nutritional supplement, energy & fitness products and personal care products through a network of over 1.6 million independent distributors except in China, where the Company currently sells the products through retail stores and an employed sales force. The Company reports revenue in seven geographic units: North America, which consists of the U.S., Canada, Jamaica and the Dominican Republic; Mexico and Central America, which consists of Mexico, Costa Rica and Panama; Brazil; South America and Southeast Asia, which includes New Zealand and Australia and excludes Brazil; EMEA, which consists of Europe, the Middle East and Africa; Greater China, which consists of China, Taiwan and Hong Kong and North Asia, which consists of Japan and South Korean.

2. Basis of Presentation

The unaudited interim financial information of the Company has been prepared in accordance with Article 10 of the Securities and Exchange Commission's Regulation S-X. Accordingly, it does not include all of the information required by generally accepted accounting principles, or GAAP, in the U.S. for complete financial statements. The Company's unaudited consolidated financial statements as of and for the three and six months ended June 30, 2006 and June 30, 2007 include Herbalife and all of its direct and indirect subsidiaries. In the opinion of management, the accompanying financial information contains all adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company's unaudited consolidated financial statements as of and for the three and six months ended June 30, 2006 and June 30, 2007. Operating results for the three and six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

New Accounting Pronouncements

On May 2, 2007, the Financial Accounting Standards Board, or FASB, issued FASB Staff Position No. FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48*, or FSP FIN 48-1, which amends FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, or FIN 48, to provide guidance about how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. Under the FSP FIN 48-1, a tax position is considered to be effectively settled if the taxing authority completed its examination, the enterprise does not plan to appeal, and it is remote that the taxing authority would reexamine the tax position in the future. FSP FIN 48-1 is effective retroactively to January 1, 2007. The adoption of FSP FIN 48-1 did not have a material impact on the Company's consolidated financial position or results of operations.

In April 2007, the FASB issued FASB Staff Position No. FIN 39-1, *Amendment of FASB Interpretation No. 39*, or FSP FIN 39-1. FSP FIN 39-1 modifies FIN No. 39, *Offsetting of Amounts Related to Certain Contracts* and permits companies to offset cash collateral receivables or payables with net derivative positions under certain circumstances. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. The Company believes that the adoption of FSP FIN 39-1 will not have material effect on its consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, or SFAS No. 159, which permits entities to choose to measure many financial instruments, and certain other items, at fair value. SFAS No. 159 also establishes presentation and disclosure

requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 applies to reporting periods beginning after November 15, 2007. The Company is currently evaluating the impact, if any, of adopting SFAS No. 159.

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HERBALIFE LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157, *Fair Value Measurement*, or SFAS No. 157, which defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact, if any, of adopting SFAS No. 157.

Reclassifications

Certain reclassifications were made to the prior period financial statements to conform to current period presentation.

3. Long-Term Debt

Long-term debt consists of the following:

As of
December 31, June 30,