HERBALIFE LTD.
Form 10-Q
August 05, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .

Commission file number: 1-32381

HERBALIFE LTD.

(Exact name of registrant as specified in its charter)

Cayman Islands	98-0377871
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

P.O. Box 309GT

Ugland House, South Church Street

Grand Cayman, Cayman Islands

(Address of principal executive offices) (Zip code)

(213) 745-0500

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer o (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 o No x

Number of shares of registrant's common shares outstanding as of July 29, 2015 was 92,480,332.

HERBALIFE LTD.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HERBALIFE LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2015	December 31, 2014
	(In millions, except share and par value amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$749.6	$645.4
Receivables, net of allowance for doubtful accounts of $4.1 (2015) and $1.9 (2014)	96.5	83.6
Inventories	321.9	377.7
Prepaid expenses and other current assets	192.6	186.1
Deferred income tax assets	100.1	100.6
Total current assets	1,460.7	1,393.4
Property, at cost, net of accumulated depreciation and amortization of $427.5 (2015) and $393.2 (2014)	347.3	366.7
Deferred compensation plan assets	28.9	27.4
Other assets	147.1	152.8
Deferred financing costs, net	23.8	22.0
Marketing related intangibles and other intangible assets, net	310.3	310.4
Goodwill	97.0	102.2
Total assets	$2,415.1	$2,374.9
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$83.5	$72.4
Royalty overrides	232.7	251.0
Accrued compensation	96.4	69.6
Accrued expenses	262.5	252.1
Current portion of long-term debt	293.5	100.0
Advance sales deposits	98.6	70.0
Income taxes payable	30.3	59.7
Total current liabilities	1,097.5	874.8
NON-CURRENT LIABILITIES:		
Long-term debt, net of current portion	1,389.5	1,711.7

Deferred compensation plan liability	44.4	42.9
Deferred income tax liabilities	11.9	15.3
Other non-current liabilities	68.2	64.6
Total liabilities	2,611.5	2,709.3
CONTINGENCIES		
SHAREHOLDERS’ DEFICIT:		
Common shares, $0.001 par value; 1.0 billion shares authorized; 92.5 million (2015) and 92.2 million (2014) shares outstanding	0.1	0.1
Paid-in-capital in excess of par value	426.3	409.1
Accumulated other comprehensive loss	(118.4)	(78.2)
Accumulated deficit	(504.4)	(665.4)
Total shareholders’ deficit	(196.4)	(334.4)
Total liabilities and shareholders’ deficit	$ 2,415.1	$ 2,374.9

See the accompanying notes to unaudited condensed consolidated financial statements.

HERBALIFE LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
	(In millions, except per share amounts)			
Product sales	$1,090.0	$1,201.3	$2,118.3	$2,357.4
Shipping & handling revenues	72.3	104.9	149.4	211.4
Net sales	1,162.3	1,306.2	2,267.7	2,568.8
Cost of sales	229.3	257.2	444.7	508.3
Gross profit	933.0	1,049.0	1,823.0	2,060.5
Royalty overrides	318.7	390.8	641.7	772.5
Selling, general & administrative expenses	470.5	461.9	901.9	964.0
Operating income	143.8	196.3	279.4	324.0
Interest expense, net	23.7	21.4	45.2	36.4
Other expense, net	—	—	2.3	3.2
Income before income taxes	120.1	174.9	231.9	284.4
Income taxes	37.3	55.4	70.9	90.2
NET INCOME	$82.8	$119.5	$161.0	$194.2
Earnings per share:				
Basic	$1.00	$1.39	$1.95	$2.14
Diluted	$0.97	$1.31	$1.90	$2.02
Weighted average shares outstanding:				
Basic	82.6	86.1	82.5	90.7
Diluted	85.2	91.2	84.8	95.9
Dividends declared per share	$—	$—	$—	$0.30

See the accompanying notes to unaudited condensed consolidated financial statements.

HERBALIFE LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
	(In millions)			
Net income	$82.8	$119.5	$161.0	$194.2
Other comprehensive income (loss):				
Foreign currency translation adjustment, net of income taxes of $(2.4) and $1.6 for the three months ended June 30, 2015 and 2014, respectively, and $(4.3) and $1.5 for the six months ended June 30, 2015 and 2014, respectively	10.5	2.4	(44.4)	0.2
Unrealized (loss) gain on derivatives, net of income taxes of $(0.3) and $(0.2) for the three months ended June 30, 2015 and 2014, respectively, and $0.3 and $(0.3) for the six months ended June 30, 2015 and 2014, respectively	(0.7)	(2.8)	4.5	(3.2)
Unrealized gain (loss) on available-for-sale investments, net of income taxes of $— and $0.1 for the three months ended June 30, 2015 and 2014, respectively, and $(0.2) and $0.1 for the six months ended June 30, 2015 and 2014, respectively	—	0.2	(0.3)	0.1
Total other comprehensive income (loss)	9.8	(0.2)	(40.2)	(2.9)
Total comprehensive income	$92.6	$119.3	$120.8	$191.3

See the accompanying notes to unaudited condensed consolidated financial statements.

HERBALIFE LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2015	June 30, 2014
	(In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 161.0	$ 194.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	48.0	44.8
Excess tax benefits from share-based payment arrangements	(1.5)	(6.7)
Share-based compensation expenses	23.9	23.4
Non-cash interest expense	25.5	19.0
Deferred income taxes	(2.5)	(7.8)
Inventory write-downs	17.7	12.4
Foreign exchange transaction (gain) loss	(12.3)	2.5
Foreign exchange loss from Venezuela currency devaluation	32.9	86.1
Impairments and write-downs relating to Venezuela currency devaluation	4.0	3.2
Other	9.3	0.5
Changes in operating assets and liabilities:		
Receivables	(24.4)	(1.2)
Inventories	16.5	(2.4)
Prepaid expenses and other current assets	6.4	(50.7)
Other assets	(10.1)	(4.6)
Accounts payable	16.8	13.0
Royalty overrides	(9.3)	(12.1)
Accrued expenses and accrued compensation	50.1	16.7
Advance sales deposits	31.8	20.9
Income taxes	(26.6)	(8.2)
Deferred compensation plan liability	1.5	4.6
NET CASH PROVIDED BY OPERATING ACTIVITIES	358.7	347.6
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(39.9)	(105.5)
Proceeds from sale of property, plant and equipment	0.1	—
Investments in Venezuelan bonds	(0.1)	(7.6)
Other	5.6	—
NET CASH (USED IN) INVESTING ACTIVITIES	(34.3)	(113.1)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	—	(30.4)
Dividends received	—	3.4
Payments for Capped Call Transactions	—	(123.8)

Proceeds from senior convertible notes	—	1,150.0
Principal payments on senior secured credit facility and other debt	(163.8)	(37.5)
Issuance costs relating to long-term debt and senior convertible notes	(6.2)	(28.9)
Share repurchases	(9.1)	(1,277.9)
Excess tax benefits from share-based payment arrangements	1.5	6.7
Proceeds from exercise of stock options and sale of stock under employee stock purchase plan	0.9	2.0
NET CASH (USED IN) FINANCING ACTIVITIES	(176.7)	(336.4)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(43.5)	(97.6)
NET CHANGE IN CASH AND CASH EQUIVALENTS	104.2	(199.5)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	645.4	973.0
CASH AND CASH EQUIVALENTS, END OF PERIOD	$749.6	$773.5

See the accompanying notes to unaudited condensed consolidated financial statements.

HERBALIFE LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization

Herbalife Ltd., a Cayman Islands exempt limited liability company, or Herbalife, was incorporated on April 4, 2002. Herbalife Ltd. (and together with its subsidiaries, the “Company”) is a global nutrition company that sells weight management, targeted nutrition, energy, sports & fitness, and outer nutrition products. As of June 30, 2015, the Company sold its products to and through a network of 4.1 million independent members, or Members, which included 0.3 million in China. In China, the Company sells its products through retail stores, sales representatives, sales officers and independent service providers. The Company reports revenue in six geographic regions: North America; Mexico; South and Central America; EMEA, which consists of Europe, the Middle East and Africa; Asia Pacific (excluding China); and China.

2. Significant Accounting Policies

Basis of Presentation

The unaudited 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 at December 31, 2014 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 June 30, 2015, and for the three and six months ended June 30, 2015 and 2014, include Herbalife and all of its direct and indirect subsidiaries. In the opinion of management, the accompanying financial information contains all adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company’s unaudited condensed consolidated financial statements as of June 30, 2015, and for the three and six months ended June 30, 2015 and 2014. 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, 2014, or the 2014 10-K. Operating results for the three and six months ended June 30, 2015, are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2014-09, Revenue from Contracts with Customers (Topic 606). The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB voted to defer the effective date of this ASU by one year to annual periods beginning after December 15, 2017 and shall be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Early adoption is permitted as of the original effective date. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force). This ASU clarifies that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. This ASU is effective for annual periods, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted. This ASU may be applied either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The adoption of this guidance will not have a material impact on the Company’s consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements — Going Concern (Subtopic 205-40). The purpose of this ASU is to incorporate into U.S. GAAP management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable), and to provide related footnote disclosures. This update is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The adoption of this guidance will not have a material impact on the Company's consolidated financial statements.

In January 2015, the FASB issued ASU No. 2015-01, Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. This ASU is part of the FASB's initiative to reduce complexity in accounting standards. This ASU eliminates from U.S. GAAP the concept of extraordinary items, which were previously required to be segregated from the results of ordinary operations and shown separately in the income statement, net of tax, after income from continuing operations. Entities were also required to disclose applicable income taxes for the extraordinary item and either present or disclose earnings-per-share data applicable to the extraordinary item. Items which are considered both unusual and infrequent will now be presented separately within income from continuing operations in the income statement or disclosed in notes to the financial statements. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Companies may apply the ASU prospectively, or may also apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of this guidance will not have a material impact on the Company's consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. This ASU changes the analysis that reporting entities must perform to determine if certain types of legal entities should be consolidated. Specifically, the ASU focuses on 1) the variable interest entity, or VIE, evaluation of limited partnerships and similar legal entities, 2) eliminating the presumption that general partners should consolidate a limited partnership, 3) the consolidation analysis of reporting entities that are involved with VIEs, and 4) scope exceptions from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. If the ASU is adopted in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The ASU may be applied using a modified retrospective approach by recording a cumulative-effect adjustment as of the beginning of the fiscal year of adoption. A reporting entity also may apply the amendments retrospectively. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This ASU requires that debt issuance costs related to a recognized debt liability now be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Under current U.S. GAAP, debt issuance costs are recognized as a deferred charge asset. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. A reporting entity should apply the amendments retrospectively, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the ASU. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, Intangibles—Goodwill and Other— Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. This ASU adds explicit guidance into U.S. GAAP regarding a customer's accounting for fees paid in a cloud computing arrangement. The ASU provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. A reporting entity should apply the amendments either (1) prospectively to all arrangements entered into or materially modified after the effective date or (2) retrospectively. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In May, 2015, the FASB issued ASU No. 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investment in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). This ASU applies to reporting entities that elect to measure the fair value of an investment using the net asset value, or NAV, per share (or its equivalent) practical expedient. The ASU removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The amendments in this ASU are effective for reporting periods beginning after December 15, 2015, with early adoption permitted. Entities should apply the amendments in this update retrospectively to all periods presented. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This ASU does not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. This ASU eliminates from U.S. GAAP the requirement to measure inventory at the lower of cost or market. Market under the previous requirement could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. Entities within scope of this update will now be required to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory using LIFO or the retail inventory method. The amendments in this update are effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

Venezuela

Herbalife Venezuela, the Company’s Venezuelan subsidiary, currently imports its products into Venezuela. Foreign exchange controls in that country limit Herbalife Venezuela’s ability to repatriate earnings and settle its intercompany obligations at any official rate. As a result, the Company’s Bolivar-denominated cash and cash equivalents have continued to accumulate, increasing the potential impact of any currency devaluation. The current operating environment in Venezuela also continues to be challenging for the Company’s Venezuela business, with high inflation, price controls, and the risk that the government will further devalue the Bolivar or impose other import or currency exchange restrictions.

At December 31, 2014, the Company used the SICAD II rate of 50 Bolivars per U.S. dollar to remeasure Herbalife Venezuela’s financial statements. In February 2015, the Venezuelan government announced the introduction of a modified three-tier exchange control system which consists of CENCOEX, SICAD, and a third new mechanism called the Marginal Currency System, or SIMADI, and the SICAD II exchange mechanism was terminated. On February 12, 2015, the SIMADI exchange mechanism opened at a rate of 170 Bolivars per U.S. dollar as published by the Venezuelan government. During the first quarter of 2015, the Company was awarded approximately $0.1 million U.S. dollars through the SIMADI exchange mechanism and the Company’s ability to successfully exchange Bolivars to U.S. dollars continues to remain limited. At March 31, 2015, the Company used the SIMADI exchange rate to remeasure its Venezuelan subsidiary’s financial statements. The Company recognized $32.6 million in foreign exchange losses in selling, general & administrative expenses and $1.4 million of inventory write downs in cost of sales within its condensed consolidated statement of income for the three months ended March 31, 2015 related to the remeasurement of its Venezuelan subsidiary’s financial statements. The Company recognized $0.3 million in foreign exchange losses in selling, general & administrative expenses and $0.3 million of inventory write downs in cost of sales within its condensed consolidated statement of income for the three months ended June 30, 2015 related to the remeasurement of its Venezuelan subsidiary’s financial statements. The Company continues to use the SIMADI exchange rate for remeasurement which was 198 Bolivars per U.S. dollar at June 30, 2015.

Due to the evolving foreign exchange control environment in Venezuela, it is possible that the Company's ability to access certain foreign exchange mechanisms, including the SIMADI rate, could change in future periods which may have an impact on the rate the Company uses to remeasure Herbalife Venezuela's Bolivar-denominated assets and liabilities. If the Company continues using the SIMADI rate for remeasurement purposes in future periods, any future U.S. dollars obtained through the SICAD or other more favorable mechanisms could have a positive impact on the Company's consolidated net earnings. In addition, devaluations of the SIMADI rate, adoption of less favorable official rates by the Venezuelan government, or U.S. dollars obtained through less favorable alternative legal exchange mechanisms, could have a negative impact on the Company's future consolidated net earnings. The Company is closely monitoring the CENCOEX, SICAD, and SIMADI exchange mechanisms as they continue to evolve.

As a result of using the SICAD I rate for remeasurement at March 31, 2014, the Company recognized $86.1 million of foreign exchange losses in selling, general & administrative expenses within its condensed consolidated statement of income for the three months ended March 31, 2014. The Company recognized $0.2 million in foreign exchange losses in selling, general & administrative expenses within its condensed consolidated statement of income for the three months ended June 30, 2014 related to the remeasurement of Herbalife Venezuela's financial statements.

As of June 30, 2015, Herbalife Venezuela's net monetary assets and liabilities denominated in Bolivars was approximately $10.2 million, and included approximately $9.5 million in Bolivar denominated cash and cash equivalents. As noted above, these Bolivar denominated assets and liabilities were remeasured at the SIMADI rate as of June 30, 2015. These remeasured amounts, including cash and cash equivalents, being reported on the Company's condensed consolidated balance sheet using the published SIMADI rate may not accurately represent the amount of U.S. dollars that the Company will ultimately realize. While the Company continues to monitor the exchange mechanisms and restrictions imposed by the Venezuelan government, and assess and monitor the current economic and political environment in Venezuela, there is no assurance that the Company will be able to exchange Bolivars into U.S. dollars on a timely basis or at all, and if it does, what impact, if any, such exchanges will have on the Company's financial statements. Herbalife Venezuela's net sales represented less than 1% and approximately 4% of the Company's consolidated net sales for the six months ended June 30, 2015 and 2014, respectively, and its total assets represented approximately 1% and 2% of the Company's consolidated total assets as of June 30, 2015 and December 31, 2014, respectively. As of June 30, 2015, the majority of Herbalife Venezuela's total assets consisted of Bolivar-denominated cash and cash equivalents.

See the Company's financial statements and related notes in the 2014 10-K for further information on Herbalife Venezuela and Venezuela's highly inflationary economy.

Investments in Bolivar-Denominated Bonds

During the three and six months ended June 30, 2015, the Company invested in additional Bolivar-denominated bonds with a purchase price of 25.7 million Bolivars, or approximately $0.1 million. During the three and six months ended June 30, 2014, the Company invested in additional Bolivar-denominated bonds with a purchase price of 45.1 million and 65.4 million Bolivars, respectively, or approximately $4.3 million and $7.6 million, respectively. The Company classifies these bonds as long-term available-for-sale investments which are carried at fair value, inclusive of unrealized gains and losses, and net of discount accretion and premium amortization. The fair value of these bonds is determined using Level 2 inputs which include prices of similar assets traded in active markets in Venezuela and observable yield curves. Net unrealized gains and losses on these bonds are included in other comprehensive income (loss) and are net of applicable income taxes. As of June 30, 2015, the amortized cost of the Company's Venezuelan bonds was $1.2 million and the bonds had a market value of $1.1 million. As of June 30, 2015, the Company's Venezuelan bonds had contractual maturities due after five years. Expected disposal dates of the bonds may be less than the contractual maturity dates. During the three and six months ended June 30, 2015 and 2014, the Company did not sell any of its Venezuelan bonds.

The Company evaluates securities for other-than-temporary impairment on a quarterly basis. The impairment evaluation considers numerous factors, and their relative significance varies depending on the situation. Factors considered include the length of time and extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer of the securities; when applicable, the foreign exchange rates that are available to the Company; and the intent and ability of the Company to retain the security in order to allow for an anticipated recovery in fair value. If, based upon the analysis, it is determined that the impairment is other-than-temporary, the security is written-down to fair value, and a loss is recognized in other expense, net in the Company's condensed consolidated income statement. Other-than-temporary impairments relating to available-for-sale securities for the three months ended March 31, 2015 and 2014 was $2.3 million and $3.2 million, respectively, which were primarily due to unfavorable foreign exchange rates. There were no other-than-temporary impairments related to available-for-sale securities during the three months ended June 30, 2015 and 2014.

3. Inventories

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

The following are the major classes of inventory:

	June 30, 2015	December 31, 2014
	(In millions)	
Raw materials	$40.0	$ 39.5
Work in process	4.6	4.3
Finished goods	277.3	333.9
Total	$321.9	$ 377.7

4. Long-Term Debt

Long-term debt consists of the following:

	June 30, 2015	December 31, 2014
	(In millions)	
Borrowings under the senior secured credit facility	$689.7	$850.0
Convertible senior notes, carrying value of liability component	979.5	961.7
Other debt	13.8	—
Total	1,683.0	1,811.7
Less: current portion	293.5	100.0
Long-term portion	$1,389.5	$1,711.7

Senior Secured Credit Facility

On March 9, 2011, the Company entered into a $700.0 million senior secured revolving credit facility, or the Credit Facility, with a syndicate of financial institutions as lenders and terminated its prior senior secured credit facility, or the Prior Credit Facility.

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

On July 26, 2012, the Company amended the Credit Facility to include a $500.0 million term loan with a syndicate of financial institutions as lenders, or the Term Loan. The Term Loan is a part of the Credit Facility and is in addition to the Company's current revolving credit facility. The Term Loan matures on March 9, 2016. The Company will make regular scheduled payments for the Term Loan consisting of both principal and interest components.

In July 2012, the Company used all $500.0 million of the borrowings under the Term Loan to pay down amounts outstanding under the Company's revolving credit facility. The Company incurred approximately $4.5 million of debt issuance costs in connection with the Term Loan. The debt issuance costs are recorded as deferred financing costs on the Company's condensed consolidated balance sheet and will be amortized over the life of the Term Loan.

In February 2014, in connection with issuing the $1.15 billion Convertible Notes described below, the Company amended the Credit Facility. Pursuant to this amendment, the Company amended the terms of the Credit Facility to provide for technical amendments to the indebtedness, asset sale and dividend covenants and the cross-default event of default to accommodate the issuance of the Convertible Notes and the capped call and prepaid forward share repurchase transactions described in greater detail in Note 10, Shareholders' Deficit. The amendment also increased by 0.50% the highest applicable margin payable by Herbalife in the event that Herbalife's consolidated total leverage ratio is equal to or exceeds 2.50 to 1.00 and increased the permitted consolidated total leverage ratio of Herbalife under the Credit Facility. The Company incurred approximately $2.3 million of debt issuance costs in connection with the amendment. The debt issuance costs are recorded as deferred financing costs on the Company's condensed consolidated balance sheet and will be amortized over the life of the Credit Facility.

On May 4, 2015, the Company amended its Credit Facility to extend the maturity date of its revolving credit facility by one year to March 9, 2017. The Term Loan will mature on March 9, 2016. Pursuant to this amendment and upon execution, the Company made prepayments of approximately $20.3 million and $50.9 million on the Term Loan and revolving credit facility, respectively. Additionally, the Company's $700 million borrowing capacity on its revolving credit facility was reduced by approximately $235.9 million upon execution of this amendment, and will be further reduced by approximately $39.1 million on September 30, 2015, bringing the total expected available borrowing capacity on its revolving credit facility to $425.0 million as of September 30, 2015. Until March 9, 2016, the interest rates on the Company's borrowings under the Credit Facility will effectively remain unchanged except that the minimum applicable margin will be increased by 0.50% and LIBOR will have a minimum floor of 0.25%. Based on the Company's consolidated leverage ratio, U.S. dollar borrowings under the Credit Facility now bear 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%. The base rate under the Credit Facility represents the highest of the Federal Funds Rate plus 0.50%, the one-month LIBOR plus 1.00%, and the prime rate offered by Bank of America. The Company, based on its consolidated leverage ratio, pays a commitment fee between 0.40% and 0.50% per annum on the unused portion of the Credit Facility. The Credit Facility also permits the Company to borrow limited amounts in Mexican Peso and Euro currencies based on variable rates. All obligations under the Credit Facility are unconditionally guaranteed by certain of the Company's subsidiaries and are secured by substantially all of the assets of the U.S. subsidiaries of the Company's parent, Herbalife Ltd. and by certain assets of certain foreign subsidiaries of Herbalife Ltd..

After March 9, 2016, the applicable interest rates on the Company's borrowings under the Credit Facility will increase by 2.00% such that borrowings under the Credit Facility will bear 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%. The Company incurred approximately $6.2 million of debt issuance costs in connection with the amendment. The debt issuance costs are recorded as deferred financing costs on the Company's condensed consolidated balance sheet and will be amortized over the life of the revolving credit facility.

The Credit Facility requires the Company to comply with a leverage ratio and a coverage ratio. In addition, the Credit Facility contains customary covenants, including covenants that limit or restrict the Company's ability to incur liens, incur indebtedness, make investments, dispose of assets, make certain restricted payments, pay dividends, repurchase its common shares, merge or consolidate and enter into certain transactions with affiliates. The Credit Facility restricts the Company's ability to pay dividends or repurchase its common shares to a maximum of $233.0 million until maturity and for every one dollar of share repurchase or dividend paid, the revolving credit facility's borrowing capacity is permanently decreased by two dollars. The Credit Facility also provides for the grant of security interest on certain additional assets of the Company and its subsidiaries. The Company is also required to maintain a minimum balance of $200.0 million of consolidated cash and cash equivalents. As of June 30, 2015 and December 31, 2014, the Company was compliant with its debt covenants under the Credit Facility.

On June 30, 2015 and December 31, 2014, the weighted average interest rate for borrowings under the Credit Facility, including borrowings under the Term Loan, was 2.74% and 3.04%, respectively.

During the three months ended March 31, 2015, the Company repaid a total amount of $25.0 million under the Credit Facility. During the three months ended June 30, 2015, the Company repaid a total amount of $135.3 million under the Credit Facility. As of June 30, 2015 and December 31, 2014, the U.S. dollar amount outstanding under the Credit Facility was $689.7 million and $850.0 million, respectively. Of the $689.7 million U.S. dollar amount outstanding under the Credit Facility as of June 30, 2015, $279.7 million was outstanding on the Term Loan and $410.0 million was outstanding on the revolving credit facility. Of the $850.0 million U.S. dollar amount outstanding under the Credit Facility as of December 31, 2014, $350.0 million was outstanding on the Term Loan and $500.0 million was outstanding on the revolving credit facility. There were no outstanding foreign currency borrowings as of June 30, 2015 and December 31, 2014 under the Credit Facility.

The fair value of the outstanding borrowings on the Company's revolving credit facility and Term Loan approximated their carrying values as of June 30, 2015, due to their variable interest rates which reprice frequently and represent floating market rates. The fair value of the outstanding borrowings on the Company's revolving credit facility and Term Loan are determined by utilizing Level 2 inputs as defined in Note 12, Fair Value Measurements, such as observable market interest rates and yield curves.