

Herbalife International of America, Inc.

**Moderator: Amy Greene
April 30, 2013
11:00 a.m. ET**

Operator: Good morning and thank you for joining the first-quarter 2013 earnings conference call for Herbalife Limited. On the call today is Michael Johnson, the Company's Chairman and CEO; the Company's President, Des Walsh; John DeSimone the Company's CFO; and Brett Chapman the Company's General Counsel.

I would now like to turn the call over to Brett Chapman to read the Company's Safe Harbor language.

Brett Chapman: Before we begin, as a reminder, during this conference call comments may be made that include some forward-looking statements. These statements involve risk and uncertainty. And as you know, actual results may differ materially from those discussed or anticipated.

We encourage you to refer to yesterday's earnings release, and our SEC filings, for complete discussion of risks associated with these forward-looking statements and our business. In addition, during this call certain financial performance measures that you discuss the different from comparable measures contained in our financial statements, prepared in accordance with U.S. generally accepted accounting principles referred to the Securities and Exchange Commission as non-GAAP financial measures.

We believe these non-GAAP financial measures assist management and investors in evaluating and comparing period-to-period results of operations in a more meaningful and consistent manner. Please refer to the investor

relations section of our website, herbalife.com, to find our press release for this quarter which contains a reconciliation of these measures.

Additionally, when management makes reference to volume during this conference call, they are referring to volume points. I'll now turn the call over to Michael.

Michael Johnson: Thank you Brett. And good morning everyone, and welcome to our first-quarter 2013 earnings call.

As reported in our press release and our 10-Q last night, we once again achieved record performance. Our year-over-year net sales increased 17% to \$1.1 billion. Our adjusted EBITDA increased 24% to \$215 million, which is based on our adjusted operating margin, expanding 120 basis points to 17.2%. Our adjusted EPS increased 44% to \$1.47.

We generated \$112 million in free cash flow. We continue to return capital to shareholders. We repurchased approximately 4 million shares, and our board recently approved a \$0.30 per-share quarterly dividend.

The strong performance we achieved in 2012 created momentum that carried into 2013, and resulted in a broad-based strength across all our regions for first-quarter performance. A key driver of our business, volume points, grew 13% year-over-year. In fact, we experienced volume point growth in each of our six regions.

South and Central America grew 33%; Asia-Pacific grew 17%; China 15%; EMEA grew 11%. Mexico is up 8%, and North America was also up 4%. I want to thank all the members of the Herbalife family, our more than 6,000 employees who strive to Build it Better each and every day; our hundreds of thousands of active sales leaders, whose entrepreneurial spirit and commitment drive our performance; and our millions of customers around the world who every day use our products to improve the nutrition and health, and who are ultimately responsible for our exceptional global growth.

Our guidance for the balance of the year, which John will discuss in a few minutes, reflects our confidence that we will continue to experience strong

business trends and that 2013 will be another year of record financial performance. Driving the volume point growth was the strong engagement of our independent sales leaders.

During the quarter, we experienced an 18% increase in average active sales leaders. Their activity in the business continues to increase year-over-year, as seen in the growth in the average active sales leaders throughout several of our key markets -- a 24% increase in China; an 19% increase in Brazil; 16% in Korea; 14% increase in Mexico; and a 9% increase in the U.S..

The last point to make on the topic of financials is that we were very disappointed that our KPMG audit engagement partner was involved in insider trading activity which led to KPMG losing independence, and thus nullifying the last three years of our audited financial statements.

We are working quickly to replace KPMG with another top accounting firm and we hope to be in a position in the next few weeks to provide you with a result of our evaluation and selection process. John will of additional comments regarding the process in just a few minutes.

The global obesity epidemic continues, and is quickly becoming the largest public health issue on a global basis. This obesity macro trend is addressed directly and effectively by both of our nutrition products, and our distributors. Our meal replacement shake is a worldwide market share leader, and experienced volume point growth of 15% in the quarter.

We also believe nutritional and weight-management objectives are better achieved with a social support group like those experienced in the numerous daily consumption sales methods used by our distributors around the world.

The nutrition club sales model, which we have talked about for several years, along with other sales methods, improves access to our nutrition product by the consumers that need them most, along with a unique social and coaching support that helps consumers achieve their goals.

We take pride that our strong growth today, and for years to come, will be driven by our unique ability to combat the global health epidemic, and

improve our customers lives. Our product development efforts are concentrated around the enhancement of the club experience, and strengthening the meal replacement line.

We recently introduced seasonal shake flavors, similar to what you see at other consumer-packaged groups companies, to create an excitement for customers. Late last year we launched an express meal bar in our nutrition clubs, and in the U.S. market, to increase convenience for people on the go. Given its success, we have plans to roll it out to other markets in 2013, including our Mexican market during the second quarter.

Looking forward, we are currently developing a major line extension in the form of meal replacement soups. These soups will encompass the same robust nutrition-rich profile as our market-leading shakes, while providing consumers with a healthy protein-based, low-calorie, low-sodium meal.

Our soup line allows distributors and nutrition club operators the opportunity to provide consumers with one more Herbalife consumption each day. This will not only drive growth in our business, but also give our customers a greater variety of healthy, nutritional choices to improve their lives.

Our product development marketing team is working closely with our independent distributors, continue to globalize successful products in our heart-health, personal-care, and sports nutrition lines. As our Herbalife 24 sports nutrition line continues to be rolled out around the world, and our sponsored athletes who continue with their advocacy with strong personal product testimonials, we are seeing the products and the brand create excitement among more active consumer demographics.

This is helping our current distributors attract new customers to Herbalife, as well as providing a catalyst for the expansion of our Fit Camp daily method of operation. We believe this is a very important trend in the company, as our new Sports line helps create a brand identity among the younger consumer demographic, one that is highly engaged in living healthy and having active lives.

The average age of a new U.S. distributor in 2010 was 38 years old, and year-to-date in 2013 it is 35.6. The attendance of GenH distributors in our most recent U.S. extravaganzas was up more than 30%.

As we build for the future we continue to invest in our business. One of our key investments this year is our (Hym) Winston-Salem facility, where we are building a world-class nutrition factory that will add up to 500 new jobs to our current global Team Herbalife of more than 6000 team members.

We are also making investments in research capabilities in our new botanical extraction facility in Changsha, China, to develop unique botanical extracts, and botanical combinations, that were further differentiate on attrition product in the marketplace.

Our theme at Herbalife is, Build it Better. Over the past 12 to 18 months, the pace of change has accelerated, and the size of our investments has increased significantly. In February we published the enhanced disclosure of gross distributor earnings, creating a simplified, more comprehensive, information for prospective distributors to understand before they make the decision to sign up with the Company.

In addition, we've been working with our distributor leaders to simplify our business nomenclature, the wording we use to describe business. We expect to announce significant changes to our nomenclature within the next 30 days.

In our manufacturing area, we have begun product development work for those products that will be produced in our new Hym Winston-Salem facility. We anticipate the major facility renovation work will commence in June, and conclude later this year.

Our investment in this facility are strategically important for Company -- to support our expected growth; to become more vertical in the manufacturing of our top products; and to ensure the production of the highest-quality nutrition products in the market.

And to support our strategy of more deeply penetrating into existing markets, which we call our city-by-city strategy, we continue to expand and localize

our regional sales and marketing teams, as well as continuing to make investments in creating additional product access points around the world.

We ended 2012 with more than 600 access points, and we expect to have in excess of 700 access points by the end of 2013. While these access points vary in format from large to small, they all have consistent Herbalife branding. Our 24 x 7 access point, which we call the Automated Sales Center, continues to be tested and rolled out with tremendous excitement and engagement from our distributors.

And to support our numerous growth strategies, we continue to add talented executives to strengthen our staff. For example, we recently welcomed Pradip Murkerji as senior Vice President of Research and Development. Pradip joins us from Abbott Nutrition, where he held a significant leadership role in product development.

We have created a new position for the company, the Head of Consumer and Distributor Insight. Strong leadership in this area will help further our knowledge of distributor and consumer behaviors and preferences. We expect to announce the hiring of a new executive to fill this role during the second quarter.

On the topic of research, we continue to make investments to better understand the preferences, desires and behaviors of our distributors and customers. Like most large consumer-packaged group companies, we know who we sell our products to. And like those companies, we then rely upon research tools and techniques to gain a better understanding of the end-use consumer.

Lieberman recently concluded research assessing the satisfaction of Herbalife's Hispanic current, and former, customers. So let me share some key highlights with you. Overall, Hispanics rate Herbalife very highly, with 85% of those surveyed rating the Company as excellent, very good or good. Herbalife is well regarded within the community.

The Company's principally known for its product, secondly for the business opportunity. Of those surveyed 93% of recent users and 55% of former users

would recommend the products to friends or family. And 82% of recent users rate the product quality as excellent or very good and 85% of all recent and former users rate the quality of the product as good, very good or excellent.

We continue to increase our investments in this critical area to help guide internal decisions on how to best serve our millions of end-user customers. We also intend to continue to provide this type of data publicly, in order to provide overwhelming confidence to investors, and the public, regarding the size and the scope of the consumption of our nutrition products.

We also continue to increase our investments in our brand and our image. Stay tuned for some very exciting new sponsorships in the near future. We are experiencing tremendous growth around the world, driven by increased consumption of our products.

Despite the public market distractions, our employees remain focused on supporting our distributors, while implementing the numerous growth and infrastructure strategies that we believe will help us to deliver ongoing and strong financial performance. Our distributor leaders have been highly engaged, sharing great ideas to drive global growth, working closely with management to introduce new ideas and the company language worldwide.

All of us on team Herbalife are working harder and smarter every single day to Build it Better. Now let me turn the call over to Des for a more detailed update on the performance in our key regions.

Des Walsh: Thank you, Michael. As you've just heard, we had another record quarter, our 12th consecutive quarter of double-digit volume point growth, our 7th consecutive quarter of more than 1 billion volume points, and 13% higher than last year's first-quarter results.

We continue to be very pleased with the dimensions we see in the underlying trends in our business, as 4 of 6 regions posted strong double-digit volume point growth. Our distributors around the world continue to drive growth in their businesses through the consistent execution of daily consumption business methods.

There is an abundance of customers in the 88 countries around the world where Herbalife distributors operate. Every day, engaged distributors introduce the Herbalife product portfolio to new customers, as higher obesity rates continue to affect communities.

In the U.S., as in many markets, obesity rates continue to rise, and, by way of example, more than three out of four Hispanics aged 20 and over are obese. Obesity is a key public health issue for many markets, and our distributors are dedicated to combating the growing obesity epidemic by supporting their customers with Herbalife products and encouragement to pursue a healthier active lifestyle.

Now let me provide regional highlights and color on some key regions. Consistent with our worldwide record performance, the North American region, our oldest and most established region, had another record quarter and posted 5% net sales, and local currency net sales growth, and almost 4% growth in volume points, each compared to the prior-year period.

Although new distributors decreased 3.5% in the quarter, average sales leaders with volume points increased 9% in the North American region, compared to last year's first-quarter results. Within the North American region, the U.S. also had another record quarter, with net sales growth of 6%, and volume point growth of 4%, versus the same quarter last year.

Compared to the prior-year period, new distributors in the U.S. decreased 4%, and average sales leaders with volume points increased 9%.

As you know, we introduced additional regulation in relation to the Internet leads business last September, which resulted in one of our top U.S. distributors leaving Herbalife, and other distributors using leads to transition to other business methods. Absent the impact of these changes, U.S. volume points would have increased more than 7%, which is impressive given that the region was lapping a very strong 23% comparison in Q1 2012.

In addition to this volume point growth, we are very pleased with the underlying trends that we are seeing in the U.S.. Approximately 70,000 new distributors joined in Q1, the fourth largest increase in Herbalife U.S. history.

The percentage of active U.S. supervisors with volume had another record in Q1 this increase of 9% over the prior year.

The percentage of new sales leaders qualifying under the 5K method has continued to grow, and expanded more than 10 percentage points in the quarter. Historically, sales leaders that qualified under the 5K method are more productive, and more likely to have both business is grounded in daily consumption, and steady long-term customers.

18 of the top 25 metro U.S. markets posted growth in the quarter that out paced the overall country growth. The strong trends continue. March was the highest volume month ever for the U.S., and the U.S. growth rate in April accelerated over Q1.

The tremendous and ongoing growth of our U.S. business is a testament to the demand for our products, the need for great tasting, low-calorie nutrition, and the tremendous ability of our distributors to remain focused on creating, and mentoring, more customers every day on the value of Herbalife products coupled with the healthy active lifestyle.

Moving on to Mexico -- Local currency net sales for the quarter increased 11%, and volume points increased 8%, each as compared to the prior-year period. For the first quarter, new distributors decreased 7% compared to the prior year, and average sales leaders with volume increased 14% for the quarter.

The nonresidential club model continues to grow in Mexico, and is a driver of greater access to our products for consumers across the country. During 2012, we launched Herbalife 24 in Mexico, and as we have seen in the markets that have had the Herbalife 24 products for a few quarters, the excitement generated by the line is attracting younger distributors more focused on building a customer base around a healthy active lifestyle.

We will continue to increase product access in this market where distributors ability to get product quickly is vital to sales growth.

Asia-Pacific continues its strong performance with broad-based growth throughout the region. During the first quarter, local currency net sales increased 20%, and volume points grew 17%, each as compared to the prior-year period. For the first quarter, new distributors increased 17%, versus the prior year.

The growth within the region continues to be driven by the expansion of daily consumption business methods and by a high degree of distributor engagement. Average sales leader with volume points increased 23% in the quarter over the same quarter in 2012.

The success of daily consumption in the early adopter markets within the Asia-Pacific region has led to the proliferation of clubs in countries throughout the region including India, Malaysia, Indonesia and Vietnam.

Local currency net sales in the South and Central America region increased 44%, and volume points in the region were up 34%, each as compared to the first quarter of 2012. Average sales leaders with volume points in the region increased 28%, and new distributor's increased 54% over last year's first-quarter.

The continued growth in this region is largely driven by three key factors that work in concert with each other -- very engaged distributor leadership; the expansion of daily consumption business methods; and the price-adjusted IBPs.

We have seen that the price-adjusted IBPs drive excitement in the region, and it is now apparent that those new distributors are equally productive as those in other regions. We are evaluating expanding this concept now to other regions.

Venezuela continues to grow strongly with an increase of 57% to new distributors compared to the first quarter of 2012. One of the things that we continue to be pleased with in the South American region is that daily consumption is moving out of the early adopter markets in the region and is now driving sales throughout numerous countries in the region.

Within the South and Central America region, we need to mention the stability we have are continuing to see in Brazil. Brazil experienced volume point growth of approximately 24% in the first quarter, as both nutrition clubs and traditional business methods continue to experience growth.

Turning to EMEA, during the first quarter, local currency net sales increased approximately 10%, and volume points in the region grew 11%, compared of the same period in the prior year. New distributors for the first quarter were down 5% compared to the prior-year period.

Average sales leaders with volume points in the region were up 12% in the quarter, compared to the first quarter 2012. Daily consumption in numerous formats -- nutrition clubs, fit camps, weight-loss challenges, or office clubs are beginning to drive growth across the region.

And, like the U.S., we believe that we are seeing a more athletic distributor group in Western Europe embrace the Herbalife 24 product and brand through adaptations of daily consumption that embrace the healthy, active lifestyle.

Within EMEA, Russia had another impressive quarter. Compared to the first quarter of 2012, this quarter's volume points were up approximately 23%. Russia continues to be a market that exemplifies the benefits of the market built on daily consumption, systemized training, a unified distributor leadership group, high utilization of the 5-pay qualification, and a city-by-city focus.

Russia has had strong volume point growth now for the past 12 quarters. The strength of these core metrics illustrates the benefits created by building a business on a strong, stable foundation, grounded in daily consumption, coupled with systemized training, and local focus on city-by-city.

The UK continues to be a good example of how daily consumption can begin to drive market change. This quarter, we experienced 67% growth in volume, and an 83% increase in new distributors in the UK, our oldest market in the EMEA region, largely driven by the success of the weight-loss challenge concept, and distributors focus on a healthy active lifestyle.

Distributors have also taken the fit club concept and begun implementing it throughout the UK. Many distributors are also achieving success with shared office approaches. The UK highlights the fact that our business opportunity offers many and varied approaches to achieving business success, all of which are focused on consumer led daily consumption.

Now let's turn to China, where local currency net sales increased 19%, and volume points grew 15% in the first quarter, compared to the prior-year period. While we continue to believe that our sales leaders in China are making progress at acculturating the concept of daily consumption, we are still working to fine tune the nuances of this model that will work best in this market.

We continue to see more nutrition clubs open, and while we are pleased with the progress of the business in China, we remain cautious about expecting too much, too soon from this market. We're focused on building a sustainable business there, on a solid foundation of long-term customers, and we are prepared to move more slowly and take time to achieve the desired results.

Before I turn the call over to John, let me take a moment to review some of the initiatives we have in progress to help accelerate our business, and increase understanding of our business model in the market. As Michael mentioned a few moments ago, over the past 12 to 18 months, we have begun working to implement various elements of our Build it Better program.

There are more than a dozen Build it Better projects in various stages of completion, but let me walk you through a few that have been implemented already this year. In February, we introduced the enhanced statement of average growth compensation for the U.S. market. This new statement was designed to make it even clearer to all existing and future distributors what the commissions and royalties being earned by distributors that Herbalife were in 2012.

This new statement also included a cover page, telling all new distributors attracted by the Herbalife business opportunity, lauding the benefit of become a wholesale customer, that building a business at Herbalife is not dissimilar to

a gym membership. Results vary with time, energy, and the dedication that one puts into it.

Building a business is hard work. There are no shortcuts to riches and no guarantees of success. However, for those distributors who devote the time and energy to develop a stable base of customers, and then mentor and train others to do the same, there is ample opportunity for personal growth, and an attractive part of full-time income.

The statement also remind those who are interested in becoming a distributor that there is no need to spend a significant amount of money on sales aids, or on materials to build Herbalife distributorship. Over the course of 2013, we will roll out similar statements in other markets.

Another Build it Better initiative is a nomenclature project. We know that the majority of people becoming Herbalife distributors do so in order to receive a discount on Herbalife products. This was validated by a study by Lieberman Research, which found that 73% of former distributors say that they join to be able to purchase products at a discount for their own use.

In addition, at the end of the first quarter, 77% of our 3.6 million distributors had not sponsored another distributor, and were therefore single-level distributors this principle economic opportunity was based only on purchasing Herbalife product at a preferred price for their consumption and that of their families.

Some of these distributors may also be retailing products for a profit. As Michael mentioned a few minutes ago, the nomenclature change is expected to be finalized over the next 30 days. And once it is, we will begin to implement it in literature, marketing materials, and applications around the world.

A third Build it Better initiative is the introduction of a rule that prohibits the purchase of leads by any of our distributors beginning in June this year. While we recognize the legitimacy of leads as a way of doing any business, Herbalife has decided to eliminate such purchases entirely.

This decision was not made lightly. But this method has been misunderstood outside of Herbalife, and addressing it in this way will eliminate the misperceptions. Our distributors are successfully creating long-term customers to the daily consumption of our nutrition products and the unique support they provide.

Sales from distributors utilizing methods involving leads are insignificant in the context of our worldwide business and the majority of distributors who have been using paid advertising leads have been transitioning to other methods of building their Herbalife business.

Fourth, based on its success of the test markets of Russia and Turkey, the first oriole invitations that we have been discussing with both investors and distributors for the past year or so have begun and will continue to be rolled out in addition markets such as India, Israel and Vietnam.

We have seen over time but the new distributors who made more modest initial purchases, and built up their customer base before they make the decision to become a supervisor, were more successful and productive, and this is a trend we wish to continue to see adopted around the world.

Driving engagement and activity at a local level is helping our distributors drive deeper, engaging customers at a grassroots level. When we look at how customers take Herbalife product to customers, one method is daily consumption through nutrition clubs. We estimate that we end of the first quarter with approximately 54,000 commercial or nonresidential clubs, registered by distributors in our database.

As part of our Build it Better program, we are also implementing a rule that will prohibit a distributor from opening a club in their first 90 days in the business. We believe that this will enhance the success of new club operators, and continue to foster even greater success of this model in the future.

We will update you on these, and other Build it Better initiatives, over the course of the year.

Now in passing the call over to John to review the financials, let me take the opportunity to applaud our distributors for another very strong quarter. This quarter's results were a testament to their engagement, their resilience, and their continued focus on creating and mentoring new customers in our product every day and over time converting many of these product users to distributors who go on to do the same.

John DeSimone: Thank you Des. I'll begin by reviewing our financial results, and comparing them to both first quarter of last year, and to the guidance for this quarter was given in February. I'll then comment on the initial guidance we've provided yesterday for the second quarter, as well as the updated guidance that we provided for the full year 2013.

I will then discuss the process the audit committee is conducting to select new auditors and provide some comments regarding the filing of yesterday's 10-Q. I will then conclude with an updated our share repurchase program, including our repurchased outlook, given that KPMG obligation to withdraw its previous opinions on our financial statements.

With regard to our financial results, yesterday we reported first-quarter net sales of \$1.1 billion, an increase of 16.5% as compared to the first-quarter 2012. Local currency net sales for the period actually increased by 18.1%, but this was partially offset by an unfavorable FX impact of 1.6%.

As Des has already reviewed in detail our volume in net sales results by region and key country, I will now discuss our margins. Our gross profit margin for the first quarter improved by approximately 20 basis points, as compared to the first-quarter 2012.

Savings from our seed-to-feed strategy, and price increases, benefited gross margin in the quarter, partially offset by the unfavorable impact of currency rates, and higher inventory write-downs.

Before moving to operating margin, please note that our reported first -quarter results included approximately \$24.6 million of unusual expenses that we consider to be outside the range of normal operations. We have therefore excluded these expenses from our adjusted first-quarter results.

These expenses include \$15.1 million, or \$0.10 per share, from the impact of the Venezuelan currency devaluation, and \$9.5 million, or \$0.07 per share, related to expenses incurred responding to attacks on the Company's business model. The following comments regarding operating margin, effective tax rate, and adjusted EPS all exclude these charges.

First-quarter adjusted operating margin of 17.2%, which excludes the items noted previously, improved by approximately 120 basis points compared to the prior year. The improvement was primarily driven by lower recorded foreign-currency gains and losses, as last year's first-quarter included \$9.1 million in recognized FX losses, compared to \$600,000 recorded this year, resulting in a net favorable impact of approximately \$8.5 million, or 89 basis points, compared to the prior year's quarter.

Our Q1 adjusted effective tax rate was approximately 220 basis points lower than our effective tax rate for Q1 2012. The variance is primarily due to shifts in our geographic mix, as well as some benefits from discrete items.

First quarter adjusted earnings per share of \$1.27 was \$0.39 higher than earnings per share for the whole quarter 2012. As previously noted, the improvement was primarily driven by growth in sales, improvements in margin, and a decrease in the effective tax rate. Also benefiting the quarter was the effect of the share repurchase program. Since the end of the first quarter 2012, the company has repurchased approximately \$640 million in stock of 14.3 million shares.

Comparing first-quarter adjusted EPS to the previous guidance provided in February, adjusted EPS of \$1.27 was \$0.20 per share higher than the high end of the guidance range. This beat was primarily driven by \$0.07 of timing of expenses which have been re-phased into the balance of the year, plus an additional benefit of \$0.07 of general expense underspend, and \$0.04 due to favorable effective tax rate.

Before moving onto new guidance for 2013 provided in yesterday's release, I want another couple of items. With respect to Venezuela, our guidance continues to assume a rate of 10-to-1 for the balance of the year, and does not

include any further charges or write-downs associated with our Venezuelan operation of all of our denominated cash.

Our guidance also exclude any ongoing expenses incurred responding to attacks on the company's business model. In the first quarter these costs were proximally \$9.5 million. We now expect these full-year 2013 costs to be the range \$25 million to \$40 million.

For all currency assumptions, we is the average closing exchange rates during the first two weeks of April, with the exception of Venezuela, as previously disclosed. Not a guidance -- from a volume point perspective, we are raising our full-year 2013 volume growth expectations by 50 basis points compared to previous guidance, and now expect volume growth of 9% to 11%. We are also raising our adjusted EPS guidance for 2013 by \$0.15 per share to both the low and high end of our previous guidance range.

We now expect adjusted EPS to be the range of \$4.60 to \$4.80, representing an improvement over 2012 of between 13.6% and 18.5%. Compared to the previous guidance provided in February, currency is negatively impacting the balance of the year by \$0.07 per share. Also negatively impacting the forecast of the balance of the year, is the timing of expenses noted in my comments regarding Q1 results.

These expenses are now expected to incur in the second and third quarters, and are anticipated to be partially offset by a lower effective tax rate than previously expected. For the second quarter we are providing initial guidance for volume point growth of 7% to 9%, which is on top of a very strong 23% and 17% by growth was based in Q2 above 2012 and 2011. Adjusted EPS in the second quarter is expected to be between \$1.14 per share and \$1.18 per share.

I would now like to discuss the process of obtaining new orders. The day after we were informed by KPMG that their independence was impaired, the audit committee quickly initiated the process to select a new independent auditor.

And as you know, Herbalife is a global company with presence in 80 countries. The independents review and analysis for each of these countries,

for each of 2010, 2011 and 2012, and for each accounting firm, is complex and takes for time.

This selection process, which is being overseen by the board's audit committee, has been moving quickly and is nearing completion. It would be inappropriate to discuss any additional details relating to the process, or providing interim status reports, until the process is complete.

I would like to note that given that we did not currently have independent auditors, we have filed our 10-Q without the SAS 100 review, and therefore without the required Sox 906 certifications. The 10-Q is complete and all other respects, including Sox 302, CEO, and CFO certifications, as to the accuracy of the financial information.

The Q1 10-Q will be amended with the 906 certifications to reflect that a SAS 100 review has been completed by the auditors, once new auditors are engaged and have completed their work.

As with the previous three years of financials, management and the audit committee are comfortable the financial statements covering the reference periods fairly present in all material respects the financial condition, and results of operation of the Company, as of the end of, and for the referenced periods. And they continue to be relied upon, and that the Company's internal controls over financial reporting was effective during these periods.

Finally let me address our share buyback and debt. As noted in our February release, the company repurchased \$162 million in stock during the first quarter of 2013, all of which was repurchased prior to our February earnings call. During the company's open trading window, subsequent to February's call, which began on February 22 and ended on March 10, the company did not buy back any additional stock.

We were precluded from doing so, because we were in the early stages of preparing for an additional debt arrangement that, if completed, would have been used to repurchase a meaningful amount of company stock.

However, given that alleged insider trading activities of our prior KPMG audit engagement partner, and KPMG's obligations to then withdraws prior audit opinions, we had no choice but to temporarily halt this specific deal deal.

While there may be alternatives for financing a large buyback, our current thinking is to be more conservative regarding share repurchases than we might have been otherwise, at least until such time as we gain more visibility into the timeframe that the new auditors will need to reorder our financials.

We will continue to repurchase stock on an opportunistic basis, utilizing our strong cash flow from operations. We have just under \$180 million remaining in our \$100 billion authorization.

Thank you. This ends our prepared comments. We will now open up the call for your questions.

Operator: If you would like to ask a question, please press star, then the number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question is from Tim Ramey of D.A. Davidson.

Tim Ramey: Good morning and thanks a lot.

Michael Johnson: Good morning, it's John.

Tim Ramey: John, obviously your very last comment there was extremely interesting, the idea of a large leveraged repurchase. I understand you probably can't say a lot more than you just did, but it is – if there were other sources of financing available to you than your current bank group, might that idea revive? Do you think that you won't have that sorted out, until you have the complete audit filed for the three years in question? Can you give us a little more color on that?

John DeSimone: Sure. As you know management and the Board of Directors and our Board have historically been committed to returning money to its shareholders through the buyback. We still believe that's a very effective way to return

value to our shareholders. We were going down a path, that path is now been blocked because of the KPMG issues, but I do think there are other financing options; we will explore those, there is no commitment at this time. We would be in the early states of even reviewing the options available, but as always we will look for ways to drive shareholder value and if appropriate we may do something.

Tim Ramey: That's terrific. Thanks so much.

Operator: The next question is from Michael Swartz of Suntrust.

Michael Johnson: Good morning Michael.

Michael Swartz: Des had touched upon this early in the call, but could you maybe give us some more color on the lower price to IBPs in Central and South America and maybe some more granularity of what you are seeing there and your plans to roll that out in other markets?

Michael Johnson: Yeah, hi, Michael. So, Michael what we did in South America which we actually tried to test the concept of a IBP pricing, which was related to income levels in the country, because what we realized is that the cost of a 50 (inaudible) IBP is very modest, but a comparable cost in certain markets in South America might be larger relative to income levels.

And so, we try to take an objective standard which resulted in the IBP pricing certain markets reducing by as much as 30% or 40%. What was really interesting to us was that we anticipated that this would result in a significant number of incremental people electing to take a look at Herbalife. What we are pleased to see though was that because of the tremendous distributor infrastructure for training and mentoring new distributors that the activity rates of those new distributors was very high.

And so, that gave us encouragement that this test was something that we should continue, because effectively the...although we had an expanded group of distributors coming into the business we have similar productivity. So, we expanded the test, we're continuing it for further 12 months and at end of that

period then we'll make a decisions where this is something that we should evaluate for rollout in other markets.

Michael Swartz: Okay, but no kind of timeline or no near-term plan to roll that out in other markets.

Des Walsh: Not at this time Michael because again what we want to identify is the success factors because it's not just about a lower priced IBP, it's about bringing more people into the business and having that infrastructure in place to support success.

Michael Swartz: Okay, great. Thanks Des. And then John just on the guidance...some of the commentary around share buybacks, is your guidance still kind of incorporate the \$50 million in quarterly buybacks?

John DeSimone: Not in the second quarter, but it does in the third and fourth quarter.

Michael Swartz: Okay. Okay, great thanks.

Operator: Your next question is from Sandy Chen of (inaudible) Asset Management.

Sandy Chen: I have question for John and question a Des. John can you just clarify, did you say that you guys have done a meaningful tender of the stock as on the KPMG incident that hadn't happened and halted these plans. So can we assume that if you do announce a new auditor that you can resume the plans to tender or do some sort of buyback?

John DeSimone: To be clear what I said is we're in the process of putting together a meaningful new debt arrangement that if completed would have been used to buyback stock...the word tender was not used and the format for which we would have repurchased the stock was not yet defined.

But again management believes in the financial statements as they were issued, we believe in the future of the company and we think a buyback is a good opportunity of return value to shareholders in long term.

Sandy Chen: Okay. Can you clarify that \$0.07 FX, is that for the quarter or what's your FX assumption for 2013?

John DeSimone: So the \$0.07 was the negative currency impact for the balance of the year compared to the prior guidance we gave in February. On a year-over-year basis 2013 versus 2012 this actually a \$0.19 headwind so the \$4.80 would have been \$0.19 higher had the currency assumption been the same. Venezuela is just a biggest piece of that.

Sandy Chen: So that changes and you could go back to may be \$5 or \$4.99?

Michael Johnson: Venezuela won't change.

Sandy Chen: That won't change, okay...helpful. And then Des I have a quick question. There has been a lot of concern that Herbalife's U.S. business is deteriorating essentially because...do you think that there is any credence from just impact of the U.S. business from adverse media and a lot of press.

Are you are seeing anything with your distributors what they are saying or seeing. I know North American volumes were up 4% in the quarter is that an appropriate run rate for the second quarter or even looking out to 2013. I know you said that April is better than the first quarter, but can you just give us any update on how April is looking and if it is back to double-digits or what you are seeing?

Des Walsh: Yeah, certainly Sandy we're happy to do so.

Sandy Chen: Thank you.

Des Walsh: So firstly Sandy we believe that the noise out there is not having any material effect on our business. Our distributors are totally focused on the business and what really matters Sandy is let's not just look slowly at volume points, let's look at the underlying trends in the business.

What we saw in the first quarter is approximately 70,000 new distributors joined Herbalife in the United States...the fourth largest increase in Herablife U.S. history. The percentage of supervisor activity rate was up 9% the adoption of the 5K program now hitting 39% in the U.S. which clearly a long-

term indicator of tremendous stability and then 18 of our top 25 metro U.S. markets posted growth.

So those are the important underlying trends...all of them very strong; all of the them, all doing very well for the future. And then just reverting to volume points. Obviously what we had was successive growth during the quarter. March was the highest volume point month ever in the U.S.; April even stronger. So we are frankly very confident about the strength of our U.S. business and the success that lies ahead, and what we believe is that in successive quarters we're going to see a higher volume points in the U.S. than in the first quarter.

Sandy Chen: Thank you, helpful.

John DeSimone: Sure.

Operator: Your next question is from John San Marco of Janney Capital.

John San Marco: Thank you, guys. Did the liberalization of the return policy – did that have any impact on sales in the U.S. or, you know, the same question for Mexico?

Michael Johnson: No, material impact of any kind, John.

John San Marco: Okay. In both countries?

Michael Johnson: Both countries.

John San Marco: I guess then just thinking more broadly about all the policy changes you've made over the past year, are there any that you expect to have material impact or you're pretty comfortable that all of them will just sort of, you'll smooth right over them with business strength.

Michael Johnson: We believe that, John, for this reason, if you look at the changes that are happening today, the reason we call it Building a Better, it's because they are intended to build a better. This is the program that we actually began 12 to 18 months ago, and you know you look at various – the nomenclature project we believe, will have significant impact, in terms of making it more clearer, the categorization within, what today we call distributors in relation to even the

first order limitation. Far from slowing down the business we've actually help found that this helps build a stronger base.

So all of these changes individually, clearly represent change and obviously we have to work with our distributor leadership to manage that change, so that it doesn't become a distraction, but certainly we believe that all of these changes will actually contribute to the strong foundation and future growth.

John San Marco: Great, thanks. And then just one more on the specific change around the lead generation rules, is that – I guess for clarity, is that a global rule or U.S. only?

Michael Johnson: That will be a global rule, but from a practical perspective, Internet leads are not a significant factor in many of our other regions. It's predominantly a U.S. issue. And even with then, within the U.S., John, the important thing and there has been, again some misperceptions around this, the volume of business that is done in, traditionally in the leads area has been immaterial in the context of our overall business.

Secondly, for many years now, our top leaders have been transitioning away from the Internet leads business to business that is more focused on daily consumption. They have been very successful in doing so and that's why we believe that the remaining very small group of distributors that are using leads will be very successful in transition just as other have before them.

John San Marco: Great, thank you.

Michael Johnson: Sure.

Operator: Your next question from Gerald Price of (inaudible) Analytics.

Gerald Price: Good morning and thank you for taking my question. You mentioned that 77% of your distributors have not sponsored another distributor this year. I was hoping you could clarify where this statistic is coming from and then how it reconciles with some of your comments back in January that 90% of the distributors were buying just for self consumption.

I know you've clarified this several times, but I'm just hoping there is an easy explanation for the disconnect.

Michael Johnson: Yeah. I think some of those statistics are getting confused. The 90% statistic presented in January was that 90% of the consumers in the U.S. that were surveyed were not distributors. So that is on the survey side, so that's from bottoms up.

Top down within those that do sign off that are in the network, 73% join primarily for the discount on personal consumption and close to 80% never sponsor anybody, which is a pretty consistent metric with a fact that 73% join primarily for the discount on self consumption.

Gerald Price: Okay. And then just one quick other question, there have been some issues with your Chairman's Club website recently, it's down again this morning, but yesterday it no longer showed two Chairman's Club distributors. I was wondering, if you could clarify whether these two distributors are still with Herbalife and if not what percentage of revenues they represented?

Michael Johnson: So, Gerald, let me see if I can just kill out one stone dead, because this is so typical of how these rumors begin right. So on a regular basis, we're actually updating videos, we're constantly involved in maintenance of various kind, and so what you're seeing is just a reflection of that.

In relation to the issue of speculation about distributors leaving, let me just say that the nature of our business is that if the distributors were to leave, by definition they want to communicate with their entire downline organization, because their goal would be perhaps transition to another company and bring that through with them.

So nobody needs to sort of speculate on basis of I'm looking at websites or looking at us as to whether somebody is leaving, because believe me whether, if somebody does leave the first thing they want to do is send out a mass communication to all their people to say, "hey, I'm going you want to come with me."

So let me also say that we have no changes in our Chairman's Club members, our Chairman's Club members are committed to the business, committed to working with their organizations into stronger Herbalife.

Gerald Price: That's great, I appreciate it, guys.

Michael Johnson: Thank you.

Operator: And your final question is from Scott Van Winkle with Canaccord Genuity.

Scott Van Winkle: John, there is over \$700 million in cash carried in the balance sheet at quarter end, why was that cash to run down or I should say the debt drawn down to put that cash in the balance sheet at quarter end?

John DeSimone: Yeah, I think there's only a component of that was the drawn down piece, there was about \$365 million that was in the U.S. Normally we pay down a revolver with that, but given the circumstances of the opportunities that we have to buyback stock at various points in time that are event driven opportunities that are not with company event driven, but more from our detractors that we want to be in a position to react quickly, so we drew down \$0.5 million in January and we have used \$162 million of that to repurchase stock and the rest is sitting on the balance sheet with the flexibility to execute a buyback as we see fit.

Scott Van Winkle: Great, thanks. And then, to follow-up in the Sandy's question about the U.S. in April, was there anything specific that kind of caused the business to accelerate the last couple months or maybe just a little bit distraction in January and February?

John DeSimone: I'm not so sure that it's a distraction, it's simply a transition, so what you've got obviously is you've got first of all, you've got a very high comp, so first quarter of 2012 we had a 23% increase, so that comp obviously a very difficult comp. Comps get easier as we go into the second and in third quarter.

And then I think it's also the natural momentum of the business, we had our summit in Paris, which was attended by our top leadership obviously a very motivating inspiring event where we shared our stories of success and so,

typically, we see distributor come back from an event like this and just get re-engaged, re-energized and so on.

So, but again I think the important thing is just focus on the underlying trends of the business which was strong and healthy and that's what gives us confidence regarding the future coupled with that accelerating momentum in March and April.

Scott Van Winkle: Great, and then one last one. On the North Carolina facility, what should we expect when that open, does it bring any different capabilities, does it kind of accelerate maybe some margin pickup. Is it any, is it radically different from the facility in Southern California?

John DeSimone: From a manufacturing prospect standpoint, it's very similar capabilities to what we have in Southern California. It's got a slightly different design from a capacity standpoint, it's got a lot of ability to do large runs and small runs; where in Southern California its mostly large runs, but similar to Southern California will be powders and liquids. When we get that up in running which would be the middle of next year, we expect a rampup to be a little quicker than it was in Southern California.

The transition of products from co-packers to that facility has been negotiated with the co-packers, so they're onboard with it contractually, so we'll have the support. And then as we get closer to the execution of the first run that facility will be an update on the profile of the financials. Thank you.

Michael Johnson: Okay, I just want to, this is Michael, I want to thank you everyone for being with us today and especially congratulations everybody on team Herbalife. We had another great quarter. And the realization of this is the underlying catalyst for our successful track record. Frankly then the emergence of the public health issues, which are sad, but they are associated with obesity. And here in the U.S. and around the world, we're seeing the obesity epidemic just getting out of control.

What that means for us is more customers and better product brings more results for people and our record financial performance, its broad, it's across all six of our regions. We expect to report additional performance record as

we progress through the year. You heard John and Des and myself talk about that today.

Our nutrition product results drive confidence in our brand and confidence in our product, gives our product an incredibly prominent place amongst other nutrition products. We are truly a nutrition company of great level.

We are a company that will always take the high road. We will operate with integrity everyday. We'll provide transparency to our business. We'll make changes that are necessary to help to improve our business, our brand, and our image. We are confident and we are extremely confident that our products drive results that our business model creates opportunity. Our brand is growing and our image is improving.

We will continue to work to build Herbalife better every single day to raise the awareness of all the things that are great about our company. So again thanks to all our supporters for your confidence and seeing what we see, and we look forward to speaking with you all next quarter.

Operator: Thank you. This concludes today's conference. You may now disconnect.

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