HERBALIFE INTERNATIONAL OF AMERICA, INC.

Moderator: Brett Chapman
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8:00 a.m. PT

Operator: Good morning and thank you for joining the Second 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 Brad Chapman, the company's chief legal officer.

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 a complete discussion of risks associated with these forward-looking statements and our business. In addition, during this call certain financial performance measures may be discussed that differ from comparable measures contained in our financial statements prepared in accordance with U.S. generally accepted accounting principles.

Referred to by the Securities and Exchange Commission, there's non-GAAP financial measures. We believe these non-GAAP financial measures assist management and investors to evaluating and preparing 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 will now turn the call over to Michael.

Michael Johnson: Thank you, Brett. Good morning and welcome to our second quarter 2013 earnings call. Let me start by saying that Herbalife's business is stronger than it's ever been in the operating results announced yesterday, are the best in the company's history.

It was a record performance from both top and bottom line perspective. Second quarter net sales of 1.2 billion is 18 percent above last year's second quarter. Our adjusted EPS of a $1.41 increased 29 percent compared to the prior year period and we generated $183 million in free cash flow.

A strong performance in the second quarter was acceleration over the record results achieved in the first quarter. Volume points grew 14 percent year-over-year with growth in each of our 6 regions.

South and Central America grew 33 percent. Asia-Pacific grew 1 percent. China grew 49 percent. Amia grew 16 percent and Mexico grew 8 percent. North America's growth rate was 11 percent in the quarter compared to 2012, and more importantly, its growth rate increased sequentially from the 4 percent in the first quarter.

Sales of our top selling meal replacement product, Formula One, increased 16 percent reflecting the ongoing expansion of daily consumption sales methods by our distributors, which are making our products more accessible and affordable.

Formula One and our other nutritional products provide meaningful solutions to millions of consumers who seek to improve their health and to manage their weight. Obesity, while it continues to be a global epidemic that poses serious health concerns, as well as a tremendous financial burden on public health systems around the world, the Herbalife today has a mission for nutrition that is based on our belief that our independent sales force is helping mitigate the global obesity epidemic by offering high-quality products, personalized coaching and a social environment that inspires customers to eat better, engage with each other, maintain a healthy weight, and pursue a healthy active lifestyle.

We've never been more confident about our business, and as a result included in our earnings announcement yesterday, we raised our guidance for the third time this year. The new guidance range points to 2013 being another record year with double-digit top and bottom line growth.

Over the past 7 months, there's been a whole lot of misinformation spread about Herbalife. As a result, we believe that Herbalife has become one of the most researched companies on Wall Street. We also believe that through the in-depth research conducted by so many firms, the investment community as a whole has come to the same conclusion that we already knew.

Herbalife is a sustainable, financially strong company with a robust consumer base loyal to our high-quality nutritional products. We've demonstrated the scale of our consumer base through studies performed by two highly respected research companies, the latest announced June 11th performed by the Neilson Company, a leading global information and measurement company, found that 3.3 percent of the U.S. adult population of 7.9 million people have purchased an Herbalife product within the 3-month period prior to the study, of which 87 percent reported themselves to be non-distributors.

This study along with previous independent studies have shown a large number of end users for our products with the vast majority being outside our network. We also believe our sales channel, direct sales, is ideally suited to marketing nutrition products.

Our distribution approach has evolved over the last three decades. Our focus will continue on supporting our distributors. Their focus is increasing customer contact through a wide variety of social models, which work together to drive better product results.

The ongoing personal contact coaching and education between distributors and their consumers strengthen the sales of weight management, daily nutrition and our personal care products. This frequent personal contact enhances the consumer's experience by improving their nutrition and health education, as well as motivating them to begin and maintain wellness and weight management programs, all of which means greater success in achieving their goals.

Herbalife 24 is emerging as a product and a brand for endurance athletes and those looking for great sports nutrition. There are now fit club business models based on Herbalife 24 that are creating opportunities for a whole new generation of Herbalife customers and distributors.

We know a large percentage of our distributors or participants are simply discount customers who use our weight management, nutrition sports, and personal care products primarily for their own use. Knowing that most of our participants are discount buyers, we have decided to change and simplify the terminology we use for participants in our network.

Beginning this quarter, the term we will use for participants will change from distributor to member. This change will require modifications to all participant agreements, rule and training materials and will take several quarters to implement across all platforms around the world.

In the U.S., however, the implementation will begin immediately and should be completed within a few months. We believe this change will be beneficial to our business as it will help simplify the understanding of our participant base.

This is another example of our build it better program, which has yielded numerous opportunities for our business and for our distributors as we focus on initiatives that make our company stronger, our products better, our customers better swerved, our direct selling model and business opportunity more successful and easier to understand in our brand even stronger.

We believe the changes we are making will better serve our customers and help use investors to better understand and simplify our business. These changes will help clarify misinformation introduced into the market and spread to several special interest groups here in America who have been badly deceived about how our business really works.

From an investment perspective, we continue to invest in our products and our brand. Our extraction facility in Changsha, China, is ramping up its production. An increased amount of the botanical ingredients in our products including teas we manufactured in that facility.

We will have invested $130 million in our Winston-Salem, North Carolina, manufacturing facility, which is expected to begin operations next summer as planned. And this quarter, we announced a new sports sponsorship with one of the world's top athletes, Cristiano Ronaldo. Cristiano is an athlete who understands how vital good nutrition is when striving for world-class performance.

We're excited to have Cristiano as a member of team Herbalife and we look forward to working with him to improve his performance on and off the field. I want to thank all the members of our Herbalife family, our members and sales leaders. There are millions of customers around the world who use our products to improve their nutrition in health and who are ultimately responsible for exceptional global growth. And, of course, our employees.

Despite the public market distractions, our focus remains on supporting our members while implementing the numerous growth and infrastructure strategies we believe would help us deliver ongoing strong financial performance.

We are experiencing tremendous growth around the world driven by an increased consumption of our products as a result of the global obesity epidemic and an aging population. Our members and sales leaders remain highly engaged sharing great ideas to drive global growth while working closely with our management team to introduce new ideas and initiatives worldwide.

All of us at team Herbalife are working harder, smarter every single day to build it better. Now, over to Des for a more detailed update on our performance in our key regions.

Des Walsh: Thank you, Michael. As you've just heard, we had another record quarter. Our 15th consecutive quarter of double-digit top line growth and our 8th consecutive quarter of more than 1 billion volume points.

As Michael mentioned, we will soon begin implementing the nomenclature change with new participants being termed members as opposed to distributors. So as we go through the discussion of the regional results, we will use the new terminology.

June was the strongest volume month ever in Herbalife's history. Such performance is reflective of our ongoing momentum and the breath of growth that we see across our markets. Not only did four of our six regions post strong double-digit volume point growth, but every region saw increases in average active sales leaders.

Our members and sales leaders around the world actively continue their mission for nutrition helping to provide great-tasting, low calorie nutrition in communities amidst an increasing obesity epidemic.

They consistently execute daily consumption methods to build stable growing businesses. Not, let me provide some highlights in data in our regions.

The North American region had another record quarter. It posted 10 percent net sales growth and 11 percent growth in volume points each compared to the prior year. Average active sales leaders with volume points increased 10 percent and new members increased 4 percent compared to last year's second quarter results.

The per capita volume point penetration for the region in the last 12 months was 3.4. This compares to 7.4 in Mexico and 9.2 in Korea, and supports our belief that there's tremendous opportunity for future growth in this our oldest and largest region.

Within the North American region, the continued strength of the U.S. market can be seen in a net sales growth of 11 percent and a volume point growth of 12 percent, each versus the same quarter last year.

Compared to the prior year period, average sales leaders with volume points increased 10 percent and new members in the U.S. increased 4 percent. The growth in the U.S. market is broad-based. As you know, we experienced the departure of a top U.S. sales leader from Herbalife in January and another in June related to the introduction of rules last September restricting the sale and use of paid advertising leads.

As we stated at the time, and as is evident in the strength of the second quarter, the loss of these sales leaders has not had a materially effect on our U.S. business. The sequential growth from 3.8 percent in the first quarter to 11.9 percent in the second quarter was very strong and is a testament to the leadership, resilience and focus of our U.S. members and sales leaders.

In addition to this volume point growth, we are very pleased with the underlying trends that we are seeing in the U.S. Approximately 80,000 new U.S. members joined in Q2, the largest increase ever for a market in Herbalife history.

The percentage of new sales leaders qualifying out of the 5K method has continued to grow and expanded more than 30 percent in the quarter. Historically, sales leaders that qualify under the 5K method are more productive and more likely to have built businesses ground in daily consumption and steady long-term customers.

Twenty-two of the top 25 metro U.S. markets posted growth in the second quarter over the same period last year.

Moving on to Mexico, local currency net sales for the quarter increased 12 percent and volume points increased 8 percent each as compared to the prior year period. For the second quarter, average sales leaders with volume increased 13 percent while new members decreased 1 percent both compared to the prior year.

The per capita volume point penetration in Mexico for the last 12 months was approximately 7.4. As you know, training and educating our members and their customers is a fundamental part of the Herbalife business.

In 2012, we launched a wellness tour covering 65 cities in the region with doctors from Herbalife's nutrition advisory board. This year, the wellness tour in Mexico held 150 events in 100 cities seeing over 117,000 attendees.

These events drive ongoing attention and education about healthy lifestyles, building on the 2012 introduction of the Herbalife 24 product line to Mexico. Now, let's turn to China where local currency net sales increased 49 percent and volume points grew 49 percent in the second quarter compared to the prior y ear period.

Average active sales leaders increased 18 percent over the same period last year. China's volume point per capita penetration for the last 12 months was about 0.2. We are delighted to see growth in improved metrics in this region driven by the introduction of daily consumption methods into the market.

Earlier this year, we implemented first order limits in China. We continue to see more nutrition clubs open and while we are pleased with the progress of the China market, we remain cautious about expecting too much too soon.

In the Asia-Pacific region in the second quarter, local currency net sales increased 1 percent and volume points increased 1 percent each as compared to the prior year period. Average active sales leaders with volume grew by 15 percent and new members grew by 3 percent over the same quarter last year.

The volume point per capita penetration in this region for the last 12 months was 0.6. In the past 2 years in the Asia-Pacific, we have seen cumulative volume point growth of 38 percent and about an initial 169,000 members qualify as sales leaders.

We are working with leadership within the Asia-Pacific region to focus on implementing best practices to help drive higher retention and sales leader activity rates. These include an increased emphasis on the 5K sales leader qualification, which increased from 22.5 percent of qualifying sales leaders in Q1 to 26.5 percent in Q2.

The combination of these factors coupled with a difficult comp against Q2 2012 resulted in a very modest increase in volume points in Q2 2013. However, we believe the core business in Asia is very strong as evidence by the growth of average active sales leaders in the quarter by an impressive 15 percent.

Within the Asia-Pacific region, Indonesia continued its strong performance with a 47 percent increase in local currency sales and a 69 percent increase in average active sales leaders as compared to the same quarter prior year.

Korea is one of our most established Asia-Pacific markets with per capita volume point penetration of 9.2. Lapping difficult comparisons from prior periods, local currency net sales decreased 3 percent as compared to second quarter of 2012.

During the second quarter, we saw more than 17,000 members and sales leaders at the Korean extravaganza, which illustrates the unified leadership and strong engagement by both members and sales leaders.

In India, local currency net sales grew 4 percent and average active sales leaders grew 26 percent over the same quarter prior year. Increased product excess through past operational initiatives and the successful adoption of the daily consumption business methods drove much of this growth.

With less than one volume point per capita penetration in India, we see significant growth potential in this market and through the introduction of first order limits and increased focus on the 5K sales leader qualification, we are working with our leadership to create long-term sustainable businesses there.

Local currency net sales in the South and Central American region increased 50 percent and volume points in the region were up 33 percent each as compared to the second quarter of 2012. Average sales leaders with volume points in the region increased 30 percent and new members also increased 30 percent over last year’s second quarter.

The per capita volume point penetration in this region for the last 12 months was 1.9. The region is supported by a strong and engaged leadership base which we know to be an integral part of driving growth.

Additionally, we see the expanded use of the 5K qualification method in South and Central American markets, which gives us confidence in the long-term growth and stability as members and sales leaders continue to build their business sustainably over time.

Venezuela continues to grow with a 51 percent increase in new members and 58 percent increased in average active sales leaders, both as compared to second quarter 2012. We believe the daily consumption coupled with an increased utilization of the 5K qualification method are making a significant difference in the growth of this market.

Within the South and Central American region, we continue to see strength in Brazil. Volume points grew 30 percent and average active sales leaders grew 26 percent in the second quarter over the same period prior year.

The ongoing adoption of nutrition clubs, as well as traditional business methods contributed to this growth. Turning to Amia during the second quarter, local currency net sales increased approximately 15 percent and volume points in the region grew 16 percent compared to the same period in the prior year.

Average sales leaders with volume points in the region was up 12 percent and new members was up 13 percent over the prior year period. In Amia, per capita volume point penetration in the last 12 months was about .7, which we believe speaks to the scale of the opportunity that remains in this region.

Effective implementation of daily consumption business methods through nutrition clubs, fit camps and weight loss challenges drove performance across the region. We continue to see the development of a younger, more athletic member based in Western Europe that has embraced the Herbalife 24 product line and an active lifestyle and enthusiastically introduced them to their customers.

Within Amia, Russia had a robust second quarter. Compared to the second period prior year, volume points increased 20 percent. Our Russian leadership has helped to develop a disciplined city-by-city focus that includes systemized training, applied daily consumption methods and utilization of the 5K qualification method.

The U.K, our oldest market in Amia, continues its impressive performance. This quarter, we experienced 92 percent growth in volume and a 56 percent increase in average active sales leaders. The early stage success of weight loss challenges, office clubs and fit camps in the market ignited the member base and drove engagement with a larger group of consumers.

We are seeing other markets in the region begin to implement elements of the business methods that have been so successful in the U.K.

Encouragingly, we are beginning to see signs of growth emerge in other markets in Western Europe, which have been flat for several years and which contributed to the record 16 percent volume point growth in Amia in this quarter as compared to the same quarter of last year.

Now, in passing the call over to John for a review of our financials, let me take the opportunity to pay tribute to our members and sales leaders for another very strong quarter. Their resilience, steadfast engagement and dedication to their customers are evident in the record-breaking second quarter results.

We are proud of their accomplishments and continue to support their endeavors in creating and mentoring new customers and in showing the value of Herbalife's products around the world.

John DeSimone: Thank you, Des. As Michael said earlier in the call, we had a great quarter, but before reviewing our second quarter financial performance in the full-year guidance provided in yesterday's announcement, let me provide an update on re-audits.

Similar to last quarter, we filed a second quarter 10Q without the (SAS) 100 review and therefore, without the required stocks 906 certifications. The 10Q is complete in all other respects including (SOCS) 302, CEO, CFO Certifications as to the accuracy of financial information.

When completed, the 10Q will be amended with the 906 certifications to reflect that a (SAS) 100 review has been completed by PWC as part of the re-audits of the prior 3 years. Management and the audit committee believes that the financial statements covering the referenced periods fairly present in all material respects the financial condition and results of operations of the company as of the end of and for the reference period, and they continue to be relied upon, and that the company's internal controls over financial reporting was effective during these periods.

With respect to progress of the re-audits of 2010 through 2012 in the (SAS) 100 reviews for each of the first 2 quarters of 2013, we expect to be completed and up-to-date no later than the end of this calendar year.

Let me know review our financial results, comparing them both to the second quarter of last year and to the guidance for this quarter that was provided to you in April, and then I'll comment on the updated guidance we provided yesterday.

With respect to our financial results yesterday, we reported second quarter net sales of $1.2 billion, an increase of 18.2 percent compared to the second quarter 2012. Local currency net sales for the period increased 17.4 percent with a favorable F.X. impact of .8 percent as compared to the prior period.

Since Des has already reviewed in detail the volume in net sales results by region and key country, I'll now discuss our margins. Our gross profit margin for the second quarter decreased approximately 53 basis points as compared to the second quarter of 2012.

The net decrease to gross margin was primarily due to the unfavorable impact of currency with higher cost and price increases offsetting each other. Before moving on to operating margin, please note that our reported second quarter results included some unusual items that we consider to be outside the range of normal operations.

We have therefore excluded these expenses from our adjusted second quarter results. They are as follows: $8.1 million of pre-tax expenses, or 7 cents earnings per share, related to expenses incurred responding to a tax on the company's business model; $3.5 million of pre-tax expenses or 2 cents earnings per share, a one-time cost incurred during the quarter associated with our re-audits.

These costs may ultimately be recovered, but until a definitive agreement is in place, the cost will be expensed as incurred, as willing to recovery. We expect to continue to call out this item in the future.

The third unusual item in the quarter was a tax benefit of 2 cents related to the first quarter of the evaluation of the Venezuelan Bolivar.

The following comments regarding the company's second quarter operating margin effective tax rate and EPS all exclude these 3 items just discussed. Second quarter adjusted operating margins is 16.7 percent, which excludes the items just mentioned, decreased by approximately 137 basis points compared to the prior year.

A little more than a hundred basis points of this decrease is a result of higher SG&A expenses which exclude China's service provider expenses. SG&A was negatively impacted primarily by 2 items: Higher recorded currency losses as this year's quarter included $7.9 million in recognized F.X. losses compared to only $800,000 recognized in last year's P&L, resulting in a net unfavorable impact of approximately $7.1 million.

This change accounts for approximately half the adverse basis point change. The second item impacting SG&A as a percentage of sales is sales events, which increased by approximately $6.5 million versus the second quarter of last year.

Now, let's move on to our effective tax rate. Our second quarter adjusted effective tax rate was approximately 410 basis points lower than our effective tax rate for Q2 2012. The variance is primarily due to shifts in our geographic mix, as well as some benefits from discreet items.

Second quarter adjusted earnings per share of $1.41 was 32 cents or 29 percent higher than our earnings per share for the second quarter of 2012. As previously noted, the improvement was primarily driven by growth in sales and a decrease in our effective tax rate, along with a lower shear base due to our ongoing buyback activity.

Comparing second quarter EPS to the previous guidance provided in April, adjusted EPS of $1.41 was 23 cents per share higher than the high end of the guidance range. This beat was primarily driven by top line performance, but also benefited by 4 cents of timing of expenses, which had been rephrased into the balance of the year, and 6 cents due to favorable effective tax rate.

Before moving on to the new guidance provided for 2013, I want to note a couple of items. With respect to Venezuela, our guidance continues to assume a rate of 10 Bolivars to a dollar for the balance of a year and does not include any further charges or write-downs associated with our Venezuelan operation or Bolivar-denominated cash.

Our guidance also excludes any ongoing expenses incurred responding to a tax on the company's business model and the re-audit related expenses or any recoveries of such costs. In the second quarter, these pre-tax costs were approximately $8.1 million and $3.5 million respectively.

For all currency assumptions, we use the average closing exchange rates during the first two weeks of July with the exception of Venezuela as previous disclosed. The currency rate assumed in our guidance reflect movements that are meaningful worse than the rates utilized a quarter ago.

As such, there is an 18 cent per share negative impact to the back half of the year due to the strengthening dollar compared with the guidance provided in April. If not for this currency impact, both the third quarter and implied fourth quarter guidance provided yesterday would've each been 9 cents per share higher.

From a volume point perspective, we are raising a full-year 2013 volume growth expectations by 250 basis points compared to the previous guidance and now expect the volume growth in the range of 11 and a half to 13 and a half percent.

As Michael mentioned, for the third time this year, we are raising our adjusted EPS guidance for 2013. We are taking the low end of the range up 23 cents per share and the high end of the previous range up by 15 cents per share.

We now expect adjusted EPS to be in the range of $4.83 to $4.95. The full-year adjusted EPS guidance includes a year-over-year currency headwind of approximately 30 cents per share. For the third quarter, we are providing initial guidance for volume point growth of 11 and a half to 13 and a half percent, which is on top of the strong 17 percent and 23 percent volume growth we experienced in Q3 of both 2012 and 2011 respectively.

Adjusted EPS in the third quarter is expected to be between $1.09 and $1.13. This adjusted EPS range for the third quarter includes a negative headwind of approximately 13 cents per share versus the prior year and 9 cent per share adverse impact compared to the rates we utilized in the guidance we provided a quarter ago.

Finally, I will address on share buyback program. Over the last couple of years, our guidance normally included $50 million of share repurchased per quarter. This indicated our intention to at least execute a portion of our buyback program on a routine basis even though in many quarters we significantly exceeded that amount.

Last quarter, we did not include any repurchase in our guidance for Q2 as a result of KPMG’s forced resignation.

We wanted to wait until we had new auditors on-board, which would provide us better visibility into the timing of securing re-audited statements. With (Peter Mussey) on-board and our confidence in having re-audited statements by year-end, our guidance provided yesterday included the assumption that the company will resume its buyback program.

We have included $50 million per quarter in our forecast, but we believe that our balance sheet is underlevered and we have available cash, and therefore, we may decide based on the discretion provided to us by our board to repurchase more than the amount included in guidance.

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

Operator: At this time, ladies and gentlemen, if you would like to ask a question, please press star, then the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from the line of (Tim Ramie) with D.A. Davidson.

(Tim Ramie): Hi. Good morning. Congratulations on a great quarter.

Michael Johnson: Thank you, (Tim).

(Tim Ramie): John, I took note of the fact that there were fully restated balance sheets for '10, '11 and '12 in the -- in the 10Q file last night and you can't do a balance sheet without an income statement, so you must be pretty close on the -- on the relook at the financials.

Why do we think that it's as far out as the end of the calendar year?

John DeSimone: I think my words, (Tim), were no later than the end of the calendar year.

(Tim Ramie): But it could be quite...

John DeSimone): Well, yes, it's going to -- it's going to be what it's going to be and as soon as it's ready, we're going to release it. I think that the outside timeline at the end of this year is possible that it's done earlier, but it's a complex time-consuming process, and we want to make sure we set expectations that we can shape.

(Tim Ramie): Sounds good. And then obviously one of the reasons why you weren't able to repurchase stock at lower levels is -- was the KPMG resignation, you know? I know that you certainly have a very good cause of action against KPMG.

Where are you at on both recovery of excess audit fees as well as, you know, other damage that may have been caused by their malfeasance of their senior audit partner?

John DeSimone: (Tim), we can't comment on potential proceedings. Sorry.

(Tim Ramie): Oh. OK. Thanks.

Operator: Your next question comes from the line of (John San Marco) with (Jenny) Capital Markets.

(John San Marco): Good morning. Thanks, guys.

Michael Johnson: Hey, (John).

(John San Marco): I have -- I have a follow-up on your scripted comment, (John), about capital allocation. Has the amount of cash that you need to keep on the end to run the business, does that change at all from 2 years ago when you just held about 250 or so?

John DeSimone: No, it hasn't changed. I think, you know, what we spoke about on the last earnings call was just the need to get the new auditor on-board and have some clarity as to what the re-audit timeline was.

I think, you know, we made it clear that prior to KPMG's resignation, we were looking to enter into a debt deal. That deal fell apart. We -- you know, we now know we are underlevered. No commitment on anything specific that we'll do, but we will always look to create value for our shareholders and that includes looking at our capital structure.

(John San Marco): OK. Thanks. On Latin America, I was wondering if you could just sort of talk about in a bigger picture sense, it was -- it was maybe the last segment you had accelerate out of '08 slowdown, and now it's been the biggest driver of growth.

I guess, what do you do there differently today that's been impactful and what's the opportunity to take that to other regions?

Des Walsh: (John), this is Des. So I think a couple of things. So a significant factor in South and Central America is obviously Brazil. You know a number of years ago we sit down with our distributor leadership, we really worked with them to improve business practices and retention rates and activity rates in Brazil, and since then, we've actually seen significantly stronger performance in consistent performance in Brazil, most recently in second quarter, you know, 30 percent growth.

But, of course, (John), it's not just about the growth in volume points because not only do we have 30 percent growth in volume points in Brazil, but we have a 26 percent increase in average active sales leaders.

So it's about productivity, it's about engagement. In the Spanish-speaking market in Latin America, it's been obviously, again, tremendous leadership by our distributors there, but it's been a focus on daily consumption, focus on more and more training, more institutionalized support and frankly, better product access throughout the region.

So a whole combination of distributor leadership, engaged leadership. The factors and the company's approach in terms of regionalization city-by-city, and essentially, the same strategy that has driven our growth in South and Central America is the same thing that's our strategy around the world.

It's daily consumption, systemized training, locations and a city-by-city approach.

(John San Marco): OK. Thanks. And then the -- I was wondering if you could address the decline in total number of distributors during the quarter. Is it -- was that term-driven or you just -- maybe if you could -- what you can detail on that number?

Des Walsh: So our focus today overall, (John), is on productivity and engagement and not pure numbers. Obviously, we're thrilled to see the significant number of new distributors joining us in the United States. As I said in the prepared comments, the number of new distributors, new members in the second quarter, 80,000 new distributors came to our (inaudible) in the second quarter or record number.

So we're very pleased to see that, but overall our focus is on activity and engagement and helping our members on the panel to (inaudible).

John DeSimone: Yes, and let me add -- this is John. Let me add one other thing too that's unique in the quarter. So in the first quarter when our sales leaders were not -- did not -- were the ones that were not detained, they were demoted to senior consultant for 90 days and actually dropped out of the system in the second quarter.

So you actually see that movement in this reported period.

(John San Marco): And do you think that had an incremental impact versus historical 2Qs and was that a bigger number this year that...

John DeSimone: No, this is part of a win-back campaign that was something we were testing as part of the business that we didn't do last year.

(John San Marco): Oh. OK. All right. Well, I'll jump back into the cue. Thank you.

Des Walsh: Thanks, (John).

Operator: Once again, ladies and gentlemen, if you would like to ask a question, please press star, then the number one on your telephone keypad. Your next question comes from the line of (Scott VanWinkle) with Canaccord Genuity.

(Scott VanWinkle): Thank you much. You know, Des, I was wondering if you could -- you could, you know, talk a little bit more about Asia-Pacific and kind of, you know, sum up. You talked about markets, you know, puts and takes, here and there.

I'm kind of wondering overall are you -- you mentioned some good, you know, metrics on average active supervisors. I wonder what the expectations are in volume and revenue in that region? And then I would love to hear a little more commentary on the disparity between, you know, the revenue this last quarter and the average actives, if you could.

Des Walsh: Yes, (Scott). So (inaudible) specific, really two key messages there: the first obviously in Korea. Korea represents about a third of our total business in the Asia-Pacific region. Korea, as you know, has achieved this tremendous volume points per capita just over nine, a significant number.

So in Korea, I think we've reached just a natural plateau in the business, while our distributors, while the company regroups. That's just something that traditionally happens in many markets and we believe that there's still growth ahead in Korea, but we're working with our Korean leadership now to focus on retention because retention has been one of our challenge there.

And so that's really our key focus on training, on retention, and then frankly, just overall more increased products access, more training we got in clubs and so on.

In the other markets in the Asia-Pacific region, again, a focus on the five great qualifications. You know that we've introduced the first order of limitation in India and we've seen a combination of 5K, the first order of limitation. Again, our focus is on building a stronger foundation for growth ahead.

Volume point penetration in the entire Asia-Pacific region is .6, and as you compare that to the advanced markets like Korea, you'll see there's huge opportunity for growth ahead. So in the third quarter, we predict slightly increased growth and then the fourth quarter acceleration growth.

So overall, we're going to have a growth store in the Asia-Pacific. What you see in the Asia-Pacific today is something you saw in Brazil a few years ago and China more recently where we worked with distributor leadership to put in a stronger foundation for future growth.

(Scott VanWinkle): Great. And then are there -- appreciate the commentary on China. Are there -- are there any other metrics, you know? Des, I think for three or four years you've ended your China commentary with that -- you know, that cautionary statement at the end.

Are there any other metrics we should, you know, watch or think of when we look at China kind of taking off this quarter?

Des Walsh: So, you know, (Scott), China will always -- we will always be cautious about China because the reality is that we operate there in a market, you know, that is obviously subject to change at any time.

We know we do -- we have a tremendous relationship and we do a lot of focus in terms of government relations, government activity. So the government is totally aware that we're a good corporate citizen, but at the end of the day, it's China.

So we are very pleased with what we see in China. We see an accelerating business. We see tremendous strength in our fundamentals that's shown in the numbers in terms of percentage active sales leaders. All the key metrics are very positive in China, but frankly whether it's now or 1 year or 5 years or 10 years, I think you're always going to hear us be the same conservative team regarding China.

(Scott VanWinkle): Is there a -- are there any parallels you can -- you can make between China and maybe another market a little more mature market where you saw the same type of trajectory or is China just a -- it's a different environment because of the different operating model?

Des Walsh: So it's a different environment because of the same operating model, but the -- but some fundamentals apply and that is our business is focused on daily consumption. It's about people consuming our products every single day and that's the commonality whether it's China or whether it's any other market in the world.

(Scott VanWinkle): OK. Thank you.

Des Walsh: Thanks, (Scott).

Operator: Your next question comes from the line of (Sandy Chen) with (Visium) Asset Management.

(Sandy Chen): Good morning, everyone. I had a quick question you noted, John, that you guys felt you were underlevered and that seems to be quite the understatement to say the least.

We have about 850 million in cash and 950 million in debt. So you're at about .1 debt to EBITDA. Can you just talk about what you think would be a normal leveraged amount? The group average for consumers is about 1.5 times.

So you could take on another billion in debt when your audit's done, and if you use that for share repurchases or dividend, you could shrink your float by 15 percent; is this the right way to think about what you guys would -- how you would use your cash?

Could you just rank order just cash use and then talk about the -- walk through the mechanics of are they doing a tender offer, (inaudible) 1 to 2 billion in a share -- a massive share repurchase program?

John DeSimone: Yes, let's see if I can hit all those. First, you know, we have a -- we have a tremendous history of shared repurchase having repurchased $1.7 billion since 2007. So we know we're huge fans of it and you know as well.

Regarding, you know, appropriate debt levels, that is a decision for our board. As you can imagine, I think we have communicated that investment grade levels, not necessarily investment grade debt, but, you know, the types of multiples that you'd see in investment grade company is something we would be comfortable with. That's something that is consistent -- consistently been communicated.

As far as the buyback goes and the execution of a buyback, I think that will be based on circumstance at the time we decide to do buyback, if we do a buyback.

(Sandy Chen): And that timing's all predicated on when your audited financials are complete?

John DeSimone: No, I think we -- what I said in my comments is we're back and we expect to back -- be back in the market now that we have PWC on-board and that we have visibility to the completion of the re-audits.

(Sandy Chen): That's just normal open market share repurchase program?

John DeSimone: Yes, that's what's included in our guidance.

(Sandy Chen): And so what do you have left in your share repurchase program, 750 million?

John DeSimone: A little more, almost 8, 787.

(Sandy Chen): And could you go back to the board as soon as that would be complete to ask for more if necessary?

John DeSimone: I guess we will deal with that when it's time. That'll be a board decision, but again, we have a strong history, (Sandy). I mean, you know us very well. We generate a lot of cash. We're not M&A oriented. That cash, first and foremost, goes into investing in our future, in our growth, and then it goes back to our investors and with a heavy overweight towards share repurchase, and that's been a consistent theme for Herbalife now for six y ears.

(Sandy Chen): OK. I guess just you have 850 million in cash on-hand, but -- in their repurchase program, 780. So you could fund all of that with what you have currently without having to go to the debt market?

John DeSimone: I -- look. We have a lot of cash as I said in my opening remarks and we are underlevered and we'll do what we think is best in the -- for the long-term interest of our shareholders.

(Sandy Chen): OK. Thanks.

John DeSimone: Thanks.

Operator: Your next question comes from the line of (Tim Ramie) with D.A. Davidson.

(Tim Ramie): Thanks for the -- thanks for the follow-up. Des, maybe you could shed a little bit more light on the new classification, which is a great initiative. It -- are you actively going to renegotiate or redraw agreements with existing distributors or do you just plan to have this kind of cycle through the normal re-up period?

And is there any change to member economics, i.e., the cost to become a, you know, new member versus the cost to become a distributor previously?

Des Walsh: Yes. So (Tim), no cost, no change. This is literally a nomenclature issue to bring greater clarity when people look at our business model. So essentially, what is sort of to happen is that we're introducing a new member application and so effectively, there really is no change. It will cycle through over a period of time, but very shortly, we'll have a new member application in the United States, somebody coming to our block will complete that, they will be termed a member, and then when they qualify as a sales agent, they'll become known as a sales agent.

So essentially, it's really it's just a substitution of the term, "distributor" for the term, "member" recognizing that the overwhelming majority of people who historically completed a distributor application are joining for the purpose of a -- of a wholesale discount.

They had no intention of doing the business. As you know, over 70 percent of people did not -- did never recruited anybody over 70 percent of people based on the consumer research signed up to become a wholesale member.

So this change is simply reflective of the reality of our business and is intended just to bring clarity to an existing situation.

(Tim Ramie): Des, some of your peers have used an auto-ship agreement as sort of an inducement to sign up as a -- you know, what their nomenclature as preferred member or preferred distributor for a preferred customer.

Wouldn't that have been an opportunity for you to set up something like that?

Des Walsh: (Tim), we don't favor auto-ship significantly for this reason. In our business, it's all about the personal interaction between the a -- between a distributor and their customers. And so from that perspective, the idea is simply product shipping automatically just doesn't automatically gel with that.

We want to encourage regular contact. If you think about it, that's one of the magic of a nutrition club, the fact that you've got regular contact three, four, five times a week between, you know, a distributor and their customers.

So frankly, auto-ship programs for people who are just receiving products automatically, certainly if a customer wishes to have something like that, we'd certainly explore it, but frankly as a matter of policy, it's not something we really support and it's one of the points of difference between Herbalife and our competitors.

(Tim Ramie): Sounds good. Thanks a lot.

Des Walsh: Sure.

Operator: At this time, there are no further questions. Presenters, do you have any closing remarks?

Michael Johnson: Well, this is Michael and I just want to thank everybody for their questions and for participating today. We're obviously extremely proud of the quarter, proud of our distributors, our team members, everybody involved with Herbalife, our vendors, all of the product excellence that's taking place in the company.

You know, as we said in today's call, our business has never been stronger and our guidance reflects our confidence that our business will continue to strengthen as we close out 2013. We've got a goal here at Herbalife and its build it better and every day we believe this philosophy will continue to make our company extremely valuable to our, our investors.

So we look forward to seeing you all on our -- and being with you all on our call next October or this October. So thank you very much onward and upward.

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

END