HERBALIFE INTERNATIONAL OF AMERICA, INC.

Moderator: Amy Greene
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11:00 a.m. ET

Operator: Good morning, and thank you for joining the fourth quarter and full year 2013 earnings conference call for Herbalife LTD.

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 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 as non-GAAP financial measures. We believe these non-GAAP financial measures assist management and investors in 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'll now turn the call over to Michael.

Michael Johnson: Thank you, Brett. Good morning, everyone, and welcome to our fourth quarter and fiscal 2013 earnings call. As we pre-released a few weeks ago and announced yesterday, the financial strength of our business has never been stronger and was the best in our company's 34-year history. These results led to another record performance in terms of both top and bottom line.

Fiscal 2013 net sales of 4.8 billion were 18 percent above last year's results. Fourth quarter net sales of 1.3 billion were 20 percent above last year's fourth quarter. Our adjusted fourth quarter EPS of $1.28 increased 28 percent, compared to the prior year period. Our adjusted full year 2013 EPS of $5.37 is an increase of 36 percent, compared to the prior year.

Our fourth quarter results reflect a 13 percent increase in the average active sales leaders and an increase of 15 percent in the number of new members. In 2014, we retained a record number of sales leaders and our overall retention rate was constant with the prior year at 51.8 percent.

Our updated 2014 guidance reflects our expectation that we will carry this positive top line momentum from 2013 right on into 2014. That also includes increased (FEX) headwinds, as many of you have modeled, along with the very positive 39 (cents) impact on EPS from our recent financial transaction.

You know at Herbalife creating shareholder value is primary. It's a primary objective for our management team and our board of directors. And as such, we are always evaluating a proper capital structure to best maximize shareholder value above and beyond the favorable contribution from our strong financial performance. As many of you know, when our stock was in the mid-30s last year, we began a process to recapitalize the company -- take advantage of our strong (cash flow) to buy back stock.

As luck would have it -- or I probably should say as bad luck would have it -- in April, our auditors resigned due to an unethical and illegal behavior by their senior auditor partner, on our account. And thus, we were left with three years of unaudited financial (statements). In May, the company engaged PricewaterhouseCoopers as our new auditors and a successful re-audit was completed in mid-December. Despite significant interference from Bill Ackman, the audit was complete and therefore we went back to the market to pursue a recapitalization that would maximize shareholder value.

The $1.15 billion financial transaction that we completed two weeks ago will be very accretive to the company, resulting in approximately 56 cents of accretion on an annualized cash basis. John will provide a more in-depth summary of this transaction and explain the benefits to his shareholders later in our call.

You know, for 34 years, Herbalife members have been offering a safe, simple and effective weight management program that encompasses personal nutrition, education and product training, which go hand-in-hand with our (flagship), an industry-leading meal replacement shake. Herbalife members create a social community and a support network that research has shown improve the likelihood of participants to be successful in achieving their weight management goal.

The global obesity epidemic continues to be a catalyst for Herbalife around the world, as it is the largest macro trend that positively affects the sales growth of our company. In the U.S., for example, the CDC's most recent statistics indicate that 34.9 percent of the adult population is obese -- and that number increases to 42.5 percent for Hispanic adults and 47.8 percent for African-Americans here in the U.S. Countries and their governments around the world are becoming more aware of the eventual toll that this epidemic can have on their citizens and on their economies, and are now looking for solutions.

In the "New York Times" last week, it was estimated that obesity and its related diseases, including type 2 diabetes, now cost the health care system more than $1 billion per day. Herbalife nutrition products and our members are well-positioned to help be part of the solution to this ongoing epidemic.

Another macro trend that can positively affect Herbalife is the high un- and underemployment figures. The direct selling business model is designed to provide economic empowerment to people (wanting to earn supplemental) income -- for a small few, filled a full-time business.

We engage independent and reputable survey research firms to take a close look at our business -- (most typically), Nielsen and Lieberman Research Worldwide. Their research has proven that the majority of our members joined Herbalife for the primary purpose of buying our products at a discount. There's another segment of our members who are interested in earning part-time or supplement income. Our research indicates that approximately 4 percent of our members joined Herbalife for the opportunity to earn a full-time income.

These two large megatrends, along with others such as anti-aging and public health, continue to give us a favorable platform in which our members and products thrive throughout the 91 countries in which we operate. This intersection of megatrends with our products and our actively engaged sales leaders has resulted in a record after record of financial performance -- on both the top and bottom line.

Now, let's take a closer look at this part year. The fact that Herbalife was able to produce another record performance of double digit growth while under the constant and unrelenting attack by short-seller Bill Ackman is further testament to the integrity of our business model and the value of our product.

As many of you know, Ackman, a Wall Street gambler who placed a reckless $1 billion short bet against our company and stands to gain financially if Herbalife loses has managed an expensive publicity campaign filled with false and misleading information about Herbalife. Most unfortunately, we have seen Ackman's false and misleading statements being repeated by others. The saying goes, "You can be disappointed, but don't be surprised."

Let me focus on two facts -- proven facts, supported by independent research that undermine Ackman's baseless and reckless argument. First, we have millions of customers -- three separate research studies performed by two separate leading research companies confirmed that there are millions of Herbalife customers and that the overwhelming majority are outside the network. This information is indisputable and directly disproves Ackman's false and misleading statements about our company's distribution model.

Second, most people join Herbalife for a discount on product. The vast majority of members do not join Herbalife for the business opportunity; rather, they joined to take advantage of the discounts offered on Herbalife's market-leading, weight management, sport nutrition and our other high quality products. This information is validated through not only third party research but also by our internal database of member (performance), in which 71 percent of U.S. members have never sponsored another member.

These two points -- that we have millions of customers and the majority of our members joined for product discounts, not for the business opportunity disprove Ackman's thesis. Our transparency with figures like these -- the fact that they are true while what Ackman says is false and misleading has forced him to move away from an easily dispelled pyramiding argument and instead pursue an anecdotal victim campaign.

For more than a year, Ackman and his paid consultants in Washington D.C. have combed the country to find voices of a very small minority of current or former distributors and a past disgruntled employee or two who will paint the company's practices as bad so that people will think that bad behavior and the practices of (a few) are somehow representative of the whole. Of course, any company as large as Herbalife and with as many members may have a few bad actors. From my point of view, even one bad actor or disgruntled employee is one too many.

And that is why we have put in place our Gold Standard consumer protection policy. I would find it surprising that anyone believes that Wall Street financier Ackman is really looking out for these people. If he were, he would not be trying to bring down a company that employs 7,400 hardworking people and is improving the lives of millions of satisfied members and customers who value the products, and in some cases, the additional income.

We at Herbalife, on the other hand, are thinking about these people. We allow members an easy entry and an easy exit. For example, in the U.S., new member kits of various sizes, each costing less than $90 and contain sample products that have a retail value that exceeds the cost of the kit, have a generous refund policy. We provide a new member a hundred percent refund on startup kits within 90 days of purchase and we do not require the individual to even return the kit.

We have an industry-leading inventory return policy. Upon resigning, a member is entitled to a hundred percent refund on all products returned that are unopened and that had been purchased in the prior 12 months. We even pay for the cost of shipping on these return products. Equally important, these Gold Standard policies are not only in the member rulebook, as they have always been for many years, but now all new members are required to acknowledge that they are aware of these consumer protections before they even joins us.

Additionally, a brochure containing our Gold Standard protections, as well as a hotline for reporting issues, is now included in every order beginning this week. We have begun moving the mandatory compliance training for members joining us for our business opportunities. All new sales leaders are required to complete a formal company training program prior to becoming eligible for royalty compensation. This training includes the key dos and don'ts of direct selling.

All members who want to open a nutrition club are required to complete a formal company training program. This is in addition to the 90-day waiting period previously implemented. Beginning later this year, we will require annual recertification training as part of the requalification of sales leaders.

Let me recap the changes we have made to set the industry standard for consumer protection. First, we believe we have the best refund policies and direct selling that allows members an entry and exit that is virtually risk-free. Second, we want our members' expectations with regard to product or to business opportunity to be realized. We believe the best way to ensure that everyone receives the proper information is to over communicate at the very beginning of our relationship. Not only are these changes making us a better company, but also they allow us to be the industry leader in consumer protection practices; and they will help eliminate the misperceptions and misrepresentations that have been made about our company over the past year or so.

While we also want to do better, I note that prior to these changes, we had been able to demonstrate that the vast majority of members had a good experience, as indicated in the following survey information. According to research done last year, 87 percent of former Herbalife members would recommend Herbalife products. Eighty-seven percent is a remarkably high level of support coming from former members whose evaluation of Herbalife's products is entirely independent from any continuing relationship with the company. This research is consistent with the individuals having a good experience with Herbalife.

We believe Herbalife's retention rate is the best in the direct selling industry. Our retention rate of sales leaders whose behavior suggests they want to build a business is 51.8 percent. No other direct seller in the U.S. discloses such data. Further, the disclosures in the (10-Ks) of other leading direct selling companies, such as Tupperware and Avon among others, note the high turnover characteristic of direct selling without mentioning specific statistics; disclosure from other diet companies also note a high turnover rate.

We are not (abnormal). In fact, we believe that our retention of members is likely higher than any other direct selling company. Herbalife -- well, we're proud of the diversity of our independent members. Self-identified Spanish-speaking members represent approximately 60 percent of members in the United States and are responsible for purchasing approximately the equal amount of product volume. Herbalife is incredibly proud of the diversity of our membership. We want to empower all of our members to live a healthier, active lifestyle -- and, if they so choose, to take advantage of the business opportunity that a multi-level marketing business, like an Amway, an Avon or Tupperware, can offer.

We believe that Herbalife's model rewards an entrepreneurial spirit and supports the development of successful members, all while providing low risk and easy entry into and exit out of the Herbalife business. In addition to strengthening our business with many Build It Better initiatives and improving our capital structure with the recent financial transaction, we've also strengthened our board of directors.

During the fourth quarter, we had the privilege of announcing two additions to our board of directors -- Dr. Richard Carmona, the 17th surgeon general of the United States, and Maria Otero, the former U.S. undersecretary of state. Ms. Otero came with her family to the U.S. when she was 12 years old and has spent her career in positions where she could have an active role in helping better the lives of others. Both Dr. Carmona and Ms. Otero were impressed by the passion of Herbalife members and the impact that socialization in nutrition clubs and fit clubs can have on the wellbeing of consumers around the world.

All of us at Herbalife are extremely grateful to all of our board members for the talents and perspective that they contribute to us on an ongoing basis. We continue to increase our investments in sports and branding, primarily through sponsorships. We understand that our brand strengthens in the experience and the emotional connection that is created through the success with our Herbalife products and through the success of our Herbalife members.

Now, let me take just a moment to congratulate Cristiano Ronaldo, an authentic Herbalife athlete and a product user on a second FIFA Ballon D'Or. Cristiano believes in the power that nutrition plays in his athletic career and we're honored that our products are part of his nutrition regime. We continue to make investments in manufacturing technology and distribution, creating more access points to help support our daily consumption of (every) business, which together -- which will allow us to stay ahead of our growth expectations while creating a competitive advantage with our Seed to Feed program.

Our $130 million investment in Winston-Salem, North Carolina is on target to begin production of our top products in 2014, bringing over 500 manufacturing jobs to this factory which will export nutrition products to over

50 countries. When this facility is up and running, we will have the capacity to manufacture 60 to 65 percent of our (inter-nutrition) product.

We are experiencing tremendous growth around the world, driven by an increasing daily consumption of our nutrition 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 management to introduce new ideas and initiatives worldwide. All of us on team Herbalife are working harder, smarter and every single day to build it better and create enhanced value for you, our shareholders.

Now, let me proudly hand the call over to Des for a more detailed update in performance in our key regions.

Des Walsh: Thank you, Michael. As you've just heard, we've continued our solid performance throughout the fourth quarter of 2013, marking our 17th consecutive quarter of double digit top line growth with 13 percent growth over the same period in 2012.

We are pleased with our business (mentioned) throughout the year marked by our members' tremendous engagement with our customers and their ongoing dedication to Herbalife's mission for nutrition. Five of our six regions posted volume point growth and local net sales growth, while average active sales leaders with volume points increased in every region over last year's fourth quarter.

For the full year, all six regions experienced increases in volume points, net sales and average active sales leaders over the prior year. The results are complemented by the record number of 216,459 sales leaders retained in 2013 as compared to 196,732 in 2012, representing an increase of 10 percent over the previous period. With the total number of sales leaders needing the requalify increasing notably in 2013, our overall retention rate remained at 51.8 percent consistent with prior year.

Regionalization and city-by-city initiatives over the last few years have built a firm foundation for united leadership, systemized training and the sharing of daily consumption best business practices among members. Together, those elements prompted the successful implementation of daily consumption business methods around the world and we continue to view this focus as the key propeller of growth in our business. The results, over the last several years and in 2013, which I will share with you today, proved the sustainable nature of this strategy and thereby, the significant associated potential ahead.

Our 2013 volume point per capita penetration for the company worldwide is at 1.0 -- a 12 percent increase over 2012, which included markets with significant populations, such as India and China. Daily consumption will continue to move this metric upward, as we've seen happen in markets with solid nutrition club activity, such as Korea and Mexico, which have achieved volume points per capita of 8.7 and 7.4, respectively.

2013 highlighted the incredible resolve of Herbalife's members to bring about delicious, low calorie, accessible and effective nutrition to consumers daily to offset the ongoing obesity epidemic that affects communities through the world. At the end of the year, members operated over 78,000 nutrition clubs worldwide and many continue to explore and incorporate additional daily consumption business methods, such as fit clubs, to their core service offerings.

Our members' growing interest, dedication and excitement are also seen in their attendance of 2013 events where over 200,000 members participated in regional extravaganzas, summits, honors and anniversary events. Their success is embodied in the financial results you will hear about today.

Now, let me provide some regional highlights and color on our key region. The North American region had another impressive quarter. It posted 7 percent in both net sales growth and volume point growth, each compared to the same period prior year. Average active sales leaders with volume points increased 8 percent and new members increased 2 percent, compared to fourth quarter of last year.

In October, the region held two extravaganzas in Las Vegas and Los Angeles, each with more than 10,000 members in attendance. During the event, we introduced our new skin care line with 10 new paraben-free products designed for customers who wish to experience results-oriented quality products and to extend their wellness goals to outer nutrition. This line has been well-received by members and customer and complements our portfolio of products designed to improve health and wellbeing.

For the year, North America's net sales grew 8 percent and volume points increased 8 percent, each versus 2012. Average sales leaders with volume points increased 9 percent and new members increased 3 percent over last year. In the last 12 months, the per capita volume point penetration was 3.5, marking a growth of 7 percent over the metric in 2012.

Within the North American region, the strength of the U.S. market is demonstrated in net sales growth of 4 percent and volume point growth of 8 percent, each versus the same quarter last year. Compared to the prior year quarter, average active sales leaders with volume points grew 8 percent and new members increased 1 percent. The volume point per capita penetration for the U.S. is 3.9.

We are pleased with the following developments in the U.S. market over the year. 2013 marked the largest collective entrance of new members in Herbalife's U.S. history with approximately 280,000 new members, or an average of approximately 23,000 new members per month over the 12-year period. This demonstrates the strong public confidence and interest in our company, products and business model after our great performance in the first half of the year. Furthermore, 22 of the top 25 metro U.S. markets posted growth in 2013 -- another indication of the continued strength in our most established market.

Now, let's turn to Mexico, where local currency net sales for the quarter increased 9 percent and volume points increased 5 percent, each as compared to the prior year period. For the fourth quarter, average sales leaders with volume increased 8 percent compared to the prior year. For the year, local currency net sales increased 10 percent and volume points increased 6 percent over 2012. Average active sales leaders with volume points grew 10 percent over last year. The per capita volume point penetration in Mexico for the last 12 months was 7.4.

Mexico's business fundamentals continue to strengthen as members transition their daily consumption business practices from operating residential nutritional clubs to commercial clubs. Commercial clubs are typically held in larger venues and operate longer hours, which allow more customers to partake in the social activities, classes and services offered by members. By the end of 2013, approximately 79 percent of the country's 37,000 registered nutrition clubs were non-residential or commercial -- an impressive transition for the market that created and developed the nutrition club concept over 10 years ago.

The region also remains committed to bringing products closer to members to better support daily consumption businesses through improved product access. The partnership with (Waldos) has enabled members to improve customer service through timely replenishment of product and will continue to evaluate promising new product access points in 2014.

Let's move on now to China, where local currency net sales increased 116 percent and volume points grew 103 percent in the fourth quarter, each as compared to the prior year period. Average active sales leaders increased 39 percent over the same period last year. For the year, local currency net sales increased 65 percent and volume points grew 62 percent, both as compared to 2012. Average active sales leaders increased 27 percent over last year and China's volume points per capita for the last 12 months was 0.3.

The meaningful metric growth over the last few quarters is attributed to the progressive adoption and the (acculturation) of daily consumption business methods, as well as the implementation of the first order limits and (5-K) qualifications. Our focus in China has been and will continue to be building a sustainable business foundation for long-term customers. And we will remain committed to moving slowly and thoughtfully when necessary to achieve the desired results.

In 2013, China also piloted a preferred customer program that identified and provided further benefits to repeat customers. We currently have approximately 150,000 preferred customers in China and we look forward to expanding this concept to other markets in the future.

Next, the Asia-Pacific region. In the fourth quarter, local currency net sales decreased 2 percent and volume points decreased 4 percent, each as compared to the prior year period. Average active sales leaders with volume grew 6 percent and new members grew 2 percent over the same quarter last year. For the year, local currency net sales increased 5 percent and volume points grew 2 percent, both as compared to 2012. Average active sales leaders increased 13 percent and new members grew 6 percent over last year.

The volume point per capita penetration in this region for the last 12 months was 0.6. Korea, Asia-Pacific's largest market, had volume point per capita penetration of 8.7. Local currency net sales for the year remained unchanged as compared to 2012. Leadership continued to engage and education new members and customers, as well as guide the market through a healthy transition in daily consumption DMO practices.

In India, local currency net sales grew 9 percent and average active sales leaders with volume increased 14 percent over the same quarter prior year. Its volume points per capita was 0.16. Factors that promoted sales leader activity included improved access to products in country and the successful localization and implementation of nutrition clubs. Furthermore, the first order limit introduced earlier in the year also favorably contributed to the market's development. Having seen its efficacy, the first order limit will be implemented in several other Asia-Pacific countries later this year.

In Indonesia, local currency sales increased 28 percent over 2012 fourth quarter. The adaptation of daily consumption DMOs, particularly nutrition clubs, expanded the market in 2013 and continues to propel future growth.

Turning now to the South and Central American region, local currency net sales in the fourth quarter increased 51 percent and volume points in the region were up 25 percent, each as compared to the quarter prior year.

Average sales leaders with volume points in the region increased 29 percent and new members increased 34 percent over last year's fourth quarter. For the year, local currency net sales increased 49 percent and volume points increased 31 percent of 2012. Average active sales leaders with volume points grew 29 percent and new members increased 31 percent over last year. The per capita volume point penetration in the region was 2.1.

In Venezuela, volume points increased 15 percent and average active sales leaders increased 37 percent, each as compared to fourth quarter of the previous year. Growing member engagement and collaboration have driven daily consumption deeper into the market and contributed to higher sales. The strict currency restrictions in Venezuela, however, have made repatriation very difficult.

To reduce our economic exposure to such restrictions, the company intends to limit the amount of products imported into the market. Herbalife Venezuela will also begin to develop its self-manufacturing capabilities over the next two years, and in doing so, will better serve local members. We believe that this process with fortify the country's long-term strategy of protecting profit and sustainability, as well as promoting market self-sufficiency.

In Brazil, local currency net sales grew 31 percent and average active sales leaders grew 25 percent in the fourth quarter, each as compared to the same period last year. The expansion of traditional and daily consumption business methods, as well as (pop-in) product launches during the year have supported market momentum.

Moving on to EMEA, local currency net sales increased 19 percent and volume points grew 17 percent, each as compared to the fourth quarter in 2012. Average sales leaders with volume points in the region was up 14 percent, and new members improved 43 percent over the prior year period. For the year, local currency net sales increased 16 percent and volume points increased also 16 percent over 2012. Average active sales leaders with volume points grew 13 percent and new members increased 22 percent over last year. The per capita volume point penetration in the region was about 0.7.

Members in this region continue to develop and utilize the complementary business methods of weight loss challenges, fit clubs and nutrition clubs, which supported new customer outreach and improve service customization based on client needs. We are encouraged by the consistent execution and successful localization of daily consumption business methods exhibited in both Western and Eastern Europe throughout the year.

In Russia, local currency net sales grew 25 percent and average active sales leaders increased 22 percent, each over the fourth quarter in 2012. We believe that city-by-city initiatives, ongoing adoption of the commercial and nutrition clubs and strong (banding) efforts by the company and members, including our sponsorship of FC Spartak Moscow, have increased market recognition and consumer confidence and preference.

Throughout the year, the U.K. market consistently executed its key DMO strategies and as a result, experienced notable growth. Local currency net sales in the U.K. increased 72 percent and volume points grew 69 percent, each as compared to the fourth quarter of 2012. The numerous weight loss challenges held during the year, paired with the consistent client support exhibited in nutrition clubs enabled customers to experience the efficacy of our nutritious products and the dedicated service of Herbalife members.

Over the last few quarters, nearby markets have observed the U.K.'s growth and have strategized to adopt similar business practices. Markets such as France and Spain have found success localizing and implementing their daily consumption business practices and consequently experienced 14 and 38 percent volume point growth in (two four) respectively over the prior year.

Before I turn it over to John, I want to highlight a new initiative and pledge by our company, which is referred to as the Herbalife Gold Standard. As a leader in our industry, we promise to provide and uphold the highest standards of quality and protection for the Herbalife consumer. The Gold Standard embodies our Build It Better initiatives and therefore guarantees clear and consistent communication of potential income before becoming and Herbalife member; no startup costs for those interested in membership; a full refund of the entry kit within 90 days of enrollment if a member resigns for any reason;

and a 100 percent money-back promise for unsold product purchased within 12 months of membership termination.

Furthermore, the Gold Standard highlights our members' pledge to abide by strict product claim guidelines and avoid misrepresenting Herbalife products as medical, therapeutic or curative. Since all members must acknowledge the Gold Standards in writing before becoming a member, we eliminate any doubt that new members are in any way unaware of the promised consumer protection practices or the facts surrounding Herbalife's business opportunity. In addition, we will promote the Gold Standard in new member materials and training materials for all levels. We are proud to offer this industry-leading standard in consumer protection and believe that this is another important milestone in our Build It Better initiative.

In closing, let me thank all our members and sales leaders for another great year. We are inspired by their passion, their dedication and their entrepreneurial spirit. Our collaboration improves public health around the world by providing support, education and access to affordable, excellent nutrition; our members continue to empower consumers on a daily basis so they can truly achieve a healthy, active lifestyle.

John DeSimone: Thank you, Des. First, I'll review the company's fourth quarter and full year 2013 (order) results and then I'll provide information on 2014 guidance before discussing our new convertible deal and our share repurchase strategy.

The fourth quarter and full year results reported yesterday were in line with the pre-release issued on February 3rd in conjunction with our $1.15 billion convertible debt deal. For the fourth quarter, the company reported record net sales of $1.3 billion, representing an increase of 19.8 percent compared to the fourth quarter of 2012. Local currency net sales for the period increased 22 percent with an unfavorable (FEX) impact of 2.2 percent, as compared to the same period last year. For the full year, we reported net sales of $4.8 billion -- an increase of 18.5 percent over 2012.

Since Des has already provided significant regional data around our volume point and net sales results, I'll now turn to margins. Our gross profit margins for the fourth quarter and full year were essentially flat compared to the respective prior year periods.

Before moving to SG and A and operating margin, note that our reported fourth quarter and full year 2013 results include some unusual items that we consider to be outside the range of normal operations. We have therefore excluded these expenses from our adjusted fourth quarter and full year financial results. They are as follows -- one-time costs associated with our re-audit. For the quarter, these costs consisted of $10.8 million in (pre-tax) expenses, or 8 cent impact on EPS. For the full year, costs were $20.4 million on a pre-tax basis, or 14 cent impact on EPS. These costs may ultimately be recovered, but until a definitive agreement is in place, the costs will be expense as incurred, as will any recovery.

Our adjusted results also exclude expenses incurred in response to a tax on the company's business model. For the fourth quarter, these costs were $5.3 million on a pre-tax basis, or 4 cent impact on EPS. For the full year, they amounted to $29.1 million in pre-tax expenses, or 23 cents per share.

And finally, our adjusted results also exclude expenses related to the impact of the Venezuelan (boulevard) devaluation, which in the fourth quarter, represented no pre-tax impact, but a 1 cent impact on EPS. And for the year, these costs represented $15.1 million of pre-tax expenses, or 9 cent impact on EPS.

The following comments regarding the company's fourth quarter and full year operating margins, effective tax rate and EPS all exclude these three adjusted items. Fourth quarter adjusted operating margin of 15.6 percent increased approximately 52 basis points compared to the prior year. For the full year, operating margin of 16.6 percent improved by 34 basis points over 2012.

Fourth quarter SG and A, as percent of sales, excluding (China) sales representatives and service provider expenses increased by approximately 45 basis points. This movement is primarily due to the timing of sales event -- of certain events held in the third quarter of 2012 to place in the fourth quarter of 2013. On a full year basis, SG and A's percentage sales, excluding China sales representatives and service provider expenses was essentially flat with 2012. 2013 full year SG and A included net foreign currency losses of $22.8 million, as compared to $16.7 million for 2012.

Moving on to our effective tax rate, our fourth quarter adjusted effective tax rate was approximately 97 basis points higher than our effective rate for Q four 2012, but in line with the guidance we provided in October. The full year 2013 adjusted effective tax rate of 26.1 percent was approximately 261 basis points lower than 2012 rate, primarily due to an increase in net benefits from discreet events that were partially offset by country mix.

Fourth quarter adjusted earnings per share of $1.28 was 28 cents, or 28 percent higher, than our earnings per share for the same period in 2012. For the year, adjusted earnings per share of $5.37 was 36 percent higher than the prior year. Both reported and adjusted EPS numbers were in line with a pre-release earlier this month.

The improvements over the prior year were primarily driven by growth in the top line and a lower share base due to our share buyback activity. These items were partially offset by a higher effective tax rate and approximately 8 cents for the quarter and 11 cents for the full year of unfavorable impact from foreign currency.

In 2013, Herbalife generated cash flow from operations of $773 million, an increase of 36 percent compared to 2012. Net of approximately $147 million in capital expenditures of the 12-month period, the company's free cash flow for the full year was approximately $626 million.

Before I discuss 2014 guidance, I'd like to note a couple of assumptions. With respect to Venezuela, our guidance assumes the GAAP rate 6.3 to 1 for January results and 10 to 1 for the balance of the year, and excludes the potential impact of any future devaluation of the Venezuelan (boulevard) and any future repatriation of existing cash balances in the country. Our guidance our also excludes any ongoing expenses incurred responding to the attacks on the company's business model and the impact of non-cash interest costs associated with the company's convertible notes.

For all currency assumptions, we use the average closing rate during the first two weeks of January, with the exception of Venezuela, as previously noted. This is consistent with our historical practice. Additionally, the currency rates assumed in our recent guidance reflect (movement) that our (10 cents) unfavorable to rates used a quarter ago.

From a volume point perspective, we're reaffirming our full year 2014 volume growth expectations that was first introduced last October and again in February 3rd pre-release. We expect the full year and first quarter 2014 volume growth to be in the range of 6.5 percent to 8.5 percent. Of special note, as mentioned in October, Venezuela's volume is expected to be reduced by approximately 100 million volume points in a year in reaction to the economic and currency situation in country. This decrease is incorporated into our guidance.

With respect to EPS, our guidance expects adjusted EPS, which as previously mentioned, appropriately excludes the impact of non-cash interest costs associated with the company's recently issued convertible notes, as well as the other items previously mentioned. For the full year 2014, we are taking both the low and high end of the range up by 40 cents per share from $5.85 cents to $6.05. This increase is a result of the cash accretion of the recent debt deal.

First quarter 2014 deluded EPS on an adjusted basis is expected to be between $1.25 and $1.29. This includes a 20 cent currency headwind versus the prior year period. The cash accretion from the new debt deal only benefits the first quarter by 1 cent per share.

Let me now cover the new convertible debt deal. Since the KPMG issues of last April, we have consistently maintained that when the re-audits were complete, we would be looking to take on some additional leverage to fund a buyback and any new debt structure that we enter into would be based on economics. There were some rumors recently that we executed this particular structure because it was all that was available to us. This is simply not true. We had other options available but chose this structure because it provides the best economics for the company and its shareholders.

Let me provide some details on the specifics. First, the coupon on this debt is only 2 percent -- not much different than our dividend. And since we are using the net proceeds to buy back stock, we are saving on the dividend. For example, a 2 percent coupon on a $1.15 billion debt deal is $23 million annually in cost. With the repurchases expected from the net proceeds of this deal, we will save approximately $17 million annually in dividends. So, on a net cash basis, it is costing the company approximately $6 million annually to borrow $1.15 billion -- an economically strong deal for the company and its shareholders.

Second, the company (respectively) repurchased 9.9 million shares through the prepaid (forward) as part of this debt transaction. The economics of this deal passed through to the company immediately, even though the shares will not be delivered until the end of the contract. To be clear, for accounting purposes and for dividend purposes, these shares are out of our share (base) as of February 7th. The additional approximately $300 million in net proceeds is expected to be used to buy back stock over the next three months. Depending on the share price, we expect to repurchase a total of 14 to 14-and-a-half million shares through the prepaid (forward) in our outright buybacks as a result of this transaction.

Third, the deal is very accretive from a cash perspective. The accounting for our convertible includes non-cash interests that is commonly excluded for performance purposes and we have excluded it from our guidance and we'll exclude it from our adjusted results. From a cash basis, the accretion for 2014 is expected to be approximately 40 cents per share with an annualized accretion of approximately 56 cents per share. The profile of this benefit of this year is 1 cent benefit in Q one, a 10 cent benefit in Q two and the remaining benefit split equally in quarters three and four.

Four, while holders of our debt begin to receive equity benefits at a stock price of $86.75, the company's capped call option effectively increases the conversion price to $120.79 per share. This element works very much like a stock appreciation right. The stock price hits $130.79, then the company will issue equities for the $10 difference. In more practical terms, if the stock achieves $150 stock price, the company will issue approximately 2.6 million shares from the 14-plus million shares we repurchased as part of this deal; for the net retirement of shares at $150 per share will be in excess of 11 million shares. While this deal may sound complex, the economics are simple and very compelling.

Moving on to share repurchase, the company plans to repurchase stock over the next few months with the $300 million remaining from the net proceeds on the convertible deal. Additionally, we expect to continue to repurchase stock on a routine basis. Our guidance includes $50 million in repurchases each of the next three quarters, in addition to the $300 million from the debt deal.

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

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

Your first question comes from the line of (Romel Diomecio) with Wedbush Securities.

(Michael Johnson): Hi, (Romel).

(Romel Diomecio): Yes, thank you. Hi, good morning. I wondered if you could just update us on some of the direct access initiatives outside of Mexico. You guys referenced the (Waldos) arrangement that's gone very well. But also, just -- if you could just give us an update on how Russia, India -- perhaps some other markets are going with some of those initiatives? Thanks.

Des Walsh: Yes. Hi, (Romel) -- this is Des. So, we have a number of different programs going in different markets. We're obviously looking to replicate this (Waldo) situation. We're also testing automated sales centers in EMEA. If you think of a large capacity vending machine but behind locked doors with access only to it by members -- and frankly, we see, you know, this is very promising.

We're also looking at a FedEx relationship in the Philippines -- another market that would provide similarly -- similar access to local product pickup. So, we certainly have seen the impact of this in Mexico, (Romel), and we look forward to reporting results in other markets, you know, in quarters ahead. It's certainly a priority for us. And you're going to hear a lot more about this in the future.

(Romel Diomecio): OK. Is it possible to quantify it at this point to see, you know, how much of this is expanding outside of the traditional urban centers, or are we a little early for that?

Des Walsh: You know, the focus of the initiative is really to do two things. One is within urban centers, it's to provide, you know, (24-7) access -- because obviously, in highly populated urban centers, you know, what we see is that it's challenging sometimes for distributors to make their way across cities. So, it's not just a rural initiative; it's also for urban centers.

Difficult to quantify exactly, but it's something that we're looking at closely. And I think when we provide further information, (Romel), we'll try and do that for you, also.

(Romel Diomecio): OK. Thank you, Des. And congratulations on the quarter.

Des Walsh: Sure. Thank you.

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

(Sandy Chin): Morning, guys. I had a little trouble hearing some of the call because of (Donna Cagney). But can you just clarify -- what is the currency headwind for the full year?

(John DeSimone): It's 65 cents for the full year. It's 20 cents in the first -- these are approximate numbers. It's around 20 cents in the first quarter and 65 cents for the full year 2014 versus what the rates were, on average, for 2013.

(Sandy Chin): And how much of that is Venezuela?

(John DeSimone): Around half of that is Venezuela. And then it's Brazil, Indonesia, Mexico, India, Argentina -- are all contributing.

(Sandy Chin): So, absent this -- the (FEX) impact, guidance would've been 65 cents higher, or not necessarily?

(John DeSimone): Well, absent (FEX) wouldn't be 65 cents higher. I think, you know, I just caution you on the Venezuelan one because, you know, 6.5,which is what was, you know -- Venezuela was a (counter-fall) last year; it is certainly likely to change and probably not reflective of the economics in that market last year.

(Sandy Chin): And once you implement that self-manufacturing (sensibility) in Venezuela in the next couple of years, will that mitigate some of the impact from (FEX), from Venezuela, at least?

(John DeSimone): Well, so, just to be clear, you know, it's -- we're looking to produce locally in Venezuela, not necessarily self-manufacture.

(Sandy Chin): OK.

(John DeSimone): And the reason is companies that are manufacturing in Venezuela have had greater ability to access dollars for the ingredients they need to come in to keep the factory running. So, we think it's an effective way to pay for supply. So, it's a process, because our products have to get licensed and that's time-consuming in Venezuela, even though it's a local manufacturer. But we think it's a way to lower the -- I wouldn't say (FEX) risk; more the currency control risk associated with importing product in Venezuela.

(Sandy Chin): OK, that's fair. And my second question is kind of (different) from currency. Can you guys get an update on the Senator Markey letters and just inform us as to what's going on?

John DeSimone: Sure. This is John -- I'll take that question. You know, we have been in frequent communication with Senator Markey's office. On January 31st, I, along with other members of our executive team, met with Senator Markey's staff in person, and we appreciated the opportunity to do so. I thought the meeting went well and I thought we were completely responsive to their questions. And subsequent to that meeting, we have sent a letter to his office.

(Sandy Chin): A letter -- the letter -- responding to his inquiries, or just as a summary of your meeting?

John DeSimone: Yes, both.

(Sandy Chin): Got it. And is there a next step that we need to be aware of, or?

John DeSimone: Not that I am aware of.

(Sandy Chin): OK. Did you feel like it's been resolved -- the (inaudible)...

John DeSimone: You know, I think those...

(Sandy Chin): And you guys have addressed all the questions he had?

John DeSimone: So, I think we were completely responsive in the meeting and I think we did a good summary in the letter. And beyond that, I think it's in the hands of the staff of Senator Markey's office and they're reviewing the letter.

(Sandy Chin): OK, thanks.

Operator: Your next question comes from the line of (Mike Schwartz) with SunTrust.

(Mitch): Hey, guys. This is (Mitch) in for (Mike). Congratulations on a great quarter.

(John DeSimone): Thank you, (Mitch).

(Mitch): First, with regards to Korea -- and I'm sorry if I missed this earlier -- but how are the training initiatives in the clubs you recently spoke to progressing?

Des Walsh: So, I think they're progressing well, (Mitch). Obviously, you know, our business in Korea's exceptionally strong. We've got one of the highest volume point penetrations of any major market in the world there. We've got a very mature leadership, but obviously, we're focused on, you know, improving some of our (metrics) there are working with their leadership to accomplish that. And this training in the clubs is a key, key part of that.

So, we believe that it's progressing well. You know, you may be aware -- we've seen a number of consumer awards and media awards in Korea in the past 12 months, which certainly is reflective of our -- of our business model there and our acceptances as a nutrition company. And, you know, we see good things ahead for Korea, based partially on the training on other initiatives.

(Mitch): OK. And then second, looking to the Asia-Pac region as a whole and give -- just given where the business in Korea stands now, is it possible for the region's retention rate to converge to a level around the company average over time?

Des Walsh: Absolutely, (Mitch). In fact, we see this as one of our great opportunities in the Asia-Pacific region. As you know, we had a tremendous period of growth there and as normally follows in our business, we then have a period of consolidation where we focus on improving the metrics, improved training -- you know, providing better support to those who have joined the business. So, that process is, you know, is all, you know, taking place.

Obviously, we've got a huge population in Asia-Pacific. We're increasing the addressable audience with daily consumption with enhanced product access and with more products -- so, huge opportunity ahead. And then improvement in the metrics is a key part of that.

(Mitch): OK, thank you, Des. Good luck, guys.

Des Walsh: Sure. Thanks, (Mitch).

Operator: Once again, to ask a question, please press star one.

Your next question comes from the line of (Mark Segal) with Canaccord Genuity.

(Mark Segal): Hi, guys. It's (Mark) on for (Scott). You know, the growth in China was once again, you know, very strong. I was wondering if you can just provide a little more color, you know, perhaps on club growth versus club productivity and overall productivity there. Thanks.

Des Walsh: Yes. So, (Mark), we're -- you know, we're very pleased by what we see in China. What we see, obviously, is continued adoption of the club model, continued acculturation of that. We're also excited, frankly, by this, you know, preferred customer program. So, as we announced, we've got about 150,000 members of this preferred customer program. Under this program, a customer will pay an amount of about -- to (15 RMB), about 2 or $3. And in return for that, they receive -- they have the option of buying directly from the company, in which case we track loyalty points; and then at the club level, those preferred customers would be able to redeem those points for, you know, little items -- what we call, you know, promotion items and so on.

So, this has been hugely successful. It's helping us build a stronger, stabler business; it's giving direct visibility to customer orders. So, for a lot of reasons, we see, you know, good things in China. As always, we're cautious, because it is China. But certainly, you know, we're planning additional investments to support our future growth there.

(Mark Segal): OK, great. And then Des, you know, earlier in the year, you talked about, you know, some significant weather disruption in Mexico. It seems like those issues have abated. Can you talk about, you know, how things have trended, coming out of those major storms you faced?

Des Walsh: Yes. So, those were the hurricanes that we referred to towards the end of last year. And it certainly did have an impact. But as you can see from the full quarter results, you know, volume points up 5 percent -- you know, we're back on a -- on a stable growth curve again. So, very pleased to see that.

(Mark Segal): OK. And lastly, you know, with the new manufacturing facility expected to come online in the not-too-distant future, can you guys talk a little bit about, you know, some margin capture opportunities there, and just how you're thinking about that as the plan ramps?

(John DeSimone): Yes. Well, so, let me start by saying that the ramp-up with the plant -- the construction (side) is on time and on budget. We expect to start beginning production, and it's the early ramp-up in June, July timeframe. I think the ramp-up's going to be about a 15-month ramp-up phase and I think that in 2014, it's actually slightly dilutive as the costs get run through the P and L with not a lot of production -- about 3 cents dilutive this year. And then we start to see accretion by the end of 2015 and when we get closer to that point, we'll give you some more specifics for modeling purposes.

(Mark Segal): OK. Fair enough. Thanks a lot.

(John DeSimone): Thanks.

Operator: Your next question comes from the line of (Meredith Addler) with Barclays.

(Meredith Addler): Hey, thanks for taking my question. I have, actually, two questions. I want to go back to China for a moment. And just -- can you -- is there anything for you to say about increased government involvement or scrutiny on your business or whether the scrutiny they have on other (MLM) businesses is having impact on you, or you think it will?

John DeSimone: Yes, (Meredith), I'll take that question. This is John. You know, I'll start by saying I'm certainly not an authority on New-Skin's model there, although I think we are fundamentally different in how we go to market there. But you know, there's some good news. I think the indications are -- I'm not an authority on this, either -- but the indications are that New-Skin will navigate through this (series) of events and there may be, from some stories we've heard -- same ones you have -- that there may be some more clarity coming on how the regulations work in China. And that's good for the industry.

You know, China is an ever-changing, evolving marketplace. I think, you know, we're comfortable that we're in compliance with today's regulations and we're also comfortable that if they -- regulations mature, that we can be in compliance with wherever they go. And the thing to remember is our business is based on people taking our product every day and that model with work and we can certainly adjust it accordingly as needed in the marketplace.

(Meredith Addler): And your growth doesn't scare you? I mean, it seems like one of New-Skin's problems was that they grew very, very quickly. You feel like you're in control, despite the rapid growth?

John DeSimone: Again, I -- so, I -- so, I'll -- again, I preface by saying -- my comments by saying I'm not an expert on New-Skin's model. I don't know that growth is the problem. I think it's the foundation of the growth. As long as it's coming from people taking the product every day, backed by genuine demand, that's -- there's not going to be an issue.

(Meredith Addler): And then, a totally different subject -- most of the buyback that you're going to be doing this year will come from the convert offering. But you generate quite a bit of cash every year, (hitting) on a lot of cash -- obviously, some of it's in Venezuela. But can you just talk a little bit about any thoughts on what to do with that cash? I think you've got revolver borrowings. Is it time to pay those down? Can you just give us some color on it?

John DeSimone: Yes, great question. You know, I will start by saying, you know, we did the $1.15 billion convertible debt deal. The net proceeds of that will all be used to buy back stock. A lot of that has happened already; the rest will happen over the next few months.

And then what we've included in guidance is $50 million a quarter, starting in Q two, three and four in addition to this debt deal -- which is very consistent with how we've guided in the past. And the purpose of that guidance is to indicate to our investors that we intend to continue to buy back stock. And that will be -- at least as we expect today, that will be our continued use of cash -- which will be to buy back stock.

We're not M and A-oriented. We don't have a lot of capital needs. So with the cash we generate, there are really two options -- you can pay down debt or you can return the money to shareholders. Our choice would be to return money to shareholders as long as we have a conservative capital structure. And we think the current structure we have is still conservative and no need to pay it down.

(Meredith Addler): But you're generating a lot more than even 200 million of free cash flow every year, which would be -- if you did five -- four quarters at 50 million, that's what you would use. It just seems like maybe you're going to start building your cash balances again. Have you thought at all, maybe longer term, about how you would address that?

John DeSimone: So, we have. And I think -- again, it -- consistent with our historical approach is we forecast $50 million of buyback per quarter and keep the rest in reserve to buy back opportunistically. And that is our intention at this point in time. So, our intention is still to use it as a buyback; it's just there's a portion of it not -- a large portion of it not included in guidance.

(Meredith Addler): So, the three and a quarter -- 3-quarter percent drop in the stock might be a buying opportunity? That's today's drop.

John DeSimone: It might be.

(Meredith Addler): OK. Thank you very much.

John DeSimone: Thank you.

Operator: There are no further questions at this time.

Michael Johnson: Hi, this is Michael. So, let me just take a minute to close here real quick. And guys, this company --we've got a great team. We had another record-setting quarter in a full year that was driven by fantastic business metrics, you know? And I think it's really important for us to focus on who we really are. We're a solid company; we're always looking to improve and we're uniquely positioned to help in the fight of global obesity, anti-aging and helping improve community health.

We've had a wonderful run of products. Our products are better today than ever before. They're sold to an innovative daily consumption sales method of clubs, fit camps, weight loss challenges and really most importantly, we have a growing sales leader group who are highly engaged and active -- spending time to educate and inspire their customers on the benefits of good health, nutrition and a healthy, active lifestyle.

And as John pointed out and our guidance suggests, we continue to expect strong growth for our company in 2014. We really look forward to bringing you our first quarter results later this year in April. So, thank you for your continued support. Have a wonderful day and let's go, Herbalife. Thanks.

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

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