

May. 04. 2006 / 11:00AM, HLF - Q1 2006 HERBALIFE LTD Earnings Conference Call

Rich Goudis - Herbalife - CFO

Let me take the first part, then I'll hand it over to Greg for the second, Scott. As it relates to the retention numbers, as you know, we only have the re-qualification period once a year and that's when it's meaningful to talk about the re-qualification and share those statistics. So we'll remind you of those in future quarters, but they won't change until this time again next year.

With that, let me pass it over to Greg to answer the second part.

Greg Probert - Herbalife - President, COO

Yes, Scott. We talk a lot about the three R's and one of the things that we're discovering is something that we're actually now starting to call the Virtuous Circle and that's really how the three R's interact. And you can think of them as a linear relationship or you can think of them as a circular interactive, and we tend to look at them as a circular interactive relationship.

And what that means is good customer care, good products, good prices, good retailing builds long-term customers. Long-term customers then build long-term distributors, because if you have a customer base where you're earning money you'll stay longer as a distributor. Please leave multilevel and direct selling because they don't make enough money for the amount of time they put in.

That, in turn, makes it easy to recruit new distributors because you have good examples of return on time and that, in turn, brings in new customers. Those customers stay long-term and they bring you out. So it's a Virtuous Circle that feeds on itself. And what we're seeing is that all three of those things are working very well at Herbalife and I think one of the key learnings we've made over the past few years is that we really need to keep a proper balance between recruiting, retailing, and retention.

And if you look at last year, a significant amount of our growth last year and the first part of this year is due to all three of those metrics improving across the Company.

Scott VanWinkle - Canaccord Adams - Analyst

Thanks. Hey, Rich, one other question. You're going to be net debt kind of free by the end of this year. When do you pay a dividend or you build a little forward in case you get a couple small product acquisitions out there?

Rich Goudis - Herbalife - CFO

Well, we may be net debt at zero at the end of this quarter, Scott, with the amount of cash that we generate. But we continue to be prudent about paying off our term facility. I mean, our net debt right now is \$30 million, right, and I think last year we paid off about that in the second quarter.

We are evaluating our capital strategy right now and we are listening to people, a lot of our investors, as what to do, what to deploy of say the excess cash that's outside the needs identified in our five-year planning process. Additionally, I think in our last call we talked about our product strategy being that of buy, borrow, or build and the buy is very important to us.

And we have a small group here that we've just established in the last six months to start to get out there and put the shingle out there. That let's people know that Herbalife's in the business of looking at products for acquisition purposes, whether it's a product or IP, to help strengthen the line, to extend the line not only here in the U.S., but more importantly abroad, where 80% of our business lies. So if you have great ideas, bring them to us.

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Scott VanWinkle - *Canaccord Adams - Analyst*

Okay. Thank you.

Operator

Javier Escalante from Morgan Stanley Dean Witter.

Javier Escalante - *Morgan Stanley Dean Witter - Analyst*

Good morning, everyone, a couple of questions, one general with regards to statistics about distributor attendance and number of distributor meetings in the quarter. I'm not sure whether you have that available with you now. But I would like to, if you could, if you can talk about this first quarter, the number of meetings and attendance levels, what you have planned for the second quarter and how that compares with the base period.

Rich Goudis - *Herbalife - CFO*

I think Michael shared with you that we saw 45,000 distributor in the first quarter and we expect, in the second quarter, and let's even go a little beyond it through the July period, we expect to see well over 50,000 distributors in that period. And I think that compares very favorably and I'll give you a snapshot.

Two years ago, the last time we had a North America Extravaganza in Nashville, I think we saw about 8,000 distributors and we're expecting upwards of about 13,000 in Las Vegas this year. So, anecdotally, where we see a lot strong attendance typically volume follows.

I'll pass it over to Michael.

Michael O. Johnson - *Herbalife - CEO*

Well, I would, just on echoing Rich's comments is that we, through this summer, are going to see really tens of thousands of distributors between Bangkok, Thailand, between Athens, Greece, between Las Vegas and there's a variety of events that'll be taking place in other market sectors. In Latin America and Asia, what we call the World Team Schools and our SPO training.

So when we talk about number of distributors that we see, this is a big stage event. The number of distributors who are attending events is in the hundreds of thousands and that's a huge uptick in what's been happening in the Company over the last three years. It's continuing to escalate. Each event is getting larger. This is some of the stuff we spoke about in our fourth quarter last year, that our events got a little larger than we anticipated and cost us a little more money.

We're trying to really get a firmer fix on the number of people that come or earlier subscription to these events. We're selling tickets earlier. We're doing cutoff dates so we get a better understanding of how many people are coming, what our real costs are and we have, in Europe alone, made Spectaculars in I don't know. How many countries do we have them going?

Rich Goudis - *Herbalife - CFO*

Almost every country.

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Michael O. Johnson - Herbalife - CEO

In every country we have a Spectacular going in Europe. So we'll have anywhere from 2,000 to 3,000 people in every single marketplace in Europe, on top of that in Athens, Greece. So these events are important.

Because they're obviously the opportunities for people to do the three R's, to recruit, to bring people to them, to retain because they see the opportunity there and they will learn ways to build their business and to sell the products more effectively and to build down-line and obviously to retail the products.

Because a lot of the focus in our last meetings have been on building a customer base, a sustained customer, long-term customer care, working with personal wellness. And somebody who can sit down and talk to you about your nutrition needs, as well as how do I get involved in some type of Customer Club. These have become more -- they're still highly emotional, but they're becoming more and more tactical as time goes on and that's important for distributors to see other distributors who are successful.

Javier Escalante - Morgan Stanley Dean Witter - Analyst

And do you guys believe, for instance the attendance is up, is this a leading indicator of how things are going to turn out for a couple of quarters down the road? Or is it more kind of like the impact of the higher attendance has to do more with how you explain how you got to the sales number in a given quarter?

Michael O. Johnson - Herbalife - CEO

Well, I think it correlates very closely to volume in the near-term. As more distributors come to these people, get enthusiastic and made an investment to come to these meetings. And so they're investing in their business in that, to the level of the investment that they've brought to bring themselves there and that's usually an indication that these people are committed in trying to figure out how to build a stronger base and bigger business. Greg?

Greg Probert - Herbalife - President, COO

Yes, Javier, to put a little bit more meat on the bone from Michael's comments, if you look at last year, we had our 25th anniversary in Atlanta. We had roughly 35,000 or so people attend that, which is unusual for us, because we normally do regional. The year before that we had three regional Extravaganzas.

This year we're having six Extravaganzas. So the North America one is isn't big enough, so we now have one in Mexico by itself. We have one in Brazil. We have one in the rest of the Spanish-speaking South America, Europe and Asia-Pacific. So in those six events we're going to see 70,000 to 75,000 people.

And what it does is it tells you, one, that many people coming, they're very excited about the business. Their business is up and it's a lot of new people to have coming into the Company, so that's an indication of past performance. Coming out of the meetings they're very motivated, so that's a good indication of future performance.

So I think it's both. I think it's both a trailing and a leading indicator.

Rich Goudis - Herbalife - CFO

Javier, I would add on top of those Extravaganzas, in the first quarter that we trained over 16,000 people in Nutrition Clubs. That compares to about 22,000 trained all of last year. So in addition to the Extravaganzas, we have separate initiatives underway driving training in great concepts like Nutrition Clubs.

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Javier Escalante - Morgan Stanley Dean Witter - Analyst

Right. Excellent and moving -- just a quick couple of questions on China. It seems like, from the commentary in the prepared remarks, that could it be that you guys think now that a license in 2006 is a little bit not prudent to think about? And if so, what changed your mind?

Is it that you believe the Chinese government somehow is taking this lower pace to see how the competitors that already have direct selling operations, how they behave? How do you guys think about what's happening? I mean, I know that the issue is sensitive, but I would appreciate any commentary on it.

Greg Probert - Herbalife - President, COO

Yes. I wouldn't say, Javier, that our license is moving back the next year. I think what we're saying and Michael said it in his comments, is it's a very fluid and uncertain process. It's the first time the government has gone through it and the Chinese government is trying to figure it out.

Javier Escalante - Morgan Stanley Dean Witter - Analyst

Yes.

Greg Probert - Herbalife - President, COO

What we do know is that we have a very strong management team on the ground. We've invested a lot of time over the past couple of years in government relations. Percy is very well connected. You've met him, Javier.

Javier Escalante - Morgan Stanley Dean Witter - Analyst

Yes.

Greg Probert - Herbalife - President, COO

And he's spending a lot of his time in Beijing. We got provincial approval of our license and it's now sitting in Beijing. I think what we're trying to say is that given the lack of visibility into the process and the fact that this is something that the Chinese government is going through for the first time, it's just very hard to predict when that license will be granted.

And I think that's something that's true for all the direct selling companies, other than Avon who did get their license. Which the fact that they did get their license I think bodes well for the fact that the license will be granted in the near-term. It's just what is the near-term. If you remember back to the regulations to allow direct selling in China, they were originally supposed to come out in December of '04 and they were delayed significantly.

Javier Escalante - Morgan Stanley Dean Witter - Analyst

Yes. We know that the timetable is always concerning. But now more philosophically, right. Given that many of -- and I know that you guys are sensitive about making commentary about competitors. But broadly speaking, there has been a lot of noise from many competitors and disruption, changes. Given that direct selling is so sensitive to image and excitement, any change in the marketplace how let's say consumers and potential distributor have a different perception about direct selling in China?

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Is that a risk? Given that we're hearing from many places that things are not going as planned, that somehow that creates a negative momentum overall.

Greg Probert - Herbalife - President, COO

No. I don't believe that, Javier. I think that's an insider industry view of what's happening in China. I think the average person on the street that's either a potential distributor or customer isn't privy to all the things that are going on in the industry and the regulations. All I know is that Percy, we're opening our stores and we're seeing great enthusiasm for the Herbalife business and for the concept of direct selling.

Javier Escalante - Morgan Stanley Dean Witter - Analyst

Okay.

Greg Probert - Herbalife - President, COO

The idea of owning your own micro business, the idea of getting great nutritional products from Herbalife is something that's very exciting to the consumer base and potential distributors in China. So it's just one of these things where we need to work through the government issues and we're as optimistic about the potential of the market as we've ever been.

Javier Escalante - Morgan Stanley Dean Witter - Analyst

So your sense is that the public opinion, the media and all that in China is still, I mean, is positive or at least neutral to direct selling?

Greg Probert - Herbalife - President, COO

Yes. I actually think it's positive. We've spent a lot of time their doing press, either Percy or Paul Noack, who goes over there on our behalf. I was there last time and did a lot of press and I think that's true of all U.S. direct selling companies, is that there's a very positive image of what's happening. I think it's just more, like I said, wading through the government issues.

Javier Escalante - Morgan Stanley Dean Witter - Analyst

Oh, that's great. Thank you, guys.

Michael O. Johnson - Herbalife - CEO

Why don't we just take one more question.

Operator

Ezra Solomon from J.L. Advisors.

Ezra Solomon - J.L. Advisors - Analyst

Hi guys, congratulations on a really good quarter. I just had follow-up question on Scott VanWinkle's question about the balance sheet, the relatively small sum of debt you have on the balance sheet and the relatively generous free cash flow you guys are generating. And how do you think about initiating possibly a share repurchase program as a possible use of cash, an alternative use relative some of the other things you mentioned.

Rich Goudis - Herbalife - CFO

Ezra, I'd just reiterate what I said with Scott, is that we're well aware of all the different alternatives as it relates to improving our capital structure and returning the very best to our shareholders, both public and privately-held. And we are currently underway looking at a capital strategy for this Company and I think you just have to stay tuned and we'll see where it goes.

Ezra Solomon - J.L. Advisors - Analyst

Great. Thanks so much.

Rich Goudis - Herbalife - CFO

Okay, thank you. I'll turn it over to Michael for closing comments.

Michael O. Johnson - Herbalife - CEO

Well, I'll thank you all for being on the call once again. Obviously we're very pleased with our first quarter. We think there's a nice momentum building in our Company and we've invested quite a bit of time, energy and resources into seeing our Company grow.

As we see the benefits of this investment, we want you to be assured that we are continuing to laser focus on our SG&A in this Company. In fact, we are looking very closely at our organization, how we spend money, where we spend it and it is going to, we believe, give you a better view into our Company very soon. And we're going to be looking at some opportunities that we believe will control our bottom line even more vigorously.

As we said, we had another record quarter. It gives us a great reason to recognize the success of our distributor leadership and they have to always be mentioned on these calls because they, in their strong unity and their energy, are at the basis of the success of globalizing great ideas and all of the benefits that we're seeing from implementing our strategic initiatives.

I also want to thank and congratulate Team Herbalife, the employees who have done such a spectacular job in our Company during the quarter and over the last three years.

In the next 12 weeks, as we've spoken about, we will see more than 50,000 distributors in events in Bangkok, Thailand, Las Vegas and Athens, Greece and we invite any of you to join us there. We're going to be hosting three major Extravaganzas and as Greg mentioned, we're going to be having meetings all over the world. And we'll see more distributors than ever before.

We have tremendous momentum in our business. We still have a lot to do. This Company is still - and I've said it to many of you face to face and will continue to say - its in a fixer-up stage. We believe that the best days of this Company are still in front of us. There's a lot of headroom. We're very excited about the opportunities and we're really just getting started.

So, my final statement is the best is yet to come. Thank you very much.

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Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect.

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EPS in the third quarter will be in the range of \$0.43 to \$0.46, and for the full year we raised our guidance from \$1.88 to \$1.83 up to \$1.90 to \$1.96, primarily reflecting the [beat] in the second quarter, the recap benefit in the fourth quarter, and overall confidence in the momentum of the business for the back half of the year.

The effective tax rate we expect to be between 39.5 and 40.5%, both in the third quarter and for the full year.

And then lastly, Cap-ex \$15 to \$20 million in the third quarter as we close our back office facilities in Englewood and move into a new Americas headquarters in Torrance and \$50 to \$55 million for the full year.

I would also like to announce that at the beginning of '07 quarterly guidance will consist solely of net sales growth, our effective tax rate, EPS and Cap-ex.

That is our financial summary. I would now open it up for questions.

QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS].

Michael Lasser from Lehman Brothers.

Michael Lasser - Lehman Brothers - Analyst

Nice quarter! Could you talk about the new supervisor growth, a 42% increase? How much of that is coming from new distributors who are entering the business versus an increase in the conversion rate of existing distributors who are now becoming supervisors?

Greg Probert - Herbalife Ltd - President COO

Hi, this is Greg. We don't really track that, the distributors moving up versus new people coming in, so I don't have that stat. I think what you will see is our recruiting across the board is very strong, and you also have to remember that most distributors that come in, come in as customers are using the product, and like the product so much that they move up and become supervisors. I think when you see that new supervisor count it's most indicative of strong recruiting, but also strong product usage among our distributors or discount buyers and we don't bifurcate those two things. That bodes well, I think, for the future.

Michael O. Johnson - Herbalife Ltd - CEO

Michael, what I would add is that our total distributors in the quarter reached 1.4 million distributors, which increased 16% from the end of last year, and 26% from a year ago this time.

Michael Lasser - Lehman Brothers - Analyst

Thanks, that's helpful. Net sales in Malaysia doubled versus the first quarter to the second quarter. As you look out over the next 12 months is it reasonable to expect that rate of sequential growth to continue, or how might the growth look.

Michael O. Johnson - Herbalife Ltd - CEO

Michael, I think what you really saw there was that Malaysia opened up during the first quarter, so the second quarter we saw a full quarter impact of that growth. I don't think you'll see sequentially the same rate of growth, albeit I think you will see sequential growth over what we did in the second quarter as our Taiwanese, our Singaporeans, and our Australians are all in Malaysia, building their businesses and down lines very successfully.

Michael Lasser - Lehman Brothers - Analyst

And then, you talked about the timing differences of new product launches this year versus last year. Has the response to the new products that were introduced just recently been similar in volumes to what you experienced with the new product last year?

Greg Probert - Herbalife Ltd - President COO

Probably too early to tell on the new products that we just launched a couple of weeks ago, that specifically being the ones Michael referred to on the call. Last year we had a very major launch. Nourifusion went to 22 markets simultaneously and Liftoff into the U.S., so too early to tell on the ones that we just launched in the second quarter.

Michael O. Johnson - Herbalife Ltd - CEO

And Michael, it's Michael Johnson. Hi Michael. One of the things you've got to remember is that the sampling product fits into a business methodology for many of our distributors. So, while we will see possibly an uptick in the product itself, you're going to see an uptick in the recruiting opportunities that are associated with it.

Michael Lasser - Lehman Brothers - Analyst

And could you talk about the growth in Nutrition Clubs outside of Mexico? I may be comparing apples to oranges here, but it seemed like it only increased maybe modestly quarter to quarter.

Rich Goudis - Herbalife Ltd - CFO

Yes, I think we indicated that the amount of people we trained were 16,000 people and now it's about going deeper in the markets that we've already penetrated.

Greg Probert - Herbalife Ltd - President COO

I would just add that I think from the start we cautioned everyone that it takes a while for these things to 1) be acculturated to each market and to gain some momentum. It took us years-- our distributors years to get this right in Mexico, so we've always said that this is slow growth in the initial years. We want to make sure that we get it right. We want to make sure that we're branding these clubs and that our distributors understand this.

I think from the time of the training to when it shows up in the financials, it takes a few quarters. I'll tell you the fact that we're seeing tens of thousands of distributors show up voluntarily to training is a good indicator to us that this is a concept that's been embraced by our distributors around the world and I think I'm very excited as Michael about the future of the Nutrition Clubs and Customer Clubs around the world.

Products drive recruiting, not sales

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Michael O. Johnson - Herbalife Ltd - CEO

And one more data point here -- you're getting the round robin of all three of us -- is that it took three years for Mexico to get their business in Nutrition Clubs up and running. While the training takes place, I think it's going to take a little -- it's going to take six months, sometimes even a year, for these things to really get a foothold, so I'll take the slow, steady growth over a quick, rapid rise in failure rates. I would prefer a lower failure rate and a steady growth pattern.

Michael Lasser - Lehman Brothers - Analyst

Final question. If you exclude the incremental spending for China and incremental spending for events that are taking place this year, what type of SG&A leverage do you think that the business is true SG&A leverage you think those businesses are generating, or could generate this year?

Rich Goudis - Herbalife Ltd - CFO

I think what we've said, and we'll be consistent with this, is that our goal would be in a normal year to at least see a 50-basis points of operating margin expansion. This year being a significant investment year I think you're seeing just a little bit below that, about 30 basis points year to date and in the last quarter. So, we'll see the benefit of these, I think, in '07 and beyond.

Michael Lasser - Lehman Brothers - Analyst

And I think one more. Are you getting leverage from your suppliers? Given your growth rate I would imagine that you could expect some price breaks on your purchases, is that true?

Rich Goudis - Herbalife Ltd - CFO

I sure hope our suppliers are listening. Thanks, Michael. I think we're experiencing good improvement in relationships with our suppliers and I think you saw some of that in the gross profit line, albeit the pricing increases overshadowed that. But I think in the wake of a lot of other companies seeing commodities increasing, putting pressure on the gross profits, we're not experiencing that, so, I think that's a testament to how we're working well with our partners.

Michael Lasser - Lehman Brothers - Analyst

Thank you very much.

Operator

Chris Ferrara with Merrill Lynch.

Chris Ferrara - Merrill Lynch - Analyst

Can you talk about the realignment a little bit more? I guess I missed a lot of what you said. I understand Mexico and Brazil are being stripped out and are reporting directly to you, Greg, right?

Greg Probert - Herbalife Ltd - President COO

Yes, they are, Chris. Basically, the P&L reports are Mexico, Brazil, North America, which is U.S., Canada, and the Caribbean, EMEA, North Asia, which is Japan and Korea, greater China, and then the high-potential markets.

Chris Ferrara - Merrill Lynch - Analyst

And those high-potential markets, did you guys mention sort of the central and eastern European countries? I mean, is Russia in there? Is Turkey in there?

Greg Probert - Herbalife Ltd - President COO

Yes, the way EMEA is going to be reorganized eventually is-- Wynne Roberts runs it for us and he will then reorganize towards his major market -- the Italies, the Spains, and his high-potential markets, which will be Russia, CIS and eastern Europe, including probably Poland is the biggest in there.

Chris Ferrara - Merrill Lynch - Analyst

So, you're saying there will be markets that will go from EMEA to your high-potential category?

Greg Probert - Herbalife Ltd - President COO

No, they'll stay under Wynne, but there will be an increased focus under Wynne to pull those up higher and then, even though they report to him, I'll be spending more of my time, as will Michael and the corporate team, on those high-potential markets in Europe.

Michael O. Johnson - Herbalife Ltd - CEO

Chris, we made a real conscious decision in that regard not to break the EMEA region up because of the way our distributors are organized because a lot of their business is on the European continent, so it was more important for us to take what Greg is doing on a global basis and take that same thinking into that marketplace, to be very conscious of how our distributors go to business, yet still being able to differentiate between core, emerging, and major markets in that sector of the world.

Chris Ferrara - Merrill Lynch - Analyst

So, there will be markets that you do consider to be high growth potential that will not be in that high-growth potential segment?

Greg Probert - Herbalife Ltd - President COO

That's correct. We kind of balance the reorganization or the realignment, if you will, based on how our distributors go to market. I think that was very apparent with the greater China because both Taiwanese and Hong Kong distributors can operate businesses in China; same thing potentially with Southeast Asia, and then South America. Our Brazilian distributors pretty much stay in Brazil. Our Central America and Mexican distributors kind of works together. And then all other South America kind of works together.

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So, I think you're seeing a combination of the thought process of prioritizing the business and the investments by where we think we can get the biggest return and also balancing that with how our distributors go to market so we have great touch points and great communication with them.

Chris Ferrara - Merrill Lynch - Analyst

I mean, is there a chance-- obviously, you're going to be investing more behind the high growth markets and less behind the more sluggish markets. I mean, is there a chance that you guys-- not that you back out of markets, but we see some of the more marginal markets really sort of fall off the screen with respect to how material they are?

Michael O. Johnson - Herbalife Ltd - CEO

No. This is Michael, Chris. I think what you've got -- what we've got under hand right now is a better alignment of resources of this Company to high-growth markets. There will be an operating plan in the model for the markets that have growth patterns that are less aggressive than the ones we're looking at.

A group of us are heading off to London this weekend for meetings with distributors for the London triathlon to compete and also be a part of a pretty good sized event to launch a [Casa] Herbalife there. We're looking at something like that and saying, "This is a great activity for our UK market, but we should be looking at Russia in the future for something like this." This is a high-growth market, a high-potential market for us.

We would want to make sure that what resources we're putting out there are properly aligned to the real growth opportunities. And it would be very disruptive for us to ever pull out of a market. We don't see that as a sensible alternative for this Company. But we're also making sure that we're aligning resources to where real opportunities are, to make sure that we, as a management team, our distributors, and really the marketplace are all very well aligned. That's why we delayed.

We had the head of Brazil reported to someone who reported to Greg and we want to-- he actually had two reports in-between. We want to take that out to make sure that Anita [Beaning] who runs Brazil, has a direct contact to Greg, and they've all been up here for a week. We've been going through an exhaustive plan with them to put roles and responsibilities clearly defined between what's regional, what's local, and what is global in there.

So, we're going through a very thorough, disciplined approach, and basically, reorganizing our Company while we're in a good situation to do it.

Chris Ferrara - Merrill Lynch - Analyst

I guess-- I mean, it's no secret, right, that your peers tend to look at Eastern Europe as the fastest growth markets and it hasn't been that way for you guys. Is there any structural reason why we wouldn't expect those to sort of take the torch in the next couple of years as some of your fastest growth markets?

Greg Probert - Herbalife Ltd - President COO

I means, that's part of the reason that we're realigning is to maintain the growth in some of the markets where we've outstripped the market, so in some of the major markets we're ahead of the direct selling market growth. And, like you said, in Eastern Europe and Russia and some other countries we see a lot of potential that has been untapped by ourselves.

So, again, to reiterate Michael's point, it's not about cutting back investment. It's about maintaining investment in all of our markets. They're all important to us. But really getting a greater focus on where we think the -- finding the next Mexico, finding

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the next Brazil while maintaining growth in Mexico and Brazil, maintaining growth in the Spains and Italies. So again, all of our markets are important. We just want to make sure that we realign so that we can continue to maintain the fantastic momentum we've created over the past three years.

Chris Ferrara - Merrill Lynch - Analyst

In a country like Russia, I mean, is it simply that Herbalife as an organization really hadn't gotten to it yet, like gotten to prioritize it and you're going to try that now? Or, are there structural changes you need to make in the portfolio, or different ways to think about new products that would help you grow there?

Greg Probert - Herbalife Ltd - President COO

Well, I think it's both. I think the lack of prioritization creates a lack of focus on do we have the right product mix, are we supporting our distributors in every way we can. So, I think those things are connected at the hip. So, we believe that through greater focus, getting it, like Michael said, higher on the radar screen, cutting out the layers of management, that we'll be quicker to assess the market needs of our distributors and be able to respond to those more quickly.

Chris Ferrara - Merrill Lynch - Analyst

Great! Thanks a lot, guys.

Operator

Doug Lane of Avondale Partners.

Doug Lane - Avondale Partners - Analyst

Good morning everybody. Rich, can you go over that Cap-ex number again, what you're looking for this year?

Rich Goudis - Herbalife Ltd - CFO

Sure. We raised our Cap-ex number range to 50 to 55, up from the 40 to 45, primarily reflecting the decision to move out of the historical back office operation for us, which was down near the LAX airport and create more of a distributor facing, high touch point facility for our Americas region in a town called Torrance, which is about eight miles south of the airport.

I have a very hands-on, real fancy R&D lab that distributors can see, training center, customer relations center, as well as again organized around that. So, that's the primary driver of the change in the last quarter or so.

Doug Lane - Avondale Partners - Analyst

I thought there was a change there. Michael, can you give us an update on the Internet strategy here in the U.S., how that's going?

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Michael O. Johnson - Herbalife Ltd - CEO

Well, I'll do it and Greg will probably jump in. What it is, it's just in a beta test right now. We've got 200 distributors who are involved in the Herbalifeshopping.com. We are working this as we do with every key program with distributors involved. We have a strategy and planning team that help us divide and walk through to make sure the channel conflicts are held to a non-existent, not to a minimum, but make it non-existent. The financial underpinnings of the transaction with the consumer are held consistent to a distributor just as they would be with a personal transaction with a distributor to a consumer.

We are posting a range of products right now. When we launch this program later in the fall it will have a complete line of our products on there. And this is an opportunity for people who may not have access to a distributor, who may be somewhat apprehensive with the channels. They have access to our great products and our great distributors.

So, obviously, we're excited about it. And one of the functionalities the business can provide is support for our existing distributors to do what we call the back office for them. Pick, pack, ship, inventory, credit and collections will be handled by the corporation and have also direct access and input with the distributor to their consumers. And it gives us ability to what we call CRM -- Customer Relation Manage that relationship in order to offer them the opportunity for more products and even an opportunity to become an Herbalife distributor or buy products at a greater discount.

So, think of it as an online buying club with the opportunity to have a personal wellness coach attached to it. It's really something we're very excited about. We've invested in and it will roll out, not only in English, but in Spanish language later this year, and in key markets globally.

Doug Lane - Avondale Partners - Analyst

What has been the feedback from the distributors that have been testing it? Is there apprehension, enthusiasm? Is it going to be--? I mean, I know it's all going to be good, but I really just honestly, is there a concern out there that this is going to disconnect the distributor from their end-user?

Greg Probert - Herbalife Ltd - President COO

Doug, it's Greg. No. The reason we've been going slow on this, and I think, as Michael mentioned, we've been working with a steering committee made up of distributors, a press team, and also Chairman's Club, to make sure that this concept is a useful tool for our distributors. And again, you have to remember this is a tool for our distributors. And if they don't embrace it and they don't feel it's the right tool and has the right functionality, then we're wasting our time building it.

So, we've gone very, very slowly and the feedback has been very good. I think the beta test is more about do we have the right functionality, can we break the system before we roll it out to the entire field because you want it to work perfectly. You don't want it to be disruptive.

But again, like Michael said, we're giving distributors a tool to manage their customers better, take some of that administrative functions off their back so they can focus their time on the mentoring and the coaching and the education on the product, and also on the distributor side to maintain their down-line.

So, if you look at as an average tool that we rolled out last year was BizWorks and it had a distribution relationship/management system in it, which has proved very useful for distributors to manage their down-line, see who is doing well, see who is not doing so well, and to do that real time online so that they can focus their energy on lifting the lower performers and maintain the performance of the high performers. And if you can take that concept now over to their customers and for the first time really give them deep visibility into their customers and their purchasing patterns, what products they like, and that data will then help us better service our distributors.

Alexa
Show it

Doug Lane - Avondale Partners - Analyst

And lastly, I wondered if you could comment on-- I mean, we see the numbers and the supervisor growth is just really strong. And I wondered what are the one or two or three things that you can attribute to the increased just the ranks of the supervisors here, the leadership? It just seems like over the last two or three or four quarters we've seen a dramatic acceleration in the people that want to be supervisors at Herbalife. What are the two or three key things driving that, if you could drill down there a little bit?

Michael O. Johnson - Herbalife Ltd - CEO

Doug, and I know this isn't a metric you guys are going to love. Confidence. I think our distributors have a renewed confidence in Herbalife, in our products, in the business opportunity. We're seeing more people come in and get recruited and really, frankly, a very exciting effect is more people are moving up in the organization than ever before.

We're up, as we said, 41% over 34% in the first quarter, the second quarter is up 41% and that means people are out there with confidence, talking about our products, getting people. It goes down to the basics of this Company. They're using the products, they're wearing some of our Herbalife clothes, they are wearing their button. They're talking to people; there's confidence in the brand. And we're seeing it. And really, this is what we call kind of a pig in a pipe down here. The more you recruit the opportunity for people to move up-line and that's why you're seeing more press team, more Chairman's Club come in. We're getting more of our whole ladder of success. Our [inaudible] millionaire team members are all growing in this Company.

And I've got to hand it to both the distributors and to Greg's team. They've put in a couple of promotions that have been phenomenal. Our active world team promotion has created longer planned distributors by helping them balance the three 'Rs', to help them build their recruiting activities, their retailing activities, and therefore, resulting in retention.

So, without sounding too much of a hype meter here, it comes into, I think our distributors and our consumers have a lot of confidence in Herbalife products and our distributors have a ton of confidence in the Herbalife marketing plan because people are moving up at a greater rate than ever before.

Doug Lane - Avondale Partners - Analyst

I mean, there's been no change in hurdle rates to become a supervisor, or a change in the compensation system to promote becoming a supervisor, or anything more quantitative like that, or it really is just the intangibles of where Herbalife has been?

Michael O. Johnson - Herbalife Ltd - CEO

The only thing we changed a year ago was the requalification of a supervisor, not the initial qualification, but the requalification of supervisors became a 12-month process versus a one to two-month process. So, you could accumulate points over a longer period of time in order to requalify. But the initial qualification process has not changed. None of the financial metrics have changed in the marketing plan.

Doug Lane - Avondale Partners - Analyst

Well, good job! Thank you.

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Operator

Scott Van Winkle from Canaccord Adams.

Scott Van Winkle - Canaccord Adams - Analyst

When you look at the new supervisors number relative to the total supervisors number at the end of the quarter, which one looks further out? I mean, I always thought -- I always think a current supervisor at the end of the second quarter would be a good indication of what third quarter revenue is. How far out do we look as to where you really see a turn in that new -- or driven by that new supervisor number? I remember when you gave that for the U.S. probably six quarters ago. Two quarters later the U.S. took off. Is that a further looking indicator?

Rich Goudis - Herbalife Ltd - CFO

Yes, you're right, Scott. I mean, the total supervisor is more of a static look just at the end of the quarter. The new supervisors, I think as Michael just alluded to, is really more indicative of the future business because it's a reflection of the level of momentum and excitement and enthusiasm within the distributor organization and the level at which they are bringing new people into the business. So, I think it's more of a leading indicator.

Scott Van Winkle - Canaccord Adams - Analyst

And Rich, what are the economics on sampling, you do it at a gross margin, or how do you make that work out economically?

Rich Goudis - Herbalife Ltd - CFO

It's actually really our distributors make it work out. Up until this past couple of weeks, as you saw in Las Vegas, our distributors were creating their own sampling packet other than Liftoff, obviously. And we started with Nourifusion a couple of weeks ago and we'll extend that into other product lines to make it more easy for our distributors to sample products with new customers.

Greg Probert - Herbalife Ltd - President COO

In our Formula 1, the Instant Formula 1 also comes in packets, so that's another sampling opportunity.

Scott Van Winkle - Canaccord Adams - Analyst

As far as the packets that you're assembling, I know the distributors can cover the costs of that with shipping often, but are you making a positive gross margin on that, or are you doing that as really more of a sampling effort and not really making money off of it?

Rich Goudis - Herbalife Ltd - CFO

No, Scott, we don't differentiate in our pricing, whether it's a sample size or a full size. Typically the margins are the same.

Scott Van Winkle - Canaccord Adams - Analyst

And, Michael, I just made an order on herbalifeshopping.com and I happen to have a question. Are there only 200 distributors that are involved in getting the leads from this?

Michael O. Johnson - Herbalife Ltd - CEO

Today.

Scott Van Winkle - Canaccord Adams - Analyst

And how-- is it a lottery? I was assigned to a person in Arkansas. I wonder do you do it geographically, or is it just some kind of lottery system?

Michael O. Johnson - Herbalife Ltd - CEO

The way we're going to work this out, and we're working the final details with the distributors right now, it will be on performance and region. So we would love to have someone in your region, a high-performing distributor in your region be your distributor.

Greg Probert - Herbalife Ltd - President COO

What we're really looking for, Scott, is that we're going to launch this more broadly at our university in October. And what's very important is that when this does occur that distributors get up onstage and talk about the success they've had, some going as far back to the liftoff.com site that was launched last December, more since May with what you're just experiencing, so that distributors are giving comfort to other distributors that it's a great business opportunity. It's more productive for them and that there is no channel conflict.

Scott Van Winkle - Canaccord Adams - Analyst

Oh, and one last question. Prior to Nutrition Clubs in the Total Plan, was there ever a history of using the Party Plan concept at Herbalife?

Michael O. Johnson - Herbalife Ltd - CEO

Well, I think there was -- the Party Plan has always been in this Company at a variety of levels, because an HOM in an odd way is a Party Plan. It's an Herbalife opportunity meeting and HOMs are sometimes done in people's homes, sometimes done in small hotels, conference rooms. What we've had is we've had shake parties in this Company. There has been different types of meetings that have taken place. A lot of distributors operate their businesses, obviously, out of their home and invite people over.

So, there's been a Party Plan part of our Company forever. The Nutrition Clubs and the Customer Clubs tend to take it to a new level.

Scott Van Winkle - Canaccord Adams - Analyst

Thank you.

Michael O. Johnson - Herbalife Ltd - CEO

Only take two more questions.

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Operator

Javier Escalante from Morgan Stanley.

Javier Escalante - Morgan Stanley - Analyst

Hi, good morning everyone. I have a question to-- I mean, is related to Chris' questions about the new organization, how you guys came about putting the countries together the way you guys did. Is it that you guys are trying to balance high growth and low growth markets within a single reporting unit? Is that the thinking and this is the way that you guys are going to be reporting financially going forward?

Greg Probert - Herbalife Ltd - President COO

I'll let Rich handle the financial fees. Yes, from an operational side, Javier, and good morning to you. Yes, we really want to -- I think we've said this -- is get some of the big markets. So if you look at our five major markets that report -- Mexico, U.S., Brazil, Japan, and pan-China, which is mostly Taiwan now and it'll be a better mix with mainland China growing -- to really get those reporting directly to me.

So, again, those are big markets. They're not only growing, but they're all over 85 million volume points, so those are the engines that drive the Company.

We also realigned the way our distributors work the business. So, we didn't break EMEA up, and one idea was we could pull up the high potentials and make one region. That's not the way our distributors -- we have a European extravaganza, the World Team Schools. Many, many of our leadership in Europe operate in western and eastern Europe, so we really want to make sure that corporately we're aligned with our distributors so that --

Again, this is all about helping the distributors, getting closer to the distributors, getting closer to the markets, making sure they have the right and the right tools and the right events and promotions. So, if we align differently than they do, it wouldn't have worked.

So, part of it was a white sheet of paper, but part of it was also looking at the way they operate. And then really again, focusing on the big major markets and the high potentials. And as Chris pointed out, you have some of those high potentials, the market is growing faster than we are and we feel that's a great opportunity for us to find the next Mexico, the next Brazil.

Javier Escalante - Morgan Stanley - Analyst

And Rich, are you guys going to be reporting this way now, or is it the same way, like Americas, et cetera?

Rich Goudis - Herbalife Ltd - CFO

No, we'll eventually move to this. The question is do we do it just in the 10-K at the end of the year, or do we adopt it sooner and do it in the third quarter Q, so we'll debate that with our outside auditors on that, but I would assume that worse case in the 10-K it will be organized that way, and obviously going back in history as well.

Javier Escalante - Morgan Stanley - Analyst

And I believe, Greg, again in terms of how you guys are going to manage the business, right? Let's say that you are a country manager, not a distributor, a country manager in a big, but low potential market, say Germany, right? So, what kind of resources these managers has in terms of keeping the local distributors motivated so the sales in these markets don't kind of like fall once you guys basically -- I wouldn't say divert resources, but emphasize resources say in Russia. So, what exactly -- if you're in Germany and you want to -- Germany basically was very weak, so what will you do to avoid Germany going multi-years for -- for multi-year decline for a while?

Greg Probert - Herbalife Ltd - President COO

I think we have to remember, Javier, is the first phase of our organizational design that we've done over the past three years was to make sure that we had strong country managers. So, before we realigned corporate we made sure that we beefed up the resources in the local market. We're going through an exercise right now to make sure there's a clear alignment of accountability and responsibility.

So, before we can hand off responsibility to someone running a Spain or an Italy, we have to make sure we have the right person in there. We have a clear strategy; we have a clear corporate branding and marketing and product strategy. All that has been done and that's the work we've done over the past couple of years.

So, we feel now that this is a corporate realignment, but we have people in those markets, in the Italies, and the Spains, that can run their businesses, support the distributors locally, better than actually than we've ever had. And they have regional air cover or they go back to corporate. So, it's more about getting rid of corporate layers as opposed to country management changes.

Javier Escalante - Morgan Stanley - Analyst

And basically, on herbalifeshopping.com, just to -- the way that I understood it, this is more to help distributors to retain existing customers. Is there any emphasis on capturing new customers with the website?

Greg Probert - Herbalife Ltd - President COO

It's both, but I think the primary focus was really to assist our distributors to better manage and retain their existing customers. We're also looking at ways with our distributors that we can create ways to reach other customers and get them, and assist again in getting them over to our distributors. That's a touchier issue. It's also where you could potentially have channel conflict, so we're going slow on that side because we don't want to do that. We've seen historically in this business, if you create that channel conflict it is very disruptive to your business.

But, just the value of helping our distributors better manage their customers will not only affect retention and retailing, but ultimately will help recruit, because if you're successful by keeping your long-term customers, you're a better distributor and it's easier for you to go recruit the next line of distributors.

So, it's both, and I think when you see it roll out, that the early functionality will be to make sure that we're helping our distributors better manage and retain their customers. It also gives us a chance to look at that database and help distributors spread Best Practices, so if we see one organization has stickier customers or they're doing a better job of up-selling, that's available for them.

One thing you have to remember, this is an opt-in program, so our distributors, if they feel uncomfortable, they don't have to use it. It's not a mandatory program.

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Javier Escalante - Morgan Stanley - Analyst

And finally, on the Nutritional Clubs, I know that the ramp-up is something that it may take 12, 18 months, but you have been testing some of them totally within that kind of timeframe. In the places where you feel that the Nutritional Clubs have clearly acculturated better, what kind of changes do you guys have seen? Is the same identical concept as in Mexico, people showing up every day? Is it-- Any insight in terms of whether rural versus more urban people work better within a Nutritional Club? Is it-- does it-- anything with regards to the low income versus high income? If you guys can comment on that, that would be helpful.

Greg Probert - Herbalife Ltd - President COO

It's still a little early to say-- to talk about those macro trends. I will say that we're seeing it--I mean, one of the initial pushbacks was that this is only for lower socio-economic groups. We've seen it take hold in middle class and even upper class groups, so we're seeing some early indications that it can be not only acculturated by country, but also by social economic level. So, that's one thing still sort of early to tell on that.

But, we're happy with the rollout of the Clubs. The other question you asked was are they all exactly like Mexico, and the answer is clearly no. We actually talked more about Customer Clubs than Nutrition Clubs. A Nutrition Club is a type of Customer Club. The thing that-- what you see that some of those clubs meet daily, some of those clubs meet weekly, some meet even monthly.

If you look at the value of the clubs, we talk about product results, socialization, and a sense of community, and recognition, so that cornerstone can be accomplished in many, many different ways. I think we talked earlier about in some of our countries we're seeing Lunch Clubs spring up in corporate environments.

Again, it's a chance to get people together in a social setting to talk about nutrition, to share results, to be recognized for their results, and that's the common theme. The way that you carry that out, in your home, out of your home, daily, weekly, monthly, isn't as important as that you basically, the underlying concept is that you bring your customers together on a periodic basis to drive a sense of community and recognition and sharing the product and education of product.

And so, that's why we're very positive that this can be taken around the world. It's just figuring out what is that right secret sauce for each country and within each country for [inaudible] economic [inaudible].

Javier Escalante - Morgan Stanley - Analyst

And the countries where you guys think that the concept has achieved critical mass, other than Jamaica, I think that you guys mentioned Argentina when we were in Vegas. Is that the two countries where the clubs have kind of like gained more traction?

Greg Probert - Herbalife Ltd - President COO

I think Argentina still is at the very beginning. I think what we indicated was that one of the very successful Mexican Chairman's Club members actually is sending one of his press team and [inaudible] into Argentina to really accelerate the traction on Nutrition Clubs. So,--

Michael O. Johnson - Herbalife Ltd - CEO

I think the U.S. In the U.S. we're seeing tremendous traction here in the U.S. It's a big country, so it's going to take a while for that to show up in the financials, but we see it working in LA, we see it working across in many, many states. I'm very encouraged.

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I think, as a concept in the U.S., it's starting to take hold in Brazil. I think a couple of our Chairman's Club, especially Pedro [Cordoza] down there is very enthusiastic about the clubs, so I think they're starting to really take hold in Brazil.

Have we reached critical mass? No. I mean, Jamaica is really probably the only other country where it's reached critical mass. It's defined by it's really big enough to really start moving the top line of the country.

Javier Escalante - Morgan Stanley - Analyst

Thank you very much.

Michael O. Johnson - Herbalife Ltd - CEO

Angie, we'll take two more questions and that's it.

Operator

Connor [McLaughlin] from JLF.

Connor McLaughlin - JLF Financial - Analyst

Hey guys and congrats on another great quarter! I really appreciate the hard work. I'd like to see if you could talk a little bit about the potential for leveraging the investments in the out years because when you step back and look at the business from a high level, you're growing your earnings 25, 30%, ballpark, in an investment year, which is pretty incredible. And when I go back and look in 2005, the last time we had a non-investment year, we basically grew operating margins from 10% to 14%, which, when you step back, [inaudible] a sustainable 80% gross margin business and after an investment year we're only going to be at the 14% operating margin and you're talking about reaping the benefits of the investments. It gets pretty exciting, especially first [inaudible]. So I was just wondering if you could talk a little bit about the leverageability of the business in the out years and the potential for that accelerating the growth rate.

Rich Goudis - Herbalife Ltd - CFO

Well, Connor, let me just be cautious that we have not provided any guidance beyond '06, so what I would go back to at this point is, your observations are right. We had substantial margin expansion over the last couple of years, but I would remind you that some of that was the clipping of amortization and the removal of sponsor fees. So, probably half of that was, I'll say, non-operating leverage, just to be fair.

Beyond that, I think our commitment here is to balance very strong top-line growth and ongoing investments with at least a 50-basis point improvement in operating margin. We think that that's just a very good disciplined way to run the business. To the extent that our growth rate outpaces our investments going forward, I think you'll see more margin expansion.

Michael O. Johnson - Herbalife Ltd - CEO

Now, Connor, that's the very conservative Rich and I'm going to step outside just a little bit here.

I have challenged our organization, and everybody has now got their head in their lap because they don't want me to say this, but I have challenged our organization to become world class in margin in our industry. And part of our realignment is to look

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at where and how we're spending money, how and where we're putting resources, and to look at the most effective use of those resources.

That means that no stone is going to be left unturned in this Company over the next year. We're going to look at every single thing we do for its effective reach into the marketplace to see and make sure that we are spending money adequately, properly, and focused on distributor activity to drive top-line sales growth, and to make we have a stronger margin.

Connor McLaughlin - JLF Financial - Analyst

I understand you're not giving guidance, but with Wilcox Marketing Company, get high teens operating margins in the long run, obviously? Can you just address the thought process there?

Michael O. Johnson - Herbalife Ltd - CEO

Well, I would love to be able to say it, but the high teens is not achievable for this type of business, I don't believe. We pay a lot out to our distributors in terms of margin of what we do. So, we're not Proctor and Gamble. We are Herbalife and we are in a direct sales model here, which is a little different economic model.

Greg Probert - Herbalife Ltd - President COO

I think we'll be cautious and that we'll maybe have this conversation a little bit more detailed on our next call when we give '07 guidance. How's that?

Connor McLaughlin - JLF Financial - Analyst

Sounds good. Congratulations again, guys!

Greg Probert - Herbalife Ltd - President COO

One last question and then we'll turn it over to Michael.

Operator

Michael Lasser from Lehman Brothers.

Michael Lasser - Lehman Brothers - Analyst

Hi guys. Real quickly. Could you characterize the frequency of which you're having discussions with the Chinese government? Are they occurring more often more recently, or has there been any change there?

Greg Probert - Herbalife Ltd - President COO

Yes, I would say probably an increase. Percy [Inaudible] who runs China was here, as Michael said, with all of our international management team going through the reorg and focusing on priorities for the remainder of this year and next year. And Percy flew back yesterday straight into Beijing. As you know, it's not only the central government, but it's meeting with provincial governments.

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One of the reasons that we built the infrastructure that we did and we have regional management was so that that regional management team can meet with the provincial governments, Percy can meet with the Central. He can also meet with the regional, so I would say, because we built out the infrastructure, that has allowed us to increase the number of meetings and strengthen the relationships, both at a state and provincial level.

Michael Lasser - *Lehman Brothers - Analyst*

Have you altered your spending patterns in China due to any change in your expectation on when you might receive the license?

Greg Probert - *Herbalife Ltd - President COO*

No.

Michael Lasser - *Lehman Brothers - Analyst*

Last question, promise. The capital structure outlook for next year, do you feel it's appropriate to carry some amount of leverage on the business? Or will you look to be completely clean?

Rich Goudis - *Herbalife Ltd - CFO*

I think by the end of this year we'll probably be net debt free and the reason for the recap was to put all our debt in a position where we could use our attractive cash flow from our business and pay down debt and accelerate the bottom-line earnings.

Beyond that I think our Board will do the right thing and evaluate other alternatives and options for the right use of cash.

Michael Lasser - *Lehman Brothers - Analyst*

Thanks very much.

Rich Goudis - *Herbalife Ltd - CFO*

Adrian, why don't we just pass it over to Michael for closing comments?

Michael O. Johnson - *Herbalife Ltd - CEO*

It's always good to talk to you all. You actually had some questions that spur us on a little bit and we've had a great quarter. Everyone of us at Herbalife, and that includes distributors and employees, are pleased and excited about the performance in the first half of this year.

As I said earlier, what it does is it builds confidence and confidence is the underpinning of keeping this Company growing and strong and vital. But as I've said many times before, we're just getting started in this Company. Our distributors know it; our employees know it; all of our suppliers know it; everybody who is involved in this Company knows we're just getting started.

There is a lot more to be done and there is a lot of opportunity ahead. The organizational realignment that Greg spoke about earlier is just the first step in ensuring that we are supporting our distributors and have the right people in the right places to execute the objectives that we have set up for ourselves and communicated to all of you, and hopefully, very clearly communicated.

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In the midst of everything we do, our distributors remain our number 1 focus. And let me repeat that, they are our number 1 focus. In fact, last month alone we saw nearly 30,000 distributors at our North American and European extravaganza. And in the last four weeks, many of us have traveled as far as Bangkok Thailand, to Athens, Greece, to Las Vegas, and some of us even in Berlin for a distributor event at the World Cup final.

We're traveling, we're out there. We're with our distributors and we will continue to make prudent investments, prudent investments that will provide a great business opportunity for part and full-time income, that will develop high-quality science-based products for our consumers, that will continue to support our three 'Rs' and deliver on creating world class customer service experience while reinforcing our commitment to changing people's lives.

Jump on herbalifeshopping.com. Thank you for joining us on today's call and we'll see you in three months.

Operator

Ladies and Gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect.

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will also be in that same range of 6% to 10% and the EPS will be in the range of \$0.50 to \$0.55. That concludes our review of the guidance and now we will open the call for your questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Doug Lane, Avondale Partners.

Doug Lane - Avondale Partners - Analyst

A question I have -- I know it is preliminary and you didn't call these numbers out, but do you have any early read on the supervisor numbers for the total Company, as well as Mexico in the quarter?

Rich Goudis - Herbalife Ltd. - CFO

No, Doug. We will have that in another couple weeks.

Doug Lane - Avondale Partners - Analyst

Can you just characterize -- are we going to see a sharp fall-off? Is there concern in Mexico with the issues that you mentioned in you are losing some of your important leadership? I just want to get a feel for -- just what the timing is on getting Mexico back on track here? Is this something that you think can be done on relatively short order? Are you going to have to meaningfully rebuild leadership there?

Rich Goudis - Herbalife Ltd. - CFO

Let me start and I will pass it over to Greg. I think from the new supervisor -- I would expect our new supervisor growth rate trend to follow the fall-off that we are seeing in the volume points. So that is what we would expect and we will report that obviously in our fourth-quarter call in late February. As it relates to the business rebounding from where it is, I will pass it over to Greg.

Greg Probert - Herbalife Ltd. - President & COO

I think to address your specific question on loss of leadership, we really haven't lost any leadership down in Mexico. What we are seeing is that the lower end -- the distributors that were suspended were clubs -- all but one of them were below TAB Team -- so the supervisor or world team level and one of them was a TAB Team.

Actually, to tell you the truth, our Chairman's Club down in Mexico met with Michael and I at our extravaganza in July and again at our extravaganza in September down in Mexico and it is really leadership that brought the compliance issue to the forefront, as well as the infrastructure issue and they have been very supportive of the actions taken by the Company. I think some of the momentum that we have lost is because there is somewhat of an unlevel playing field down there because some of the distributors are not compliant with our rules. ?

We always address this point in every quarterly call, which is -- one of our goals is to keep a level playing field so all distributors are competing fairly with one another and the stepped-up compliance is really to do that.

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I think just to give you a couple of stats, we have done, over the past couple of months, about 500 audits of Nutrition Clubs in Mexico throughout about 16 different cities. Of that, we have about a 70% noncompliance rate. Now that was everything from an outdoor sign to some minor infractions, all the way up to selling individual tabs.

The good news is that once we notified the clubs that they were not compliant, we had a huge percentage of that, of the 350 that were not compliant, all but 49 became compliant within three days. So again a 90% rate. And that really points to us that this is not an issue of a lot of distributors willfully doing that practice. It is just because of the growth, there has been a lack of training and there's just a lack of knowledge that these distributors are breaking the rules.

So again, we think this is not only a compliance and auditing issue, but really a training issue and we are going to step up that training over the next few months in every one of the things that we are doing from STSs, HOMs, the world team schools will be training on ethics and proper ways of doing Nutrition Clubs. Leaders in their own individual meetings will do that and I think we are optimistic that the few clubs that are not following the rules, they will be asked to leave the business.

But again just to use that initial number -- less than 10% of the clubs did not become compliant. Even of the ones we suspended, about 25% of the suspensions -- within a week of being suspended, they became compliant. So again, we are seeing a real willingness amongst our distributors to operate ethically and I think this is we feel a short-term issue and it is hard to predict the ripple effect, but ultimately I think we are optimistic that we will get through this and it's just part of the growing pains of growing 100% growth down in Mexico for the past year and a half.

Doug Lane - Avondale Partners - Analyst

Just one last question on another topic. In China, did China end up doing the \$30 million or so that was expected in '06 and can you give us an update on the prospects for direct selling licensed there?

Rich Goudis - Herbalife Ltd. - CFO

Yes. We would expect when we report our fourth-quarter earnings that China will exceed that low end of the range and I will pass it over to Greg for a more update on China.

Greg Probert - Herbalife Ltd. - President & COO

Where we are in the license process is we have received all local provincial approvals. Our license is sitting with [modcom] at the state level. As you may know, there are three different hurdles you go through there. We are through two of the three hurdles. So everything is progressing smoothly. No issues to date and we are not predicting a date we will get it because in China, it is a hard thing to do, but there is no issues and we are moving through the process very well.

Operator

Andy Speller, A.G. Edwards.

Andy Speller - A.G. Edwards - Analyst

I was hoping to get some more color around just -- I think you said there were 40-something suspensions of distributors, is that right?

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Greg Probert - Herbalife Ltd. - President & COO

That's correct. So 500 audits; 350 were not compliant and of that 350, only 49 did not become compliant within the three days that we give them and so we had 49 distributorships who were suspended. And of that 49, 10 of that 49 have subsequently to the suspension become compliant. So out of 500, 39 were not compliant.

Andy Speller - A.G. Edwards - Analyst

And I guess -- I am just trying to work through how that number can lead to the slowdown in which we saw over the last I guess eight weeks.

Greg Probert - Herbalife Ltd. - President & COO

Right. Obviously, shutting down 49 clubs doesn't have a material impact on the business the size of Mexico in terms of the volume flowing through those clubs. The issue is more one of an unlevel playing field. As you guys know, this is a momentum business and when distributors -- It has been a distraction for distributors.

I think the distributors that were operating legitimate clubs felt it was unfair that other clubs were competing with them. As we told you, these clubs are in close proximity to one another. So if someone down the street is advertising or doing flyers or selling individual tabs, it is an unfair competitive advantage.

"individual tab"?

So I think it is a distraction element and what we feel is the compliance and the fact that we are suspending 49 distributorships and continue to do audits and we are going to continue to do those audits over the next six months, we are actually going to beef up and probably get up to 1000 audits a month over the next six months, we think we can abate this issue and really the legitimate distributors I think will then be reinvigorated and I think you will see a return to growth in the market.

Andy Speller - A.G. Edwards - Analyst

Greg, this is really more of a recruiting issue than a participation issue of the people who are participating there?

Greg Probert - Herbalife Ltd. - President & COO

I don't think it is a recruiting issue. I think it is a training issue. So many clubs were opened so fast that -- for instance, if you're recruited and your upline teaches you -- I use a sign or I sell individual tabs and you open up your store and within three weeks, you open up five stores underneath you, those bad practices get handed down and it is a case of ignorance of the rules and the right way of running the business.

So again, going out and through the audit process, I was very encouraged that of 500 audits, the bad news -- 350 were not compliant. The good news is of those 350, all but 49 became compliant within 72 hours of us doing the audit. So again, the audit is an educational tool as well as a compliance tool.

Andy Speller - A.G. Edwards - Analyst

I guess I am still kind of confused in terms of if it is people not showing up and selling more or is it just the trickle-down effect of not opening up the clubs at the same rate they were being opened up before?

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Rich Goudis - Herbalife Ltd. - CFO

I think it is really a combination. It is really the distraction factor that people are spending time now getting into compliance versus growing their businesses. This is a very emotional momentum business and I think when you have oversight from the company, that creates distraction amongst the distributor groups.

Andy Speller - A.G. Edwards - Analyst

Fair enough. Then in terms of where we think Mexico can get back to, kind of to Doug's question, have you guys identified a timeline in terms of when you think growth can occur and where is that growth on a longer-term basis?

Rich Goudis - Herbalife Ltd. - CFO

Our hope is that by announcing this today and as Michael said, Greg is going down next week with a team of folks, that we start working with our distributor leadership in a very open forum and that we move forward very quickly to resurrecting growth in the marketplace.

But given the precipitous drop from November to December without their participation and involvement, right now, we are taking a very cautious look and while seasonally we expect New Mexico would slow down in December, our expectations right now, we are calling for a flat year assuming that if we can get to somewhere between 40 million to 50 million volume points a month, that is essentially a flat year for Mexico.

So we need to have the distribution issues that we talked about in the November call, see new distribution centers open up. We opened up three in the fourth quarter. We need to see expanded and deeper training and we need to see better compliance and we think when the complements of those things are fixed, which are the growing pains we are talking about, again Michael said we are all very supportive of it, but the clubs are a fantastic business opportunity.

They really embody the three Rs in our business. That is very strong in high retention. Mexico has the highest retention of any country in our 63 market portfolio. So we are very bullish on the concept. Our distributor leadership – it brought the issues forward to Michael and Greg and we believe that by getting at it early, hopefully we are talking about Mexico growing again by the end of the year.

Greg Probert - Herbalife Ltd. - President & COO

Well, we have very difficult comps in Q2 and Q3 with Mexico right now given where they are running in the business.

Andy Speller - A.G. Edwards - Analyst

Yes, but it is really more sequential than it is year-over-year I think from this point.

Greg Probert - Herbalife Ltd. - President & COO

Absolutely correct.

Andy Speller - A.G. Edwards - Analyst

And then lastly, Rich, I know that the tax situation in terms of how you are lowering your tax issue, if you could just kind of walk through that with me and again. I know it's complicated. If you want to cover it off-line, I guess we can do that.

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20 per club per month

10K/month | 500 clubs | 20 clubs/month

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Rich Goudis - Herbalife Ltd. - CFO

Just very quickly, this is part of a two tax strategy that we put in place in '04 and '05. We had always expected that our effective tax rate would move down into the low 30s kind of best-in-class with what you see some of our peer companies have in our business given the global nature of our profitability where 80% of our profits are derived outside the U.S.

So I think our strategies are definitely on target. Because of the mix of where the profitability is coming from now that we have relooked at our 2007 year, we believe the effective rate will be a little bit lower than we initially guided. We would expect ongoing improvements in '07 and '08 as our tax strategies and the full impact of those are felt by the end of 2008.

Operator

Christopher Ferrara, Merrill Lynch.

Christopher Ferrara - Merrill Lynch - Analyst

Can you give a little bit more color I guess on specifically what rules were being broken? I know you mentioned advertising and I know people were maybe mixing in some products that weren't Herbalife products in there. Can you just talk about what the more meaningful rules were that were being broken?

Greg Probert - Herbalife Ltd. - President & COO

Because the two biggest noncompliance areas were advertising outside the store and selling individual tabs. So by far, those are the two biggest areas. And the other -- I think you named some of the other ones, which would be having employees run the store as opposed to a distributor running the store, franchising the concept -- the club concept, using flyers and different forms of advertising to attract people.

One of the things that we have done to address this again is we are issuing a new set of rules down there and again under the request of our leadership down there, we are actually publishing what we are calling a code of honor, which the entire TAB Team of Mexico will sign this. It will be attached to the rules and what it basically says is that they all agree to adhere to the rules and more importantly to train their downlines with those rules and so again, we are very encouraged by the fact that once these things are highlighted, the distributors in resounding numbers have been compliant almost immediately.

Christopher Ferrara - Merrill Lynch - Analyst

And then I guess if you think about it, you said I think, what, 300 and something were non-compliant. What is the average duration of time that these guys were doing stuff that is unfairly competitive? I am just trying to understand because it sounds like some of these guys were uncompliant; you shut them down quickly. Why would sales start to fall off now if some of these guys presumably started to become compliant back in October and November?

Greg Probert - Herbalife Ltd. - President & COO

Right. The audits were done. The first round of about 150 were done in late October, early November and another round was done in November and December. So again, it hasn't been that long since they were done. I think it is also just -- it has been building up over a couple of quarters. It got on our radar a quarter or so ago and we have been putting in fixes. But again it just takes a little bit of time. It's a momentum business and it has been very distracting and I think once we put the fixes in and we regain that momentum, we will return Mexico to growth.

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Michael Johnson - Herbalife Ltd. - CEO

This is Michael. I think it is a good question and I hear where you're going and you are trying to get say a very finite detail and so if this were Baskin-Robbins, how many less scoops of ice cream are being served a day and what impact we have on that.

This is a business that has got a lot of emotion and aspiration attached to it. So I opened up a Nutrition Club in Mexico City and I play by all the rules and right down the street from me, somebody (indiscernible) our table up or they do something -- they start selling a shake for less price. They may not have full ingredients to it. They are hanging an Herbalife sign. They may not even be an Herbalife distributor. They may not have Herbalife product, but they are trying to ride the brand on us.

What it does is it takes motivation away to open two more Nutrition Clubs and know that somebody is hawking right on top of me. We are going in and putting those people out of business and I don't want to put that -- I want to be very careful how I say it because a lot of times these are not distributors. These are people who are hurting distributor momentum and hurting our business down there.

Greg and I when we were down there in October visited a variety of Nutrition Clubs and what we saw was a scale of operational -- what should I say -- integrity that was a little wider than we wanted. So what we are concerned about and what we are going to focus on is making sure that a legitimate distributor has the opportunity to expand their business on a level playing field and in Mexico City and this is where we believe most of our issue is, is where this is occurring right now.

If I could take you on a visual tour of that, I would love to do it. We actually had some camera crews with us at the time just by happenstance; we had been doing something else. We went into see these and I will be very honest with you, we went into one -- what was called a Nutrition Club and the woman was selling a variety of products. She had a lousy presentation of (indiscernible). She complained about the Nutrition Club down the street. So we went down the street and it was a fabulous Nutrition Club, 10 people sitting there at 10 o'clock in the morning having a shake a tea, operating a very clean wonderful environment, well taken care of, very, very professionally done.

You see the difference in there and what we have to do is we have to support the legitimate businesses in order to protect ourselves. And some of our growth came out of these illegitimate businesses. So we are going to go back and I would say that these people are less than 10% of our business down there. We don't have an exact read on it, but as we get into the marketplace and get deeper into it and get our local management tuned in much more deeply to some of these issues because that is -- we have to make sure that local management is handling this, as well as the international management, but they need training too. So we are working with them.

They have been largely trained and steeped in distribution and now we are saying to them, guys, we have to get out in the marketplace, we have got to work with distributor leadership. We have got to work with distributor management because the distributors are where you get the real information about what is going on about our business. So we want to make sure that we're working very closely in the marketplace. So the training is with the distributors. It is with our management team. It is with ourselves to make sure that we are creating a level playing field for this wonderful business opportunity that is taking off in other parts of the world. We will learn from Mexico and we will apply this knowledge rapidly as the rest of the world expands.

Christopher Ferrara - Merrill Lynch - Analyst

I hear you. I am really not trying to count the ice cream scoops. I am just trying to --

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Michael Johnson - Herbalife Ltd. - CEO

I'm not suggesting you are. I just said I know that with your analytics, you want to dive in very deeply here and so do we. But there is a certain level that we can dive into.

Christopher Ferrara - Merrill Lynch - Analyst

I am just trying to more clearly understand the timing, right, because you're talking about the guy who sets up the card table right next door. If that started to happen in December, I can get that, but it seems like that was happening cumulatively until October or November and then it stopped. Now sales fell off. That seems like maybe -- did sales fall off because you started enforcing the rules more strictly. Is that what it is and does that imply there is a portion of your growth or a big portion of your growth coming from people who are doing things illegitimately?

Michael Johnson - Herbalife Ltd. - CEO

Let me just -- and I tried to answer that before, but I will try again. Greg speaks your language better than I do, so I am going to speak to highline on it. Distributor motivation is taken away and that is the expansion. The expansion of Herbalife in Mexico, the reason that we, in 2006, are almost three times larger than we were in 2004 and the reason is because people opened up a lot of new Nutrition Clubs.

There was a woman that I met down there that has 600 customers a month who had no customers a month eight months ago, nine months ago. She is expanding rapidly down there because she seized the opportunity. She is building it. When this card table comes in front of her and she has a competitor sitting right out there cutting the price in half, questionable product integrity, questionable Herbalife integrity there, that slows her momentum down.

It is not the guy with the card table who is buying product and stopping (indiscernible), it is the woman who doesn't expand our business. That is the bigger issue to me down there is the expansion of Nutrition Clubs. We talked about it in the opening comments. We are a Guadalajara/Mexico city predominant business. There's a lot of other cities in Mexico, but to get the momentum going, to get this going, the leadership has to have confidence that we are going to protect this golden goose and protect the opportunity to go forward. And that is what we are doing.

We are sending a signal into the market. So the slowdown in my mind and we don't have specific analytic metrics on it, the slowdown for us right now is looking at the market with our local management, with the leadership and saying that we have frankly lost a little momentum because the inspiration to go out and start a new Nutrition Club has been retarded by the fact that we have these rogue operators in front of us.

Greg Probert - Herbalife Ltd. - President & COO

The only thing I would add to that is that in addition to that, because of the suspension and the crackdown on some of the clubs that are not operating legitimately, people that, two months ago or three months ago, would have opened the same type of club now are not opening it. They are just not coming into the business.

So some of that growth that was driven by non-compliant activities that we have lost that growth and in conjunction with what Michael was talking about, which is the growth in our legitimate side of the business. So I think we started to see a slowdown a few months ago and I think it just, with the compliance taking effect, that just accelerated. But again, we need to get rid of the non-compliance so the other 90%-95% of the business can return to strong growth.

Explosive Growth

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Operator

Javier Escalante, Morgan Stanley.

Javier Escalante - Morgan Stanley - Analyst

Sorry for keep asking questions about Mexico, but I just would like to understand a couple of things, right? In your flat forecast, are you guys assuming that you are going to be continuing shutting down nutritional clubs throughout 2007? That basically the non-compliance rate is 10%. So as you continue rolling out this audit, you inevitably are going to be losing 10% of the nutritional clubs. By doing that, this is kind of like somehow freeze out the growth of the market? Is that the assumption? Why is it down? Where is it flat? Why is it not up 10 or down 10? How do you come up with the flat number?

Rich Goudis - Herbalife Ltd. - CFO

We will have a much better read obviously when we give you an update at the end of the -- for our fourth-quarter earnings. As we said, Greg is going down next week to get into this with our distributors. But a couple of things we have said here, one is we are increasing our level of audits. We believe that by doing that throughout the course of the year and working on the training that this will -- the percentage that we talked about earlier will get smaller and smaller because the training and the quality of the training will get better and better.

We hope that when those actions come into place that we are talking about very good growth rate by the end of the year. But right now given our recent trends, and it is recent, so I want to underscore that, that when we look at Q2 and Q3 and the difficult comps of trying to hit 55 million volume points a month, right now, a lot of things need to get better to be able to withstand those negative comps that we expect in Q2 and Q3 before we start growing and comping better in the fourth quarter.

So right now, we're looking at a positive comp in Q1, maybe flat to down in Q2 into Q3 and then up again in Q4. So that is kind of our outlook and wholly by getting at this early, we come back in and revise these numbers and we revise them up.

Javier Escalante - Morgan Stanley - Analyst

Mathematically, Rich, what you are assuming is essentially say that I'm selling 10 million volume points per month, that you are not going to be able to grow that over the next 12 months and that is why you're going to have the dip in the second and third quarter, right? So you're basically assuming that there is not going to be volume loss. You are simply going to be flat on volume and because the seasonality of the business, you are going to be down in the second and third quarter. Is that right?

Rich Goudis - Herbalife Ltd. - CFO

On a volume basis, we believe that the worst is past, but if you look at where we are today at 44 million volume points in December, a lot of good things have to start happening, right? Some of it is seasonal, but a lot of good things have to start happening to get up to a 48 million to 50 million volume point run rate. That gets us flat.

Javier Escalante - Morgan Stanley - Analyst

And the issue I guess and this is basically what Michael was alluding to and I think that I agree. It seems like if 75% of the volume is coming from these two places, what you are basically discounting is whether these two places are saturated and you have the rest of Mexico to expand to. So what the barriers for that expansion? Why not accommodate whatever audits you need to do in Mexico City and Guadalajara and why not push strongly outside these two places so we don't need to be flat?

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Rich Goudis - Herbalife Ltd. - CFO

Well, first of all, we are opening up DCs. We said that on our last call. We said that was an issue that we raised midway through '06. We opened up three additional distribution centers in the fourth quarter. But again, we don't want to have that rampant and rapid growth at the risk of having this non-compliance permeate into the new market. So I think that we're going to have a more prudent and possibly slower growth approach to the club expansion if it takes more time and more training to get a more stable business.

Javier Escalante - Morgan Stanley - Analyst

Yes, but I think that one other thing that probably all of us were struggling with your commentary about what the distributors are doing that is so kind of like out of the rules, they don't seem serious to us I guess. I mean the fact that somebody put a sign that she or he is selling Herbalife and meeting people every day in the morning. So why is it so wrong? Why is it that that is such an unfair practice that paralyzes everybody from doing their job? I guess this is what probably some of us are trying to understand.

Greg Probert - Herbalife Ltd. - President & COO

I think it is really an issue back to a level playing field and Michael addressed this I think in the comments earlier is if I am operating under the rules and the club two blocks down is not, whether it is a big deal or it isn't and whether it is an unfair advantage, the perception of our distributors is that it is not fair. It is distractive and it kills momentum.

So again one of the things we always talk about -- one of our rules in the company side is to maintain a level playing field for all distributors. And if they believe that field has been tilted and we haven't done anything to correct that, it is incredibly distractive and it kills momentum. So what may seem like a small issue to you guys, whether it is advertising or whatever, to our distributors, it is incredibly distractive and it's a huge issue.

I can tell you how huge it is -- as I mentioned, this has brought by our chairman's club this issue to Michael and I. I think in the second or third quarter of last year, we met again with the S&P group. They were very emotional about it. So I think it has been building up and now we are addressing it. And it is an emotional issue, but as you know, this is an emotional business. It is an aspirational business and we have to maintain a level playing field.

Javier Escalante - Morgan Stanley - Analyst

And a question for you guys, Greg and probably Rich, right, you guys are keeping the EPS target unchanged with lower sales, right? So that sounds like something that sounds like risky from the outside. You guys are spending money I would imagine with the audits. My understanding talking to Mexican distributors yesterday is that you guys hire a company to do these audits. So that costs money. Should you guys -- are you guys cutting back in marketing and distributive spending at the wrong time? So give us some comfort that the fact that you guys are maintaining EPS unchanged with lower sales. This is not going to be eventually detrimental to the business.

Rich Goudis - Herbalife Ltd. - CFO

It's a great point initially. Let me hit the first one on our guidance and then I'll turn it over to Greg as it relates to his investment ideas and the amount of money he is going to invest in our high-growth markets this year, which we don't think are affected at all from this.

We went through a process over the last couple of days and as we looked at our top line and we took some expectations down as it relates primarily to Mexico and we challenged ourselves as it relates to our earnings level.

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AL

EMOTIONAL BUSINESS

CONFIDENCE SENSITIVE BUSINESS

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Most companies, as you know and most investors know, when they announce information like this, they usually miss. They usually are not realistic internally. They have high hopes that they can do better and they don't take the number down enough. We believe we are in a position where we have taken a very strong scrub to the numbers.

We had a tremendous amount of leverage that came out of our alignment for growth initiative last year that if we didn't guide operating margin this year as we indicated, but we had a tremendous amount of operating leverage that essentially was upside for us to have potentially for discretionary investment that at this point we believe very, very comfortably that our EPS range given the 6% to 10% top line, we are very comfortable with that EPS range.

We talked about possibly taking it down and some investors actually said, hey, this stock is going to overreact today, why don't you take it down, give yourself some breathing room. We don't believe we need it. We believe you should expect the same kind of performance from this Company from this point forward.

You might think that this is an overreaction, but in this business given the independent nature of our distributors, the only way we can talk openly with them is to disclose this information publicly so we can get at it, get them inside the tent and start working the problem together. And better to do that on January 4 than wait until February 25 and release this information.

Javier Escalante - Morgan Stanley - Analyst

For instance in Mexico, Rich, you should be spending more now in order to do the audit, somehow establish controls to level the playing field and at the same time, you need to bring some re-excitement to the market. That will cost money, right? And you are still building up China. You will also start a business in Russia. So would these -- the math works basically. Do you guys have a spending cushion and probably this question for Greg? I mean do you feel that you have enough to reactivate Mexico and at the same time maintain the growth in the growth plan that you had in place prior to this issue?

Greg Probert - Herbalife Ltd. - President & COO

There are a couple of questions in there and let me address Mexico first. These audits don't cost a lot of money. Just to give you -- the 500 audits, we did that with nine staff members. We're probably going to add about another 20 staff on a temporary basis to get to 30 people, which is 15 teams of two people. That is about 1500 audits per month.

So in the next six months, we'll probably audit about 25% to 30% of our clubs and then we'll really understand the nature -- the early indication is that less than 10% of the clubs will ultimately not be compliant. So again, I gave you those numbers up 500 clubs, 49 suspensions. So slightly less than 10%. And then of that, a quarter of those suspended became compliant. So that gets it down to 70%. If that number holds up, fixing that is not going to be expensive; it is probably about \$100,000 of incremental SG&A spend in Mexico over that six-month period to get an understanding of that.

To reinvigorate the Mexican market, just getting rid of this issue, leveling the playing field will reinvigorate the market. I was down there in November. I did a three city tour with the leadership, saw all the TAB Teams in Mexico, Guadalajara, Monterey. ~~We saw about 3000 TAB Team members and merely the fact that I announced we're going to enforce our rules got a standing ovation.~~ This has been a pent-up issue and just relieving that pressure in and of itself will reinvigorate the market. I don't think there is a massive amount of incremental spending needed to reinvigorate Mexico, I think we just have to get rid of this one issue.

Javier Escalante - Morgan Stanley - Analyst

And what about the China, the Russias by --?

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Greg Probert - Herbalife Ltd. - President & COO

I think Rich already addressed this.

Javier Escalante - Morgan Stanley - Analyst

What about the spending to maintain the growth in the U.S. and all these other places?

Greg Probert - Herbalife Ltd. - President & COO

Well, I think Rich already addressed that, which is our organizing for growth initiative realigned our spending to those high-growth markets and to distributor facing activities and took it out of staff functions and back-office functions. So the reason we did that last year and took that one-time charge was to reallocate -- I think you are now going to see the results of that this year.

So we are not increasing our SG&A spend; we just, through our realignment last year, we realigned that spend to the high-growth markets like the U.S., like China, like India, like Russia and also to distributor facing activities in all our other markets. So we've already done that realignment and so for the same amount of spend, we are going to get a lot more bang for our buck.

Javier Escalante - Morgan Stanley - Analyst

Could you remind us how much is the realignment? How much savings did you guys were realizing with the realignment?

Rich Goudis - Herbalife Ltd. - CFO

Sure. What we said was we expected \$8 million to \$10 million of expenses to run through the P&L starting in the fourth quarter of '06 and through the first half of '07. And we expect the savings of that to be somewhere in the nature north of \$20 million.

Javier Escalante - Morgan Stanley - Analyst

North of \$20 million?

Rich Goudis - Herbalife Ltd. - CFO

Yes.

Operator

Rommel Dionisio, Wedbush Morgan.

Rommel Dionisio - Wedbush Morgan - Analyst

In your press release, you talk about sales growth in the U.S. in particular. Was there something that you saw in the fourth quarter or maybe it is just a continuation of trends in the third quarter that led you to go to that of 11% to 15% growth rate in '07? Are you still seeing strength in the Nutrition Clubs in the Hispanic market for example?

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Greg Probert - Herbalife Ltd. - President & COO

Yes, to give you the sense -- you know Michael gave you the stats for Mexico in his prepared comments. Let me give you similar stats for the U.S. business during the fourth quarter. In October, and remember that in the third quarter, the U.S. business grew 24%. In October, we saw volume in the U.S. up 26%. In November, up 27% and then December, up 22%. So we believe that the trends that we indicated with the Latino business growing very strongly in the third quarter, again strong adoption of the Nutrition Club DMO, we believe that it is only accelerating in the U.S. and we would hope that we carry that into 2007.

But what we have done is because of what we are seeing in Mexico, we don't want a repeat of that in the U.S. so we internally are just taking a little more cautious approach as it relates to our growth expectations for the U.S. business. I'm sure if you talk to our distributors, they probably have a lot higher expectations of the expansion in their growth rates. But better for us to be a little cautious and take the learnings that we're going to get out of Mexico and apply those to the U.S. and share those with our U.S. distributors.

Rommel Dionisio - Wedbush Morgan - Analyst

Fair enough. Are there any other markets that are seeing an acceleration? I take it a lot of this can be attributed to the introduction of Nutrition Clubs in the U.S. Any other markets that are seeing this kind of acceleration?

Rich Goudis - Herbalife Ltd. - CFO

A couple of other things to point out. A lot of people talked about Brazil and we talked about an inflection point in Brazil in July as it relates to the adoption of Nutrition Clubs. And we saw in each of the months during the fourth quarter in October, November and December that the year-on-year growth rates in Brazil continued to accelerate. For example, this is on a volume point basis now so it doesn't directly correlate to what we will report as net sales, but October was up 5%, November was up 10% and December was up 10% year-over-year.

So again, trend -- the positive trend in Brazil continues and then another large market for us, which is South America, the Spanish-speaking South America and Southeast Asia, we saw growth rates of 35% again on volume basis in October, 42% in November and 46% in December. So we have a lot of -- we have a lot of reasons to be very optimistic on some of these markets.

I think the reason for this call was one, to celebrate the success that Michael talked about and second and most importantly is to get this information about Mexico and regarding Mexico in the hands of our Mexican distributors so they, along with our local management, can start working this issue early in the year.

Operator

Michael Lasser, Lehman Brothers.

Michael Lasser - Lehman Brothers - Analyst

Given what has taken place in Mexico, what gives you confidence that some of those practices aren't taking place in other markets? Do you think you'll need to suspend distributors in other countries?

Rich Goudis - Herbalife Ltd. - CFO

Right now, we don't know is the real answer. The audits that Greg discussed that we started in late 2006 in Mexico, we will start doing something similar in markets where the clubs are starting to appear. Again, more just to give feedback to our distributors

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on how they might have to tweak their training method, but right now, there is no early indication that there are any of these problems outside of what we have already discussed in Mexico.

Michael Lasser - Lehman Brothers - Analyst

And it sounds like you feel that the practices that are not compliant with the Company's rules are just taking place in the Nutrition Clubs, not distributors who use other DMOs?

Rich Goudis - Herbalife Ltd. - CFO

Well, I think the primary DMO in Mexico are clubs. Clubs are what is the accelerant for growth. So that is really where the focus has been. It is a lot more difficult to audit somebody who is doing a business from their home on the phone, on the street corner, right? So the clubs are the ones that are easier to audit. They are visible to us and to consumers. So that is really the focus of our audits.

Obviously, we have a very expansive ethical business practice group as it relates to watching and monitoring distributor behavior and their order patterns, etc., etc. from a compliance standpoint. So that goes on in all of our markets and that is well in place.

...
We have
Expansive
Compliance
...

Michael Johnson - Herbalife Ltd. - CEO

This is Michael. I just want to add to that a little bit. This is not just about compliance. We also have a distribution issue in Mexico that we are addressing. We talked about that. We seem to be very focused on compliance on this call, which is fine, but we have a distribution issue there that we think is somewhat equally weighted to this and we have a training issue in those markets.

So when Greg heads down there next week, one of the reasons we wanted to get this call out of the way is really kind of twofold. One, we can open up the kimono and have a full discussion with leadership about the performance in their organization that we couldn't have before this good old -- because of all the Reg FD issues that we live under. Welcome to the CEO life. Then two is that we will today follow this call up with a call with our chairman's club.

One of the reasons we wanted to get this out of the way, our chairman's club, who are the real go-getters, the real leaders, the people who take the stage who lead the parade in this Company who are the heavily inspiring motivating people, we have highly aspirational folks, we will be on the phone with them in two hours to go through this in more depth with more discussion to say here is what we have got to do.

Chair Club
are the
real
leaders

They will give us a ton of input and say here is what you need to do and here is the support we need and together -- and this will also be because these are global leaders, a very straightforward message to them that as this gets going in Europe, as this gets going in India, as it gets going in other marketplaces in the world, we want to make sure we are doing this right so we don't hit this bump in the road that we have hit here.

Michael Lasser - Lehman Brothers - Analyst

Mexico has been used as a model to describe what can be achieved in other markets. It has been said as the aspirational message for other distributors. So could the negative momentum in this market proliferate to others and how might you be able to prevent against that?

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Michael Johnson - Herbalife Ltd. - CEO

Here is the message. Two years ago, Mexico did 200 million. This year, 600 million in volume points. That means that my check has tripled in two years.

Rich Goudis - Herbalife Ltd. - CFO

We will take that problem.

Michael Johnson - Herbalife Ltd. - CEO

Yes, I will take that problem all day long.

Greg Probert - Herbalife Ltd. - President & COO

(indiscernible) It's a great question because it was a concern of mine and Michael's and we have spoken to several of our chairman's club and some of our leadership and they see it the same way we do, which is that's to be expected. When you grow that fast, there is always going to be a bump in the road and some growing pains. We are not surprised by it. We will get through it.

Again, one of the reasons we are having the chairman's club -- this call this afternoon is they will help reinvigorate the market and they will help ensure that in Europe and the U.S. and all the other countries that are rolling out (indiscernible) clubs that we don't throw out the baby with the bathwater. This is a great DMO. It is a great concept. It is built on retailing, home business. It is a great microeconomic strategy for people around the world. And we want to make sure that that is put in the proper context with our distributor leadership.

So part of the call this afternoon, part of my going down to Mexico is to make sure that the small bump in the road is perceived as that and not as something wrong with the DMO. Michael and I and everyone are very enthusiastic. We still think this is a fantastic way of doing business and very encouraged by the fact that our distributor leadership was brought into this and they are very encouraged by it and you can see the evidence of that in countries like the U.S. now.

Michael Lasser - Lehman Brothers - Analyst

Two more questions. One way to characterize Mexico is that it's just matured. You probably wouldn't have had some of the distributors complaining if they had an easier time selling their products and competition wasn't so significant and the market was saturated. So using the example of some of the other more mature direct selling markets that haven't fared well in recent -- in the last couple of years like Japan, like Germany, what could be the best -- what could be the worst-case scenario for the next 12 to 24 months for Mexico? And then I have one follow-up after that.

Greg Probert - Herbalife Ltd. - President & COO

Again, I will go back to what I think Michael said is Mexico City is a little less than 20% of the population of Mexico. It is roughly 50% of our business. So obviously we're very heavily concentrated in Mexico City. Guadalajara 10% of the population, 25% of our business.

So part of this infrastructure build is to really go and penetrate some of the other large cities, Monterey, Villahermosa, Hermocillo, Tijuana, the Baja Peninsula. We are not heavily penetrating any of those markets and to tell you the truth, in 24 of the states in Mexico, we have almost no penetration. So again, we are not even close in my opinion to being penetrated in that market. We

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only address about 30% of the population of the country with our existing distribution centers and the nature of Nutrition Clubs is if you can't service that daily business with some type of infrastructure, it is very hard for us to grow.

So I think the issue is stabilize the business in Mexico City and make sure this issue doesn't permeate into some of our other existing cities and build the infrastructure to attack the rest of the market.

Michael Lasser - *Lehman Brothers - Analyst*

Okay. Sorry. I just have a couple of questions because this is a good forum to do it. Have you re-thought -- because of the change in the guidance, have you re-thought your uses of cash? Might you consider a share repurchase program if the levels get attractive enough?

Michael Johnson - *Herbalife Ltd. - CEO*

Well, we certainly have got those ideas in our head too and we are working with the Board right now to formulate what the best use of cash is for our Company.

Michael Lasser - *Lehman Brothers - Analyst*

Two last questions. Last quarter, you talked about increasing inventory by \$12 million in Mexico. Do you anticipate having to take a write-off due to the slowing growth?

Rich Goudis - *Herbalife Ltd. - CFO*

Probably not from here forward. We have taken some reductions as it relates to some inventory in Mexico during the quarter, but that is just kind of normal.

Michael Lasser - *Lehman Brothers - Analyst*

And last question, Greg provided great commentary on the progression of China approval earlier in the call. Could you provide some color around the timing of -- you said you have got two of the three approvals? Perhaps when did those occur? When did all the provincial and local approvals come in just so we can get some sense of how fast this is moving along?

Rich Goudis - *Herbalife Ltd. - CFO*

Michael, I think Greg said more than we probably were prepared to say and we will leave it at that.

Michael Johnson - *Herbalife Ltd. - CEO*

We will take one more question.

Operator

Scott Van Winkle, Canaccord Adams.

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Scott Van Winkle - *Canaccord Adams - Analyst*

Thanks for taking my question. There has been a lot of questions about whether the market was saturated in Mexico. Do you think that the indications that – maybe the last crop of distributors to come into those markets in those two major cities in Mexico might have been a little lower quality distributor that you are having these issues with? And is that an indication of saturation of kind of the distributor opportunity? I hope that was clear.

Greg Probert - *Herbalife Ltd. - President & COO*

I think I understand the question, Scott. No, it is not necessarily a new crop of distributors. I think what we are doing is doing a deep dive into organizations and trying to isolate which organizations are having these particular issues.

And again, like I said before, if you were trained to do it the wrong way, then you are going to keep moving that down through generation after generation. So again, what we want to do is isolate where this is occurring and go into those organizations and meet with leadership and make sure that they are training and retraining and reeducating their distributors.

So again, I don't think it is a recent phenomenon. I think it is just something that has been building up over time. It has become known to us recently and I think as we address it with the leadership and again to reiterate, this was an issue with our leadership. They are willing to work with us very closely. I've been down there a couple of times over the past few months, going down again next week. I think it is just an ongoing process and we will get through it.

Scott Van Winkle - *Canaccord Adams - Analyst*

And when you do audits of Nutrition Clubs, is there any way you can measure inventory at the club level with a slowing growth rate and kind of ties on to the last question?

Greg Probert - *Herbalife Ltd. - President & COO*

They don't keep much inventory to tell you the truth. It is, like we said; it is almost a daily or a bi-weekly replenishment type of business by its nature. They don't have a lot of working capital to maintain inventory. What we do hope eventually is that through the (indiscernible) bring everyone to compliance and do trainings, but we will maybe make some better points on the clubs and do some research on a number of members and that type of thing. So hopefully we'll get some better analytics through these audits also.

Scott Van Winkle - *Canaccord Adams - Analyst*

And obviously, short term, you can get in there and do training in that market. Does this (technical difficulty) back and maybe change or deploy a new strategy around training on a worldwide basis or have some requirements for distributors, TAB Team and above or something, to have a certain level of training each year?

Greg Probert - *Herbalife Ltd. - President & COO*

Right. I think the key learnings are to get ahead of this growth curve particularly in the U. S. now. Des, our head of sales, Des Walsh, our head of sales and Jack [Dewillich], who is our head of this initiative are meeting with leadership. I met with them last November, the U.S. Hispanic leadership.

We went through what was happening in Mexico and they were very support of hey, let's prevent this in the U.S. as opposed to dealing with it after the fact. So I think distributor leadership is very focused on this. Again, that is why we are having calls

4,000
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Michael Johnson - *Herbalife Ltd. - CEO*

We will take one more question.

Operator

Scott Van Winkle, Canaccord Adams.

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with Chairman's club. This will be something that we will address on stage at major events. I will address it in my comments this March at our leadership retreat, honors program. This is a Mexico isolated issue. The key learnings are let's get in front of this around the rest of the world and I think leadership is behind that very strongly.

Michael Johnson - Herbalife Ltd. - CEO

I want to thank everyone, this is Michael, for your questions today. We are going to wrap up. It is 9 o'clock out here and we have got to get on with Mexico today. We will always be open and direct with our shareholders and our owners in this Company. It is a philosophy that I will never back off of and we came forward with this news, as we said, really for four reasons early this morning.

We thought it was important that you know the news as we know it. I must tell you I am somewhat surprised by the reaction in the market. Maybe I need more seasoning. This is what I am going to call a bump in the road. Greg and I have looked at each other deep in the eye and through the night and talked to our Mexico team and our leadership. We believe that this is a short-term issue, certainly not a long-term issue. The penetration rates in Mexico are still very low. We are in two cities there where we run a majority of our business and I am confident that the leadership, the Chairman's Club, the President's Team and all of our Millionaire TAB Team and GET Team members are going to live up to their opportunity and share that opportunity with others in Mexico and I am really confident about the world at large for Herbalife.

What happened?

I would put one cautionary note at there. I think China is an '08 story for us. I think '07 is still an investment year and a build year for us in China. We have no definite date for our license there. We are a different company there than many of our competitors because our competitors were in what they call the change mode and had to get a license in order to legally operate. We were operating just fine there last year and we are operating fine there this year.

I continue to be excited about our long-term prospects based upon the megatrends in health and obesity and the strength of our marketing plan and the diverse stage of our business, the hard work and the strong momentum throughout this really fantastic distributor organization we have.

And I would like to just take a moment because I know a lot of them are on this call to congratulate the distributors once again for \$3 billion and I would like to invite all of you on this call to join us and where we will have this March 5000 distributor leaders from all over the world come together to celebrate the extraordinary accomplishment of \$3 billion and we will hand out in excess of \$30 million on stage right here in Southern California and it will be a very exciting moment for this Company, our distributors and hopefully for you, our investors and analysts, who follow this Company. So come on and join us. Come on and see us in March.

We will be on the phone again with you in February recording our quarterly earnings and ready for your questions and hope to talk to you throughout the quarter. So just want to say thank you all very much for your support of Herbalife.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect.

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Feb. 27. 2007 / 11:00AM, HLF - Q4 2006 HERBALIFE LTD Earnings Conference Call

Michael Lasser - *Lehman Brothers - Analyst*

Hi, guys. A couple of quick questions. Historically, Michael, you and the rest of the management team have talked about the benefit to the business of being a publicly traded company in terms of lending credibility to the distributors and also being a source of motivation for the distributors. How do you view that, at least in theory, changing if the structure of the company was privately held?

Michael O. Johnson - *Herbalife Ltd. - CEO*

Wow, Michael, you tried to trap me right away. As you know, I can't really get into that until we get down to the brass tacks of which direction the special committee is going to take. The only thing I would add to it is that our distributors are extremely confident right now. They are very confident in the way they are doing business. I would think that no matter which way we came out at the end of this their confidence isn't going to wane. The one thing a distributor said to me is that, here is a company that Whitney bought for under \$700 million under five years ago is has already, has lobbed a bid in around \$3 billion that is a big sign of confidence for them. So, regardless of which way this goes, they look at it as a hugely confident statement about not only present but the future of the Company. I don't want to step too much further or I will have lawyers chasing me down the hall.

Michael Lasser - *Lehman Brothers - Analyst*

Okay, I guess, real quick follow up to that, you and the rest of your team have done a fantastic job of driving the turn around of the Company. Would there be any change to the motivation level of management if it were a privately owned company rather than a publicly traded one?

Michael O. Johnson - *Herbalife Ltd. - CEO*

Well, again, Michael, I don't want to step in and question the motives of management. But our management is very dedicated to seeing this company grow. No matter how it is positioned in the future, that growth will still be paramount to our success around here. People get rewarded when there is growth.

Michael Lasser - *Lehman Brothers - Analyst*

Great. As far as China, is there any concern that if you do not get a direct selling license in the next couple of quarters that you could begin to lose some of those distributors who are focused on that market to other players or other opportunities? If there is some concern, how might you approach preventing that from happening?

Michael O. Johnson - *Herbalife Ltd. - CEO*

Well, it's interesting. Greg and I are on a plane tomorrow morning leaving for China. I might be able to answer that question for you a lot better in nine days. We are going to spend nine days over there, we're going to six different cities, we're meeting with distributors, going to a lot of our stores. We have got a bonus pay out there in Hong Kong coming I think on Sunday, Saturday or Sunday there, we are pretty excited about that. I am not sensing any of what you mentioned right now. I will have a better answer for you in a week, or nine or ten days, excuse me. We are spending a long time over there. Greg and I are on the move.

Michael Lasser - *Lehman Brothers - Analyst*

Hopefully, you will get your picture taken for the license. [laughter]

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Michael O. Johnson - Herbalife Ltd. - CEO

I will put a big smile on my face for that photo.

Michael Lasser - Lehman Brothers - Analyst

No doubt. Have you also considered auditing – conducting audits in other markets? I understand there are different DMOs and the problems that have arisen in Mexico are mostly associated with the Nutrition Club DMO, but to prevent any sort of noncompliance issues in other markets, what is the perspective on conducting audits outside of Mexico?

Greg Probert - Herbalife Ltd. - President, COO

It is a great question, because when we asked ourselves, how do we get ahead of this issue in other countries so we don't have the same issues? So, what we are looking at is, once we get to a certain level of Clubs in a country, we will do internal EBP audits through our own group. But, also, probably more important than that, is that working with the leadership to basically audit and train their own Clubs and their down lines. Because, it's really stemmed not from, as I said on the last call, not from a lot of distributors wanting to willfully do things against the rules, but really it's through a lack of training, understanding the rules, understanding the policies of Herbalife. And therefore again, we are beefing up training and working with leadership in the U.S. and Jamaica and other countries where we have a lot of distributor clubs, nutrition clubs and so I think, we are getting ahead of it and we don't anticipate having the same issue in other markets.

Michael Lasser - Lehman Brothers - Analyst

Final question, you think being domiciled in the Cayman Islands limits some of your financial flexibility. Are there any thoughts to you changing the domicile so in fact there wouldn't be a limit to how much cash you could deploy to share purchases?

Richard Goudis - Herbalife Ltd. - CFO

Not at this time, Michael. We are very pleased with that domicile. And I think you have seen some of the benefit of that through our tax strategies.

Michael Lasser - Lehman Brothers - Analyst

Thank you very much.

Operator

Next question is from Doug Lane from Avondale Partners.

Doug Lane - Avondale Partners - Analyst

Good morning. I just have two questions. One, specifically following on the previous question. What are the chances that some of the issues in Mexico spill over to the Hispanic population in the US? And then, secondly, can you talk a little bit about why the CapEx outlook in '07 increased since January?

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Greg Probert - Herbalife Ltd. - President, COO

Okay, Doug, this is Greg, I will take the first one and Rich will take the second one. We have the same leadership in many cases between Mexico and our Latino business in the U.S. And so, we have been working with our leadership. I think they really understand the need as they grow the clubs for training and making sure that people are on board it correctly. So, I think, what you will see is that that is not going to become an issue in the U.S. We will also, as I said, in response to the other question is, we will beef up our EBP policies in the U.S. and other markets and make sure that this doesn't become an issue. So, I think, we don't anticipate this as being a significant issue outside of Mexico.

Richard Goudis - Herbalife Ltd. - CFO

Doug, as far as the CapEx guides, I think that was a typo in the press release, it should have been 35 to \$45 million, just like we had initially indicated in November.

Doug Lane - Avondale Partners - Analyst

Okay. All right. Thank you.

Operator

Your next question is from Andy Speller from A.G. Edwards.

Andy Speller - A.G. Edwards - Analyst

Good morning. Rich, first for you, on the SG&A, you did a real good job in the quarter, and we set a new level for the -- either in terms of SG&A dollars or in terms of the expense ratio on a go forward basis now.

Richard Goudis - Herbalife Ltd. - CFO

I believe Michael would answer that as not good enough, obviously, and that's why --

Michael O. Johnson - Herbalife Ltd. - CEO

You got that right.

Richard Goudis - Herbalife Ltd. - CFO

And that was the reason for our line up for growth initiative last year. So, I think you have just seen the beginning of better leverage and better deployment of our discretionary investment, and this is really discretionary -- the dollars that touch the distributors will continue to spend appropriately and more in line with the sales growth. But in areas where we can leverage the business you will see us do that from this point going forward.

Andy Speller - A.G. Edwards - Analyst

The gross margin in the quarter was a bit lighter than what I was looking for. Is that a mix issue or is there something inherently going on there keeping that from expanding higher?

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Richard Goudis - Herbalife Ltd. - CFO

No, slight to the mix but we also did have some write offs, our inventory did move up in the quarter as you saw. We took a few write offs. Similar methodology for taking those write offs, but given the size and some of the prospects for future turnover, that inventory we took some write offs we expect it to return to more normal levels in the first quarter.

Andy Speller - A.G. Edwards - Analyst

In terms of write offs?

Richard Goudis - Herbalife Ltd. - CFO

No, as far as gross profit.

Andy Speller - A.G. Edwards - Analyst

Michael, in terms of the new product you guys are bringing to the market. You say you're bringing it in the U.S. or is that going elsewhere?

Michael O. Johnson - Herbalife Ltd. - CEO

We'll, the idea is to get them in the U.S., get distributor acceptance. And we have to go through, as you know, a global licensing process. And that process takes time, and as we develop these products, we, of course, try to look for neutral ingredients that travel fast. But it is becoming more difficult in the world to roll a product out quickly. There is more, obviously, bureaucracies that we deal with, rules, regulations on a local market basis. But yes, we will roll them out internationally, it does take time, it takes us about really about a year and-a-half almost two years to get a product from inception in the U.S. out to a majority of our markets.

Andy Speller - A.G. Edwards - Analyst

Okay. Thank you.

Operator

Next question is from Rommel Dionisio from Wedbush Morgan.

Rommel Dionisio - Wedbush Morgan - Analyst

Hi. Good morning. Just a question on Taiwan, you saw 14% growth out of this quarter, which sequentially was a nice improvement from the third quarter, I think it was down, can you just talk about what the drivers were there and what the outlook is going forward for that market?

Greg Probert - Herbalife Ltd. - President, COO

A couple of things. One is a lot of our distributor leadership returned to Taiwan. Part of the dip last year we attributed to that leadership being both in China, establishing businesses, and also down in Malaysia [opening] the market. So we think they are

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back in Taiwan now and rebuilding and recruiting again. That is one thing. I think we're starting to see some Nutrition Clubs penetrate Taiwan. So, I think that is another factor that's driving our business. And our outlook for the year is probably low double digit growth in '07.

Rommel Dionisio - *Wedbush Morgan - Analyst*

Okay. Great. Also just a follow up is Best Defense, can you just talk about the global expansion of that product? Is that available in a lot of different markets around the world now?

Michael O. Johnson - *Herbalife Ltd. - CEO*

I wish Best Defense were available everywhere. It's a wonderful product. But right now it is just in the US. We are looking at it for other marketplaces. We want to get the momentum behind it in the U.S. very strong. It is a -- as you know, it's a direct competitor to a product called Airborne. We usually don't mention other products but a lot of people seem to know that name. We think it's a much better product because of the quantities and the qualities of the ingredients that we have in there. So, we're going to be looking at it, but right now it's pretty much a U.S. phenomenon, that type of product. We see a little bit in Australia and we see it in some other markets. But that type of product is pretty much a U.S. marketplace phenomenon. No, we don't have big plans for it internationally yet.

Rommel Dionisio - *Wedbush Morgan - Analyst*

Okay. Fair enough, thanks very much.

Operator

The next question is from Javier Escalante from Morgan Stanley.

Javier Escalante - *Morgan Stanley - Analyst*

Hi, good morning, everyone: I have a couple of questions on Mexico and then a couple on the U.S. and China. Greg, could explain to us again why is it that the better January does not translate in a change in the flat forecast for the year? Why we have to look at February, which is the month in which distributors requalify? I didn't quite get it, the explanation why January was strong but February was in line and therefore you guys are maintaining the flat forecast for Mexico?

Greg Probert - *Herbalife Ltd. - President, COO*

Right. Well, if you remember, January is our requalification month. So we have to take on that 52 million volume points is the requalification volume. So, a lot of our distributors requalified that month, so the orders are unusually high, January is always a big, big month for us, around the world due to that. So what we do is we take the 52 and try and cull out the requalification volume to really look at sort of the organic, and that gets us into the high 40s, and like we said, 45 to 47, we are tracking in February. Remember, February, again, is a shorter month. That leads us to believe that our guidance of 600 million volume points for the year is pretty good we are not coming off that guidance right now.

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helpful for modeling

Javier Escalante - Morgan Stanley - Analyst

But basically, I understand that, but my how was, say, February, right? I understand that wouldn't -- you don't -- you feel comfortable with your guidance. So I'm just trying to understand a little bit what's happening. The February 2007 volume points, do you have a sense whether they are going to be up relative to the 44 million volume points that you guys had in 2006?

Michael O. Johnson - Herbalife Ltd. - CEO

Yes, I think Greg had mentioned in his prepared comments, Javier, that we are tracking 45 to 47 million at this point. Which is up single digits over a year ago.

Javier Escalante - Morgan Stanley - Analyst

And that's why you are saying that in the quarter you expect Mexico to be up single digits?

Michael O. Johnson - Herbalife Ltd. - CEO

I think high single digits, Javier.

Javier Escalante - Morgan Stanley - Analyst

Okay. The other questions that I have is within Mexico, right? My understanding is that most of the situation has been in Mexico City, and I just would like to know whether volumes are -- if you have kind of visibility over whether volumes are still declining in Mexico City? And also whether you have been able to tease out whether this is a retention issue or a productivity issue? If you can talk about Mexico City a little bit.

Michael O. Johnson - Herbalife Ltd. - CEO

Javier, that is a good question. I think that we will be in a better position to discuss that on our first quarter earnings call. Now just started to look at Mexico the same way started looking at U.S. a couple years ago, which was by top markets. So, if you can be patient with us another three months, I think we will start to disclose that kind of information to the street then.

Javier Escalante - Morgan Stanley - Analyst

And then, I guess, probably in the same token, right, my understanding is that you guys are already opening up distribution centers outside in new areas, right? Is there any sense of the impact of the expansion in infrastructure? Is there any pick up in productivity, in recruitment or was this just an irritating factor for distributors but really is not gaining volume [action] [multiple speakers]?

Greg Probert - Herbalife Ltd. - President, COO

I think the answer is it is too early to tell, Javier. We just opened up the centers in three in December and the rest between January and April of this year. I think, again, probably next quarter we will see the impact of that. I think in my prepared comments I talked that, we only cover about 30% of the market now with our existing pick up centers. And with the new infrastructure we're building we expect that to almost double. So, I think, again, intuitively, if you double the access points and remove the points of irritation, I think both those things should have an impact on penetrating the market outside of Mexico City and Guadalajara.

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Javier Escalante - Morgan Stanley - Analyst

Okay. But now, I get you what I want it to be. Because, basically, if your forecast is based on February numbers, right, it is still and you are basically basing your forecast on February numbers. In a way, is it not that your forecast basically is assuming that there is no improvement either in retention, productivity or recruitment as a result of all of this expansion in infrastructure that you guys are planning? Sure, basically, basing -- you're you telling me that the forecast for Mexico, right, is based on February rates but at the same time there is February doesn't reflect the benefit from the investment that you guys are doing. So, basically, in a way your forecast doesn't exclude the benefit -- doesn't include the benefit from the investment. Is that a fair assessment?

Richard Goudis - Herbalife Ltd. - CFO

Yes, Javier, as we discussed last night. I think you know, we are not going to up Mexico until we actually see it start to pick up. We think over the next six months, as Greg said, it's going to be a little bit bumpy. Bumpy while we expand our infrastructure for our distributors and improve the access points, and as distributors take on their responsibility, which is go deeper with training. We think that, as they go deeper with training it may slow down the expansion and opening of two clubs, but it might improve the retention and the sustainability of the clubs that have been open. So, I think we will have a lot more insight in the next earnings call. Until we see that pick up on a sequential basis we're going to be very conservative as it relates to our outlook for Mexico.

Javier Escalante - Morgan Stanley - Analyst

I understand. Moving to China. This is kind of like a question for Greg or Michael. From what I understand in relative to what you said you are in the licensing process, this is kind of reverse from what we are hearing from one of your competitors. Basically, what I understand from you guys is that you get the whole thing set up on a provincial level and you are waiting for the central government to give you the okay. And I'm hearing from another company that they have the okay from the central government but they are having issues with the provincial level. Am I getting this right? I mean is that the processes of reverse for you guys? What is going on?

Greg Probert - Herbalife Ltd. - President, COO

Javier, I can't really talk about what other Companies are going through. Our experience is before you can go to MOFCOM and get the central government's approval you need to get provincial approval. So, we've done that, and we now have submitted it to MOFCOM, the state government and awaiting approval. So, I can't really speak to what other companies are going through.

Javier Escalante - Morgan Stanley - Analyst

And I guess you probably mentioned this in the prepared remark but they were really, really fast, I just would like you to see whether you can come back again to the U.S. calendar in terms of product launches and distributor meetings. I gather you are going to be launching the children's line in July. And so, I would assume that the next extravaganza is going to be also in July, right?

Michael O. Johnson - Herbalife Ltd. - CEO

Yes, the U.S., this is Mike, the U.S. summer extravaganza is in July. We go through what we call extravaganza season in July we'll be all over the world. And we will be launching new products at each of those extravaganzas. And then, the July U.S. extravaganza it will be the children's line and the sports line.

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Javier Escalante - Morgan Stanley - Analyst

And Michael, how many extravaganzas did you guys have planned for 2007 relative to 2006.

Michael O. Johnson - Herbalife Ltd. - CEO

We had six last year and we'll have six this year.

Javier Escalante - Morgan Stanley - Analyst

So, it's basically in the same places. So what we need to look for is for an increase in attendance, right, given that you are not touching new places?

Michael O. Johnson - Herbalife Ltd. - CEO

It depends on, of course we are limited by the size of the arenas we are in, too. So, yes, should the arenas allow us, I don't have the exact capacity for every arena that we're going into right now, but we out stripped our capacity last year. I would expect we will see somewhere in the area of 75,000 distributors over those five meetings.

Javier Escalante - Morgan Stanley - Analyst

That's great. And then kind of like, one final point on Brazil. You guys refer in the 10-K about the -- and before in prior conference calls about your push into personal care. Could you kind of tell us kind of in a nutshell what you guys are going to be bringing to the table visa vie Avon and Natura?

Greg Probert - Herbalife Ltd. - President, COO

We haven't disclosed that yet and we probably won't until we get further down the road mostly for competitive reasons. Obviously, Avon and Natura are the two big guns in Brazil and we don't want to lay out our strategy. But, you're right. Part of our strategy is to look at that market, it's significantly bigger, probably 9x bigger than the nutrition segment. So we think it's a big segment that we want to further penetrate, we'll leave it at that.

Javier Escalante - Morgan Stanley - Analyst

Then an update in what is happening with the nutrition clubs in Brazil. Are they gaining transaction? You decided to slow it down. How is -- what is a DLDMO in Brazil looks like now?

Greg Probert - Herbalife Ltd. - President, COO

They are gaining transaction. A lot of our distributor leadership, specifically, Pedro Cardoza, who's our Chairman's Club in Brazil, are going around the country opening these clubs up. They are taking slightly different form. What we are seeing is different types of clubs emerge. That is why we call them Customer Clubs as opposed to Nutrition Clubs. Nutrition Clubs is one of the type of Customer Clubs we have. And we think the base in Brazil with the large population a socioeconomic segment is very similar to Mexico in many ways. We think there is a huge market there. So I think, we are not quite past the tipping point yet. But we are in a transition period, I think, over the course of this year. We expect to make a lot of traction in opening the clubs in Brazil.

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Javier Escalante - Morgan Stanley - Analyst

Thank you very much, guys.

Michael O. Johnson - Herbalife Ltd. - CEO

Okay. Why don't we take two more questions and then we will wrap up.

Operator

Next question is from Michael Lasser from Lehman Brothers.

Michael Lasser - Lehman Brothers - Analyst

Hi, guys. Have you gotten a sense from the special committee of how transparent a process that will be run?

Michael O. Johnson - Herbalife Ltd. - CEO

Well they are communicating as they can with the Board. They have hired, as you know, bankers and an attorney, lawyers to represent them. They are in constant communication with us. We have made a presentation to them last week. We will make another presentation and have meetings with them throughout the process. But, beyond that, again, it's hard for me to get in and comment on specifics because someone will write it down and I will be repeating myself somewhere that I don't want to be repeating myself. They are fully independent, nonconflicted board members who are on this committee. They are working very, very diligently at this, very hard.

Michael Lasser - Lehman Brothers - Analyst

In the U.S. any thoughts, not to look at it from a negative perspective, but any thoughts on why the growth in the Anglo population has been somewhat slow?

Richard Goudis - Herbalife Ltd. - CFO

Well the non-Anglo in the quarter it was up about 7% year-over-year. And I think, that, in and of itself, is a little bit stronger than industry average which is probably about 5%. So, again, I think from a marketeer standpoint so we still feel happy with that.

Michael Lasser - Lehman Brothers - Analyst

Non-Hispanic or non-Anglo?

Richard Goudis - Herbalife Ltd. - CFO

The non-Hispanic.

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Michael Lasser - *Lehman Brothers - Analyst*

You said non-Anglo. Excuse me, Non-Hispanic [multiple speakers].

Richard Goudis - *Herbalife Ltd. - CFO*

Yes, non-Hispanic, Anglo.

Michael Lasser - *Lehman Brothers - Analyst*

As far as the U.S. being up to the mid 20% range in January. How much of that is due to the requalification benefits?

Richard Goudis - *Herbalife Ltd. - CFO*

I am sure that there is a portion of it. We typically see the recall move the needle in January and we typically get a little softer in February. But even February is pacing on a year-over-year growth rate in line with what we saw in January. So, we are very bullish on the outlook for the U.S. business.

Michael Lasser - *Lehman Brothers - Analyst*

[Pacing] in line in terms of the growth rate?

Richard Goudis - *Herbalife Ltd. - CFO*

Yes.

Michael Lasser - *Lehman Brothers - Analyst*

As far as the total number of Customer Clubs in the U.S. and around the world. Can you provide that number?

Michael O. Johnson - *Herbalife Ltd. - CEO*

I think we said about 1500, maybe a little bit more in the U.S., and on a global basis a little bit over 40,000.

40,000
Clubs

Michael Lasser - *Lehman Brothers - Analyst*

Okay. Thank you very much.

Michael O. Johnson - *Herbalife Ltd. - CEO*

All right, Michael. One more question then we will just end here.

Operator

Your next question is from Javier Escalante from Morgan Stanley.

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Javier Escalante - Morgan Stanley - Analyst

Given that there are some questions about the Board, I felt --

Michael O. Johnson - Herbalife Ltd. - CEO

You couldn't contain yourself.

Javier Escalante - Morgan Stanley - Analyst

No question about it. How do they, could you give us a sense how do they understand the role in all of these, right. Because, number one, is it that they see themselves just analyzing the Whitney's offer whether it is fair or not? Or they will be looking into other alternatives relative to this would be the offer? That is number one. Number two. Say that they come up with an alternative different at Whitney's. So when it gets to vote, you know it is going to be based on prorated by shareholder. So, basically that Whitney doesn't have a veto power over that alternative, right? [inaudible] clarification.

Michael O. Johnson - Herbalife Ltd. - CEO

Javier, and everyone else, my favorite part of these questions is watching our Chief Legal Counsel rise out of his chair when you ask him. It is the elevation that it provides is actually very entertaining.

Javier Escalante - Morgan Stanley - Analyst

Could the Legal Counsel then answer the question? That's a -- [multiple speakers] Are the board members limited to just analyzing Whitney's offer? Number one. And number two, say that the board members come up with an alternative to Whitney's offer, will this offer be voted for across all shareholders or does Whitney have a veto power?

Michael O. Johnson - Herbalife Ltd. - CEO

You are going to get a really eloquent answer from our Chief Legal Counsel. Brett?

Brett Chapman - Herbalife Ltd. - General Counsel

Javier, it's Brett, we really can't comment on that.

Javier Escalante - Morgan Stanley - Analyst

How can you not? How can you not comment on [multiple speakers]?

Brett Chapman - Herbalife Ltd. - General Counsel

It is in the hands of the special committee. They are evaluating the offer, and they will come back to all of us when they are ready and they have finished their analysis.

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Javier Escalante - Morgan Stanley - Analyst

Let me ask a question. Does Whitney have veto power?

Brett Chapman - Herbalife Ltd. - General Counsel

It would depend on the terms of the structure of whatever happens going forward. You will have to just look at our public filings for it.

Javier Escalante - Morgan Stanley - Analyst

I would take that as a yes?

Brett Chapman - Herbalife Ltd. - General Counsel

I wouldn't. You will have to evaluate this yourself. We can't comment on it, Javier.

Michael O. Johnson - Herbalife Ltd. - CEO

I'll tell you one thing, Javier --

Javier Escalante - Morgan Stanley - Analyst

[multiple speakers] binary question. Do they have veto power or not have veto power?

Brett Chapman - Herbalife Ltd. - General Counsel

Javier, I can't answer the question. You'll have to look at our public filings on this because there's no easy answer to that question.

Javier Escalante - Morgan Stanley - Analyst

But if it is public why do I have to refer to the pilot? If it's public you should be able to summarize it in a nutshell for us.

Brett Chapman - Herbalife Ltd. - General Counsel

[laughter] No further comment.

Michael O. Johnson - Herbalife Ltd. - CEO

Javier, it's just, it's not safe territory for us to get in speculation on what a deal structure or an offer will be. We are in very early stages here. I was just part of a -- I sit on a board of another major corporation that just had a \$14 billion take over, and basically, a lead blanket is thrown over all the board members during this process, basically for safety concerns.

Javier Escalante - Morgan Stanley - Analyst

So, Brett, can you enumerate a circumstances in which Whitney would have veto power?

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Brett Chapman - Herbalife Ltd. - General Counsel

No, we can't comment any further at this time, Javier.

Javier Escalante - Morgan Stanley - Analyst

You said that this is public information. We should just go and look for it?

Michael O. Johnson - Herbalife Ltd. - CEO

Javier, why don't -- I mean, if you need to look through those documents, which you are certainly -- we implore you to do, and if you have some type of legal questions on those, I would implore you to give Brett a call.

Javier Escalante - Morgan Stanley - Analyst

Thank you, I will. Okay. Thank you, very much, guys.

Michael O. Johnson - Herbalife Ltd. - CEO

Let me just do this. We seem to be on this track a little bit here of the proposed offer -- the offer not the proposed offer in the Company. Let me tell you what's going on inside here, it's business as usual. We have no break in continuity with our distributors whatsoever. We have a lot of confidence, a ton of momentum going out there, we're growing, we are getting stronger and more confident. And as I said just a minute ago, the momentum with our distributor organization has never been better than it is now.

I am really proud of the distributors for hitting this milestone that Mark Hughes dreamed of, they have dreamed the Mark Hughes dream and they've succeeded \$3 billion in retail sales which is a tremendous, tremendous accomplishment for everyone. It is not only distributors but it is great news for our employees and our shareholders for the Company. We're going to celebrate this great feat, we're going to host our leadership here at our Presidents Summit in Los Angeles next month. We're going to give out \$30 million on stage. That's going to be a pretty strong event, I should say pretty strong, it will be a phenomenal event for our distributors. This is the highest bonus payout in the Company's history. It is an incredible achievement. Mk 14
March

But you know I've said this before, we've got so much opportunity around this Company, the nutritional habits around the world are unfortunately deteriorating and health care costs skyrocketing and recognition is increasing overall that well-being is predicated on a balance between good nutrition, proper nutrition, weight management and a healthy active lifestyle. Many of our top markets, and we see it again today, large companies are down sizing, create a tremendous under-employed population. On top of that the population is aging, beginning to enter retirement, and we provide really a wonderful business opportunity to help supplement people's fixed incomes.

These are all very positive trends for the future of Herbalife. Our distributors, they are attracted by a compelling business opportunity and they are supported by high-quality science based products. They are helping people all over the world achieve nutritional gains and financial gain, we'll continue to invest with them so that they can become more successful. We look forward to talking to all of you and giving you another great quarter, consecutive quarter of growth and great results. Thank you, very much, for being on the call. We will talk to you again soon.

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Operator

Ladies and gentlemen, thanks for participating in today's conference. This concludes the program, you may now disconnect.

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And finally, let me reiterate our second-quarter full-year guidance. Due to the strong performance in the first quarter coupled with our positive outlook for the balance of the year, we expect second-quarter EPS to be in the range of \$0.58 and \$0.62 and full year 2007 EPS to be between \$2.49 and \$2.56. We also are increasing our top-line guidance to 7 to 10% for both the second quarter and full year as we now expect the U.S. business to exceed 20% growth for all of 2007. We believe Mexico will be flat to up slightly, reflecting the tremendous efforts of our distributors to improve their business. Please note that these estimates exclude expenses expected to be incurred related to our realignment for growth initiatives and the tax adjustments made in the first quarter related to our review and adoption of FIN 48. Our guidance also excludes the potential accretion or dilution related to the \$300 million share repurchase program recently approved by our Board.

That concludes the recap for our first-quarter financials. Let me quickly turn it back over to Michael before we open up for Q&A.

Michael O. Johnson - Herbalife Ltd. - CEO

Greg, Rich nice job. Nice job by our distributors and our employees. Just before we open up the call to your questions, I want to reiterate my strong belief and our strong belief regarding the strength of our business.

As you know, during the quarter, the Board received an unsolicited offer to purchase all of the Company's shares from J.H. Whitney. Therefore, as part of good process, the Board set up an independent special committee that was responsible for evaluating the offer. After their evaluation which included working with independent advisers, the special committee rejected Whitney's offers.

During the entire process, we stressed to our distributors and employees that it was business as usual for all of us. Our management team continued its focus on improving our operating results and building long-term shareholder value. However, we do collectively believe that our business is frankly often misunderstood by Wall Street and our Company is undervalued by almost any metric I see used by the sell-side research analysts.

Our Board took active steps a few weeks ago that reflect their understanding of our business fundamentals and their positive outlook for our future. We believe that the authorization of the \$300 million share repurchase and the implementation of a quarterly cash dividend policy should be viewed as a very bullish signal. We came out of the entire process with the Board, the management and distributors all unified and focused on the future.

We have a very highly-motivated and unified distributor organization. Greg and I along with our management team worked to create certainty for our distributors. As I said earlier, we believe that certainty creates confidence among our distributors and that distributor confidence creates momentum in our business. All of those have never been better. We continue to be very excited about our future. We stand ready for your questions. Fire away.

Buyback/
Dividend is
response
to rejecting
the Whitney
offer

Brett Chapman - Herbalife Ltd. - General Counsel

Kevin, you can open up for questions now. Thank you.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Michael Lasser, Lehman Brothers.

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Michael Lasser - *Lehman Brothers - Analyst*

Nice start to the year. Michael, in your commentary about deploying cash back to shareholders, perhaps you can talk about your philosophy for how you will execute your share repurchase program. Is it the type of thing where you will be in the market consistently or may look to have -- spit on some firepower should there be a momentary dip (technical difficulty)?

Michael O. Johnson - *Herbalife Ltd. - CEO*

I would love to answer that question. Poker is poker, and you don't want to show your cards too early. So we're going to be opportunistic and we will play it out as the opportunities present themselves.

Michael Lasser - *Lehman Brothers - Analyst*

And then talking more about the China situation, what is your understanding of how the license may be expanded? Is it the type of things where once it demonstrates success in the geographies that you have an approval for, it will be expanded? And do you have a sense of the timing for that?

Michael O. Johnson - *Herbalife Ltd. - CEO*

I am going to let Greg handle that one.

Greg Probert - *Herbalife Ltd. - President, COO*

I think a simple answer is we do not know right now. If you look at some of the other companies that got their license last year, getting additional licenses has been somewhat slower than expected. So we will continue to build out our retail model in those provinces where we have not received a license. I think we've been very successful with that model. As we do get our license in additional cities and provinces, we will convert over to our direct selling model.

Michael Lasser - *Lehman Brothers - Analyst*

Then lastly on the product portfolio front, have you thought about moving more into cosmetics perhaps? That's been a success in the direct selling area. And how do you plan to effectively compete in areas that you are at a higher price point than some of the other competitors out there perhaps in the personal care products area?

Michael O. Johnson - *Herbalife Ltd. - CEO*

We're continuing to look at the opportunity in what we would call nutritional skin care rather than cosmetics. Cosmetics is more about color. We believe that bringing nutrition to skin care is a very opportunistic area for our Company and especially fits well into our overall theme of our mission for nutrition on a global basis.

We already have a very advanced skin care line where we put vitamins A, C and E in the Neurofusion line. We call it Ace for Your Face. It is what we want to bring to our cosmetic -- or not really cosmetic to our skin care or outer nutrition as we call it, which is leading-edge science to it.

We're looking around the world at opportunities in marketplaces to look at those pricing scenarios for our abilities to bring products into those markets and benefit our distributors and of course our shareholders. So yes, we have some ideas. And no, I'm not going to give them all to you.

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Michael Lasser - *Lehman Brothers - Analyst*

I appreciate you taking my questions. Keep up the good work.

Operator

Doug Lane, Avondale Partners.

Mike Jacobs - *Avondale Partners - Analyst*

This is Mike Jacobs in for Doug Lane. I saw where Germany and the Netherlands appeared to have slowed. What is exactly your strategy there in Germany and the Netherlands?

Michael O. Johnson - *Herbalife Ltd. - CEO*

I think it is pretty much what we have been doing over the past few quarters, is really focusing on a good balance of both recruiting and retention and retailing the product. In Netherlands, we were a little encouraged at how Q1 was our first growth quarter in two years sequentially. So I think we're starting to see a little bit of a stabilizing force in the market there.

Germany, I think we have some branding issues to deal with. And we are dealing with those and we are working on some branding initiatives. I won't go into detail now to give them away. But I think you'll see some of that over the next couple of quarters.

So again, it is part of running a portfolio of 64 countries. They don't always perform at high growth in every quarter. But we're very focused on those markets. And Wynne Roberts, who runs EMEA for us, is very focused on those two markets. I think bottom story is the distributor leadership is engaged and working very closely with us. And we're hopeful that we can turn those around sometime in the near future.

Operator

Scott VanWinkle, Canaccord Adams.

Scott VanWinkle - *Canaccord Adams - Analyst*

Also great start to the year. First for Rich a financial question. Rich, what's going to happen a year or two from now when China direct selling is a much more significant piece of total revenue? What happens to the royalty overrides at that point? I know you've talked about what they were this quarter excluding China.

Rich Goudis - *Herbalife Ltd. - CFO*

Scott, we'll just continue to normalize as we just did on this call to make sure that we're looking at apples to apples with royalties.

Scott VanWinkle - *Canaccord Adams - Analyst*

But today in China, most of the sales I assume are happening in the stores, where -- I am wondering is what happens to the royalty expense when you start seeing sales on the street.

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Rich Goudis - Herbalife Ltd. - CFO

Let me just clarify, all our sales are happening in the stores right now before we convert to a direct selling license. And the second part of your question, can you repeat that again?

Scott VanWinkle - Canaccord Adams - Analyst

Is it different in China the royalty expense once you have sales that are happening out on the street in direct selling?

Rich Goudis - Herbalife Ltd. - CFO

We don't expect that to change as we're using the employee model. That is what really driving the cost into SG&A versus up on the royalty line.

Scott VanWinkle - Canaccord Adams - Analyst

When we were talking about Brazil, there was a comment about Centralized Clubs versus at home. Does this mean that more than one distributor is involved in a club or can you just explain a little?

Greg Probert - Herbalife Ltd. - President, COO

This is a concept that we see springing up in Central America and also in the United States. It is a concept where several distributors will run a club together. Instead of being in someone's home, it is in more of a retail-type rented location. And the distributors will keep the clubs open actually all day as opposed to generally in the morning in Mexico. Multiple distributorships will run the club. They will each take part responsibility for whether it is making shakes or running the training or whatever.

And they have proven very successful, not only for the customer but also recruiting new distributors who will then go off and open their own clubs. So this is something we've seen emerged over the -- probably the past couple of quarters. And we think it's probably the right model for Brazil. And our leadership are moving down the road of that type of model in Brazil as opposed to the in-home clubs.

Scott VanWinkle - Canaccord Adams - Analyst

I guess the last question is probably for Michael. On the sponsorship side, I certainly support getting the brand out there to everyone you can. My question is, how do you measure success and how far can it go?

Michael O. Johnson - Herbalife Ltd. - CEO

There's two ways to measure. One is by lead generation. And at all of the events that we are sponsoring, we have the opportunity for distributors to do what we call the three hours -- to recruit people, to retail the products and actually sample and use it as a retention mechanism.

For the tour of California, I was there at the end of it. One distributor had over 1000 leads generated at that event alone. That is success measurement in its most -- or should I say the impact is right there, right in front. You see something like that and the word spread among the distributor community that this is the opportunity in order to get leads and lead generation, which is the most -- really one of the most important parts of building an organization. That becomes a word-of-mouth phenomenon. They become more involved in these.

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We have distributors who are doing their own events now who are setting up. But they don't need the corporate sponsorship to do it. We had a distributor last month in Charleston, South Carolina who went to a marathon there. She set up her own tent, did her own marketing and got over 800 leads in two days. That is a very significant achievement. So that is one way of measuring it.

The other way of measuring it is obviously by the number of hits we're getting on our website and other websites throughout the world and by the distributor's support of this activity and this tactic. At first, I think people were a little hesitant in seeing us take the brands and explode it like this. Now our distributors are wholeheartedly behind it. They see the opportunity. They understand this is a way to significantly build presence, soften the market for them and the ability for them to come in on the heels of one of these opportunities.

The reality is when Beckham hits the pitch on July 17th, there isn't going to be a magazine in the world that has anything to do with sports, women lifestyle, anything like that where he isn't going to be seen with an Herbalife jersey on his chest. So this is a real opportunity for our distributors to take the challenge that we've given them, which is to activate their business to make it more accessible to anybody who wants to become involved in the business opportunity or in the consumption or the retailing of our products. So the measurements are in lead generation and they're in awareness.

Operator

Rommel Dionisio, Wedbush Morgan.

Rommel Dionisio - Wedbush Morgan - Analyst

Just a clarifying question. I think in your prepared comments, Rich, you talked about the gross margin impact coming -- 40 basis points from negative country mix. I was just a little confused by that, just given the U.S. was up 23%. Is that because a lot of the incremental U.S. sales are coming from weight management and the shakes from the Nutrition Clubs? Can you just go into a lot more detail on that, please?

Rich Goudis - Herbalife Ltd. - CFO

No, it has more to do with -- if you think about the growth we've had in both the U.S. and Mexico recently compared to as a percentage of overall Company sales compared to Europe. Europe, we get a better volume point to net sales conversion, which we see that benefit in gross profit. When the U.S. and Mexico, they have a -- let's say a less favorable conversion from volume point to net sales. So that is where the country mix we're talking about.

Rommel Dionisio - Wedbush Morgan - Analyst

That makes sense. Thanks a lot.

Operator

Javier Escalante, Morgan Stanley.

Michael O. Johnson - Herbalife Ltd. - CEO

We have been waiting for you.

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Javier Escalante - *Morgan Stanley - Analyst*

Thank you. I have a couple of questions on Mexico and China, right? Basically if you can let -- help us understand on your infrastructure building, you mentioned how many distribution centers you have open. How many are left? Is all what you're going to open these nine distribution centers, or is there going to be more for the balance of the year?

Greg Probert - *Herbalife Ltd. - President, COO*

No, we're not opening anymore for the year. We think that's enough. As I said, it gets us in close proximity to about two-thirds of the population of Mexico. And what we really want to do is focus on building -- working with our distributors, help them build their businesses in those centers and see the impact those sales centers have on the business and then develop a plan for '08, whether we'll open additional centers in '08. So I think we have more than enough to do to grow those centers. We just doubled the addressable population in Mexico.

Javier Escalante - *Morgan Stanley - Analyst*

Greg, in those places where you now have distribution centers, do you have the capability to kind of like discern whether the volume trends vis-a-vis the places where you do not have them, have you seen any improvement as you open up these distribution centers (multiple speakers)?

Greg Probert - *Herbalife Ltd. - President, COO*

It's too early to tell, but we will track that in terms of what the impact is on the business. And if you remember when we had a lot of the sales coming out of Guadalajara/Mexico City that were being shipped by distributors back to the other sales centers, there's a little bit of a cannibalization effect there. What you really want to do is see the market stabilize and look at some of the cities like Monterrey or Villahermosa and measure that impact. Historically, we have seen a discernible improvement in the growth of the business by opening sale centers like in Lyon or Tijuana.

Javier Escalante - *Morgan Stanley - Analyst*

I think back in January, you guys mentioned that you guys have a first assessment at about 10% of the distributors are now compliant. And in talking to distributors a couple of weeks ago, it seems like it is still kind of like it's an area that about 10% of the Nutrition Clubs may not be as viable. Is that consistent with what you're seeing that basically because of the concentration in Mexico City and with Guadalajara probably you may lose 10% of the Nutrition Clubs in this year?

Greg Probert - *Herbalife Ltd. - President, COO*

I think that number is a little high. What we said before and we're seeing is the compliance -- because they're in compliance upon the first visit, has actually improved. That would make sense because of the training we're doing, the training the TAB team is doing and the compliance.

So the first visit compliance is increasing and we're very happy about that. Then I think upon second visit and working with distributors, we're seeing about the same compliance rate. And once we suspend the distributor, if you remember, we said some of those distributors will become compliant once they are suspended. And then, we end up with probably around 5% of the business that just doesn't seem like it is going to become compliant.

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I think that is fairly consistent with what we've said over the past couple of quarters that we think there's probably 5% of the business that will go away. Now, a lot of that has already gone away. So I think you've seen that impact in going from our height of the business. Last July and August, we were doing 60 million volume points. And a lot of that loss from 60 down to the 50 was due to the 5% of the clubs going away.

Javier Escalante - Morgan Stanley - Analyst

But is it not your sense that some of the issues at the root of the compliance issue -- I know training is a huge part of it. But also maybe that some of these Nutrition Clubs are too close together and they need to spread out a little bit and that is why you're opening up these distribution centers (multiple speakers).

Greg Probert - Herbalife Ltd. - President, COO

I don't think that's an issue. But certainly a lot of our growth we believe is going to come from areas outside of Mexico City and Guadalajara. But we do believe there is still growth in those cities, as evidenced by the fact we're going to open up a fourth sales center in Mexico City this month. So again, we think we're still not fully penetrating those cities. But again, I think if we took our penetration for Mexico City and Guadalajara and rolled it out to the rest of the country, what that shows is significant headroom for growth.

Javier Escalante - Morgan Stanley - Analyst

But let me ask you then the question more precisely then. My understanding is that a lot of it has to do with Mexico City. Are trends in Mexico City itself improving? Or there is still negative?

Greg Probert - Herbalife Ltd. - President, COO

No, I would say they are improving.

Javier Escalante - Morgan Stanley - Analyst

They are. But it's still negative but they are coming back a bit.

Greg Probert - Herbalife Ltd. - President, COO

Right. What you're saying as I said in prepared remarks, I think right now, we're going through a phase where our distributor leadership is stabilizing their business. They're training their down lines to become compliant and they're not opening as many new clubs as they did historically.

Javier Escalante - Morgan Stanley - Analyst

(multiple speakers) China quickly, okay? Can you tell us -- a couple of very basic questions in China, right? How many distributors did you guys have?

Secondly, if you can explain very simply the difference in compensation between your normal -- I mean we know there is this retail infrastructure that you need to have and they operate as service centers. But can kind of like could you really explain to us how these distributors are being compensated in China? I know they're part of the payroll, but could you elaborate a little

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bit better about the compensation of the Chinese distributors so then number of distributors, the compensation as you can explain it.

Then you upped the forecast from 25 to 50 to 75% in China this year. What is the assumption there? What exactly -- I know you just said that the timing of licensees outside the two territories you were granted is uncertain. So I would imagine that the up in the forecast is just direct sales in these two provinces, but I just want to confirm that.

Rich Goudis - Herbalife Ltd. - CFO

Sure. Let me take the first couple and I will leave the last one to Greg. The first one, the number of supervisors, we have approximately 10,000 supervisors. If you look at our K, we had about 7000 just a quarto ago, so we have a good progress in supervisor growth. In the K, we delineated between our standard employees and the China distributors that we categorize as employees.

For competitive reasons, I don't want to disclose our compensation program other than to say that we are abiding by all local regulations. We have a very competitive marketing plan for our distributors.

And as far as growth, I think we initially indicated for the year that we would grow about 25% in China excluding the license. We are very positive on the outlook for China now that we received the license for these two fairly large cities, about 14 million people in these two cities early up in the year where we can actually start to convert those cities and start to see some acceleration towards the back half of the year. I think those were the real, key questions you had, correct?

Javier Escalante - Morgan Stanley - Analyst

Yes, it is. But basically so then just -- is the assumption that something equivalent to the 35% royalty fee now is going to be bulging the SG&A because now these people are employees? Is that the way to think about it?

Rich Goudis - Herbalife Ltd. - CFO

Yes, yes. But again because of the global nature of our plan and I wouldn't say overall from an operating margin standpoint it will have any different effect. I think it is just geography on our P&L for GAAP purposes.

Javier Escalante - Morgan Stanley - Analyst

No, I understand that. I am just more interested in how much of payback is going to be given to the distributors and [justa] says how attractive the income opportunity will be for them. I understand that it is just moving from that one line to the other. I just want to see whether the pool of money of the traditional Herbalife business would be available to the Chinese distributors. But I guess it is going to show in a different line item.

Rich Goudis - Herbalife Ltd. - CFO

Obviously, there's a limit in the payout. Again, we're compliant with all local regulations. And other than that, we'd rather stay somewhat quiet on our compensation plan as it is a competitive advantage for us.

Operator

Andy Speller, A.G. Edwards.

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Andy Speller - A.G. Edwards - Analyst

My goal for you around the branding initiative, you guys have done a lot to expand what you have. Can you just talk about as you look out over the next year or two what things you might change, where you might go? Should we expect to see more things like you just announced at AEG, or do you think it will be more on a smaller scale? It looks to me like you're going larger than smaller.

Michael O. Johnson - Herbalife Ltd. - CEO

You're not going to see any big announcements like the AEG. That is a huge deal for us. It is a big one for the Company. We made a strategic decision in the last year as we got ready for this is that we wanted to turn to more to the local activities over to the distributors. AEG is a global partner for us. We will be doing things on a global basis with them for a lot of things.

We have quite an arrangement with them. We are their largest tenant here in L.A. starting in 2008. And we will core their L.A. lives with Herbalife. And that is a branding initiative as much as it is a corporate office initiative because we will be right in the heart of the core of the largest construction site going on in the world right now. Somebody said that the other day.

What we're going to do is really entice our distributors to take over the brand on a local basis -- is to continue to push out. So you will see more materials created and generated by us on a local basis, opportunities for them to take the brand and localize it to the marketplace. I would love to see kids running around with soccer jerseys with Herbalife Galaxy on them. I would love to see it in baseball teams. We would like to see it in badminton in Asia. We would like to see it globally in every sport where parents get involved with their kids have Herbalife right out there in front.

We're also doing a lot with our brand in terms of community service in our social side of our Company. We have 25 Casa -- 27 -- I get corrected here quickly correctly Casa Herbalifes which is where we get involved with nutrition programs in homes for kids at risk. Our distributors become involved in that on a daily basis.

These are -- while they work very well from a social standpoint, they're also a great branding standpoint for us. It gets our brand and our distributors out in the community. We have sponsorships now in over 30 markets globally, everything from the -- as you heard the Finnish ice hockey team and you can -- some of the most famous hockey players who play this game -- Kiprusoff, who is a great goalie, and Teemu Selanne, who is a fabulous hockey player here for the Anaheim Ducks. That's an unsolicited pitch for my Ducks who are doing very well in the playoffs right now.

So you're going to see continuing improvement in the branding and the quality of our brands throughout. But it's mostly going to be pushed down towards distributor activity on a local basis.

Andy Speller - A.G. Edwards - Analyst

Would that imply then the cost of the branding initiative would be less on a go-forward basis?

Michael O. Johnson - Herbalife Ltd. - CEO

We will provide materials for them. We're not going to do big, huge event-type marketing like we are right now. Like I said, it was a big, big, big decision for us, a lot of discussion internally to look at the things we're doing on a local basis and supporting at the Company level we're going to turn over to distributors and take those funds and push them more up towards a global relationship with someone like the Galaxy. And hopefully, you will see Galaxy jerseys with Herbalife on them in marketplaces all over the world.

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When we made this decision, we investigated it very carefully, what Beckham means and what the sales of jerseys are and teams to [be slate for] like Manchester United and Real Madrid and the impact on viewing. We already have people watching the Galaxy all over the world via the Internet.

Herbalife distributors who are having parties in Chile and bringing teams of people in to watch and see that Herbalife jersey on there. We were a great partner for the Galaxy and they're a great partner for us. Because we are going to expand their fan base on a global basis and they're going to expand their reach with a star like Beckham.

So with that said, we made that investment. We're very excited about it. We're going to maximize it and activate it on a local basis and then continue to activate this brand through distributors. And like I said, that distributor in Charleston, South Carolina which he did on our own initiative, went out there and set up a tent with Herbalife product out there and sampled Liftoff to people. It was a great opportunity to show herself the opportunity of getting out into the local market but other distributors as well.

When we get on stage, we show these things. We show distributors in the Philippines who had supported a triathlon down there, did it on their own volition. Each year, this woman will come back and support this triathlon now because she's getting leads. It's a great way to build community for her distributors and expand our brand. Sorry; I am blathering on here. But I'm excited about what these guys are doing.

Rich Goudis - Herbalife Ltd. - CFO

You'd think of it as a percent of sales, our distributor facing expenses. We want to have that vary with our growth rate. So as a percent of sales, assume that cut would be flat. But it may change from branding to promotions or some other marketing things. I think Greg wants the flexibility to stimulate the particular marketplaces.

Andy Speller - A.G. Edwards - Analyst

Then, Michael, if I could just talk about the Board dynamic given what has happened here in the last quarter or so with the unsolicited offer. Can you just talk to how the Board is with Mr. Castleman with the offer in being Chairman and all? Can you just address any issues that put investors maybe at -- fears maybe at bay that you might have a dysfunctional board or something like that?

Michael O. Johnson - Herbalife Ltd. - CEO

We just had a board meeting. We had an annual meeting and a board meeting last Thursday. And it was frankly the best Board meeting that I think we have had in the history of the Company. Because the benefit of a process like this is that we have -- our independent members of the Board are more tuned into this Company than they ever have been. They've spent months understanding this Company much better than ever before.

We have wanted to get a board retreat together to really introduce the Company and how our distributors operate. This special committee is now more tuned into this Company than they have been in the past. The issues flowed much more simply in the meeting because of the depth of knowledge that they have.

Peter is a tremendous supporter of this Company and of our distributors and has been undeniable in his desire to see this Company succeed and see shareholder value increase. When Peter put his bid in for this Company, our stock was trading at 33. What has come out of the other side of this is the stock trading near 40, a dividend and a share repurchase. Those are all great benefits for our distributors, so I have to hand it to Peter for creating incredible shareholder value through this process.

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He saw a \$33 stock and said this just does not reflect the value of this Company. He made a try. His try was taken by the Board and rejected, which is fair. Peter is a business man. He does not carry personal issues about this. Now he's carrying the stock; it's got a 4 in front of it instead of a 33. So I think he's got to be feeling better about our stock price. I think we all are. I think our Board is more unified than ever before. And I am feeling confident as we go into the future.

Brett Chapman - Herbalife Ltd. - General Counsel

Ken, why don't we take one more question?

Operator

Chris Ferrara, Merrill Lynch.

Chris Ferrara - Merrill Lynch - Analyst

I will go back to Mexico. Sorry to belabor this. But the doubling of the addressable population, can you just talk a little bit about that second half that you will be addressing now? What are the dynamics of that part of the population? Are they tougher to get to? Are they easier to get to? Are they the same? How did clubs pick up historically when they began in Mexico City? What kind of dynamics are you seeing early on in the new places where you guys are popping up where maybe no one has even seen this concept before?

Michael O. Johnson - Herbalife Ltd. - CEO

I think it is probably -- in short statement, it is probably the same addressable population that we saw in Mexico City and Guadalajara. So I think the model will work the same as it did in those two cities. It is not that we do not have businesses in those cities. Monterrey has -- I think we do several million volume points a month in that city. It is just it's underpenetrated considering it is the third-largest city in Mexico.

So again, we're going after the lower socio-economic (technical difficulty) with these clubs. I think those exist throughout Mexico. So again, I think we're just opening up access points for that demographic to the products and that there is an opportunity in the Company.

Chris Ferrara - Merrill Lynch - Analyst

So you think that second portion of your the addressable population can get to the growth rates as they ramp up that you saw from the portion of Mexico you started from the start a couple years ago?

Michael O. Johnson - Herbalife Ltd. - CEO

I think ultimately we could see that Chris. If you remember though, we have always talked about how long it took for the Nutrition Clubs to ramp up. It's exponential. So you're probably talking 18 to 24 months out into the future till you see maybe the explicit exponential growth. So right now, we just want to make sure that we plant the seeds correctly.

If you really look at what we're doing now, is really retraining and working with our distributors to retrain. Because what we want is those clubs, when they go out and proliferate and open new clubs, we want them to make sure they're all compliant. They are all properly trained on the mission of the Company, on the products of the Company. And therefore when they go out and replicate, we don't -- replicate good practices as opposed to bad practices.

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Chris Ferrara - Merrill Lynch - Analyst

Just on supervisor growth in general. I guess the Mexico and Central American region held on pretty well in supervisor growth relative to where sales went. Can you talk a little bit about that and what is driving that dynamic?

Rich Goudis - Herbalife Ltd. - CFO

You're talking about new supervisors or just total supervisors?

Chris Ferrara - Merrill Lynch - Analyst

Total supervisors.

Rich Goudis - Herbalife Ltd. - CFO

Total supervisors for Central America was up 57%. I see that more like a balance sheet. These a lot of people. There was a high level of attention, primarily in Mexico, with one of our highest retention levels is 55%. Mexico had 64, almost 65,000 supervisors in this quarter versus 41,000 a year ago. So there's 23,000 more distributors, 56% more driving the business. But that is a great thing.

Chris Ferrara - Merrill Lynch - Analyst

No, I get that. I am just trying to understand why that number would've held on so well, given where sales have gone. Obviously productivity is down a little bit, but you're not seeing people drop out of the businesses. Is that the right way to characterize (multiple speakers)?

Greg Probert - Herbalife Ltd. - President, COO

They're not so much dropping out of the business other than I think what we talked about in response to Javier's question about there's maybe 4, 5% of the business that are leaving. What we're seeing is really the slowdown is more attributable to not opening up new stores. And that is on purpose. Our distributors want to retrain and retrain and then go back through a period of accelerated growth.

So I think what you will see is retention will probably actually go up as we go through this phase. And then, we want to get back to active recruiting which is another word for opening new Nutrition Clubs,

Brett Chapman - Herbalife Ltd. - General Counsel

Kevin, why don't we just hand it over to Michael at this point for his closing comments?

Michael O. Johnson - Herbalife Ltd. - CEO

Yes, thank you everyone for being on the call. It really is a pleasure to speak with you and hear your questions, especially you, Javier, we love the way you go deep and in depth with us. That's truthful. I want to thank our distributors and employees for their efforts in creating really a spectacular year, a record year for us. I am proud of our distributors because they are the ones

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who are leading in us hitting this milestone that Mark Hughes dreamed of, 3 billion in retail sales. This is a great achievement and we've really believed that there is so much more ahead of us.

Momentum with our distributor organization has never been greater. Nutritional habits around the world are frankly troubled. Healthcare costs are skyrocketing and recognition is increasing that overall well-being is predicated on a balance between pop (technical difficulty) weight management and a healthy, active lifestyle. Just think of -- just in America alone if we can bring a better balance nutritional face to them and more people with a proper weight on their frames.

Just think of what would happen to our healthcare program. I don't hear anybody talk about that in any presidential campaigns. They just talk about spending more money, rather than getting people in a proper healthy active lifestyle with good nutrition. Herbalife can solve that. We have got a strong belief in that.

And on top of that, our population is aging. And it is beginning to enter in retirement. We're seeing many of our top markets, large companies are downsizing, creating a tremendous, underemployed population. All of these are very positive trends, unfortunately negative in society but positive for our Company and the future of our business. Our distributors are attracted by compelling business opportunity, and they are supported by our high-quality science-based products.

We're helping people all over the world with our vision for nutrition and helping them achieve their nutritional and financial goals. We will continue to invest behind them so they can become ever so much more successful. Thank you for your interest and your support in Herbalife.

Operator

Ladies and gentlemen, this does conclude today's presentation. You may now disconnect.

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This concludes our prepared remarks. We will now open the line for your questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Chris Ferrara, Merrill Lynch.

Chris Ferrara - Merrill Lynch - Analyst

I wanted to ask about the accretion from the buyback versus the tax friction associated with having the nondeductible interest expense. What is your view of whether it is accretive, dilutive? It looks like it is completely offset for the full year '07 so far, is that right?

Rich Goudis - Herbalife Ltd. - CFO

Slightly. I still think it was about \$0.01 accretive in the second quarter net net. And we expect it to be accretive \$0.01 each in the third and fourth quarter. I think what you're really seeing, the majority of the increase in the -- sequentially in the effective tax rate was really reflecting country mix.

Chris Ferrara - Merrill Lynch - Analyst

You are saying that there is no tax friction associated with buying back the shares for 2007?

Rich Goudis - Herbalife Ltd. - CFO

There was. I think we said last night it was probably 20 to 30 basis points of the sequential move.

Chris Ferrara - Merrill Lynch - Analyst

Just shifting over to the European business in general. I guess could you just refresh us on the plans in place to move more toward the developing side of Europe versus the developed side of Europe, given that we're still seeing sluggishness in the market?

Greg Probert - Herbalife Ltd. - COO

This is Greg. I think what you'll see is we're developing -- currently developing plans to more strongly penetrate Russia and Central and Eastern Europe. Including we just hired a new General Manager for Poland and Central Europe. And she will also be assisting us on Russia. I think that is -- part of the strategy is really to move a lot of our resources from, I think, Western Europe where we have -- you know, we have some growing markets, but I think it is a stable and single digit growth business in countries like the UK, and Sweden is a very hot right now, and move a lot of our resources over into Eastern Europe, Central Europe, where a lot of other direct selling companies are very successful and experiencing double-digit growth. That was also part of the OFG process last year to really start the process of realigning those resources. I think you'll see additional realignment throughout 2009.

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Chris Ferrara - Merrill Lynch - Analyst

Would you have any kind of a time frame as to when growth in the region recovers?

Rich Goudis - Herbalife Ltd. - CFO

I think excluding FX, we're looking probably at the back half of '08 to really start to see some of these initiatives unfold.

Chris Ferrara - Merrill Lynch - Analyst

That would be driven by the developing side of Europe as opposed to the developed side, or is that based on an assumption that some of your more sluggish developed markets recover?

Rich Goudis - Herbalife Ltd. - CFO

I think three things. We talked about one is our sluggish markets that have been sluggish over the last couple years, like Germany and the Netherlands, we do expect those to improve with a lot of the initiatives our distributors are undertaking, primarily with the Nutrition Club. And also our sampling lead generation DMO seems to be -- have some interest in those markets. As well as we believe that a lot of our plans for the developing markets in the Eastern will start to unfold in the first half of 2008.

Michael O. Johnson - Herbalife Ltd. - CEO

Let me jump in. It is Michael here. I think we need to be careful about Europe -- mainland Europe, Western Europe. We would hope that we would see some 2008 -- I think Rich is right -- at the balance at the end of 2008 some of these initiatives take hold. The place I get confidence is that the U.S. is 27 years young. And we're having a vibrant growth rate in this marketplace because distributors has reengaged. They have aligned around DMOs, have been successful in Latin America. They have seen those work here. We presented those ideas and demonstrated the success of those through distributor voices, not through management voices, to distributors in Europe, in Cologne. We had 18,000 plus people at that event. It was our largest event in Europe's history.

I think a lot of people came to see is there some magic that I can partake and participate in and take into my business? It is going to require people to work very hard to build their business. We saw that it took three years for Mexico to get on track with Nutrition Clubs, and then flattened because of infrastructure issues, and now responded well to some of our changes we made in the market in management and infrastructure opportunity.

We're looking at Europe very carefully, very closely. Greg and I have taken a very personal interest. I know Wynne Roberts, who runs Europe for us, is looking at all the opportunities. Our advancement into Africa is an exciting one for us. It is a limited product rollout in Zambia. Only two products in there to support specific DMO to see if we can acculturate our Company to a growing opportunity in the African continent. We are also excited, as Greg said, about Eastern Europe and the Balkans and the Baltic states that offer promise for direct selling.

We have had growth in Italy and in France and in Spain that has been -- in Portugal -- that has been very promising to us. As you move to the northern side of Europe, our growth has slowed. And we are looking at ways to operate into minority communities there to see if we can get some incentive invigorated business going through some of these DMOs that have been so successful.

A lot of European distributor leadership have been here in the U.S. looking at the Anglo success models. And so it takes time. It is definitely in a transition in mainland Europe. And I think Rich is right, the balance of -- the end of '08 is probably the place to start looking for some upside for us. But we have some nice stories in Continental Europe right now in the Latin marketplaces there.

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Chris Ferrara - *Merrill Lynch - Analyst*

And then just one more. Can you try and give an idea of where your upside was? You blew out your sales number obviously, the midpoint of your range in Q2. Can you give us an idea of where that upside came from, what regions relative to your own expectations?

Rich Goudis - *Herbalife Ltd. - CFO*

I think sales were slightly above because of currency. I think we were expecting the leverage that you saw. This goes back to last year. Really two things. One is Michael's commitment and promise to get 50 basis point of operating profit margin a year. So you're starting to see that leverage come through, reflecting the realignment for growth initiative we had and articulated at the back end of '06. I think it was very much in line with what we thought internally.

Chris Ferrara - *Merrill Lynch - Analyst*

I'm just talking about the fact that your sales growth, and even you guys have been guiding I think 7% to 10% this quarter, and you did 13.8%, right? FX was only 3.5. So even if -- you would have to assumed a currency drag, right?

Rich Goudis - *Herbalife Ltd. - CFO*

Yes, so if you're talking for the third quarter our guidance was 8 to 10% topline. Now again you've got to remember that the third quarter last year it becomes our most difficult comp for Mexico. Also last year was when the U.S. started growing 24 plus percent, so we had a difficult comp with the U.S. Than last year we started to lap the benefit of some of the currency benefit that we have gotten. Once again, visibility for us on topline is the most difficult part of our model to predict, so we'll continue to remain cautious as we guide the topline.

Chris Ferrara - *Merrill Lynch - Analyst*

Rich, I'm sorry, I was -- right. I was referring not to Q3, but to Q2. The fact that you -- what was the delta in you doing 13.8% growth versus the midpoint of your range of 8.5% growth?

Rich Goudis - *Herbalife Ltd. - CFO*

I think the short answer is the U.S. was a little bit stronger than we thought, and Mexico didn't dip like we had thought.

Operator

[Simeon Goodman], Goldman Sachs.

Simeon Goodman - *Goldman Sachs - Analyst*

With regard to Mexico, the business is clearly stabilizing after peaking late last year. And given the saturation work you have done and the power of the Nutrition Club DMO, how do you envision that market playing out going forward? Is it more of a low single digit grower, or does it climb another peak?

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Greg Probert - *Herbalife Ltd. - COO*

I will let Rich talk about the guidance. I will just talk generically about the market. I think we have done work with distributor leadership, and our TAB Team has done a fantastic job of stabilizing the business. As I mentioned in my prepared comments, they have gone out and visited 25,000 of their clubs, which is very high compliance rate compared to the -- we think we have about 28,000 clubs. And they not only looked at what they were doing, but they spent a lot of time understanding the evolution of Nutrition Clubs and training their downlines, and really making sure that they are herbalized. They understand the products. They understand the DMO. And I think that has really stabilized the business and built a very, very strong foundation.

If you look at our business from its peak, we think we lost about 10% of our Nutrition Clubs and about 10% of our business. I think that is not necessarily a bad thing in the long-term. I think we weeded out some of the clubs that were damaging our business methods and probably damaging our brand long-term. So I'm very positive that we have now reached a core business, somewhere around 50 million volume points a month. And I think what you'll see is that continue to be stabilized over the next quarter. And then I expect somewhere towards the end of the year that we will start seeing our distributors opening new clubs. And hopefully our supervisor count will go up.

We're actually doing a promotion starting at the extravaganza later this year called a one gets one promotion, where we are asking every club to go out and open a new club. Again, I think we've feel very confident that Mexico will be restored to probably low single digit growth later this year, and hopefully even better next year.

Simeon Goodman - *Goldman Sachs - Analyst*

It looks like there is a lot of low hanging fruit in some of the cities that are underpenetrated. But how much opportunity exists with the 20 volume point per capita?

Greg Probert - *Herbalife Ltd. - COO*

Remember, that is only a small Federal District. I think it is about 8% of the population of the country, where we are about 20% -- 20 volume points penetrated. So again, you can do the math and extrapolate that 20 volume points out across the entire country of 100 million people. Our goal is to get everyone -- we are about 6 volume points per capita now, and we would certainly think that attaining half of that Federal penetration, you know, 10 volume points per capita in the outlying territories is what I consider low hanging fruit.

Simeon Goodman - *Goldman Sachs - Analyst*

Just some follow-up on Europe and coming out of the Europe extravaganza. Did you see anything encouraging from distributor leadership there? And I understand that there might be maybe a growing focus towards developing countries. But given the size and the importance of some of the Western European markets are you seeing them getting reengaged, because I think a lot of it depends on their energy and focus in those markets?

Michael O. Johnson - *Herbalife Ltd. - CEO*

This is Michael. We met with our distributor leadership very closely over there. And they have checks, and they know exactly what the numbers are. The opportunity that they see is both with some of these DMOs in Latin America, but also the sampling program that they are seeing taking place in the U.S. They feel in many of the Western European markets that they fit more seamlessly into their business models.

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What they don't want to do is they don't want to just switch one model to the other. That causes a pretty severe dip in the business. A little bit what we are seeing in Brazil, not a severe dip, but just is a switch from one method to another. They want to make sure they seamlessly add -- it is adding to, not taking from the business models, showing new leadership opportunity.

So as I said, a lot of those distributors have traveled here and met with some of the program operators here. We have brought the leaders of many of the business methods. We brought them into Cologne. We sensed quite a bit of excitement there. Again, as Rich said a minute ago, the visibility in the exact topline is a little -- is difficult for us. It drives as all a little crazy. It drives you guys crazy; it drives us crazy that this sector, not just our Company, but this sector is not always as predictive in a model as to you on July 1 sales will kick at this rate from this experience.

We saw a lot of energy, a lot of excitement, a lot of participation in meetings. We had one training there where we expected somewhere in the area of 2,000 people. 6,000 people showed up for that training. It surprised us. It was a gratifying surprise. So those are the kind of indices that we can take away to say -- and we look at that, and we watch and we observe what is going on. We saw a more intense focus around product training. We saw a more intense focus around specific DMOs. We saw a more intense focus around understanding exactly how the leadership in Latin America is working to build its business. We saw a lot of things going on.

I think, Greg, you had a comment in there.

Greg Probert - Herbalife Ltd. - COO

Yes, just to add a little color to that. As Mike and I had all the extravaganzas this year bring back the top growing [checks] in the region, and we have a one-on-one. And this could be a MILL Team or it could be a PRES team. And in the case of Europe, we just had so many fantastic success stories. We had one guy from Portugal that is building his business the traditional way. He is a farmer during the day and he does meetings at night and on weekends. A circle of influence, a very traditional method. He has made GET team at about I think six months, and he is almost a MILL Team now.

You hear stories about that. And like Michael said before in his comments, we had over 18,000 people at that extravaganza, which is the biggest extravaganza in Europe since Michael and I have been here, and in many, many years. And the level of excitement was -- actually it is hard to match to the excitement in the U.S. at Dallas and in Asia and Singapore, but it is certainly did match that.

And I was very encouraged just by the -- I think the willingness to work very hard by the Europeans, their desire to understand the products and the business opportunity. And the fact that 18,000 people showed up means that they are very bullish on our business. To me and Michael that was very encouraging.

Simeon Goodman - Goldman Sachs - Analyst

Lastly, for Rich, can you give any early thoughts on the 2008 tax rate?

Rich Goudis - Herbalife Ltd. - CFO

We haven't typically guided.

Michael O. Johnson - Herbalife Ltd. - CEO

I think we can give them a little information, but let's be a little careful here.

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Rich Goudis - Herbalife Ltd. - CFO

We typically give this guidance with our third quarter earnings release, but given the tax plan that we have underway, especially the sale of our intellectual property to a Swiss subsidiary, we would expect next year's effective tax rate to be in the low 30s. Let's say that is a place to start.

Operator

Michael Lasser, Lehman Brothers.

Michael Lasser - Lehman Brothers - Analyst

In light of the deceleration in growth in the number of new supervisors across all regions, except for North America, should we view that as a cautious leading indicator for I guess – not necessarily in the next couple of quarters, but for 2008 and beyond? It looks like you are generating some nice growth from retaining more supervisors. But at the rate at which you're getting new supervisors is decelerating, could that be a caution signal?

Michael O. Johnson - Herbalife Ltd. - CEO

I think if you take out Mexico, which was down double digits in new supervisors, you see a different picture for the world. Again, Michael, new supervisors you really need to look at a market by market ratio. And we had many, many markets in our portfolio that were – showed significant new supervisor growth, including, I think, the U.S which we disclosed. Rich will maybe give you some of the numbers by country. But I think really that is skewed a little by the decline in Mexico. And like I said in my comments, we expect that to stabilize over the next quarter, and then probably return to a positive number, either later this year or first quarter of next year.

Rich Goudis - Herbalife Ltd. - CFO

If you look at it, we had 56,000 new supervisors that came in in the quarter, which is up from 53,000 a year ago. And Mexico was down about 2,000. They had 9,400 new supervisors this year versus about 11,300 last year. So if Mexico had just held I think we would have been obviously in the higher single digits. And if Mexico, as Greg believes, later in the year they start to open up new clubs again, I think we will see new supervisor growth stimulated again in Mexico. And that will help our overall growth rate.

Michael Lasser - Lehman Brothers - Analyst

In light of the challenge in Mexico, and I know this is a subject that has been talked too much about, but where do you get confidence that things will get better by the fourth quarter? We know that this is a momentum driven business, as we have seen in Germany. And the penetration rate in Germany would seem to be not as high as it is in Mexico. But yet I guess there is some – you guys have some confidence that things will get better by the fourth quarter.

Michael O. Johnson - Herbalife Ltd. - CEO

Let me start with the numbers and, Greg, answer the business side. But first of all, if you take the current runrate, we did about \$151 million volume points in both 1Q and 2Q. So like as Greg said earlier, very stable. If you take that, our fourth quarter should be up about 4.5% just on that stable runrate on a pure volume basis. And obviously we get a little more boost with currency. So that is just at stable operations.

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Greg also reiterated in his prepared comments that right now our distributors are really focused on going deep and retraining their sales organizations and their club operators. We believe that as we start to end towards the third quarter that those distributors will come back and start opening new clubs. And that will stimulate new supervisors coming to the business and new growth.

Greg Probert - Herbalife Ltd. - COO

Let me just add a couple of things. If you remember the three reasons we slowed down in Mexico, it was lack of infrastructure. We didn't keep up with the growth of the business. Compliance issues, we didn't have a level playing field. And that was very discouraging and killed the momentum. And three was really training.

If you look at those, we have addressed all three of those. As I said in my prepared comments, we have increased IT our infrastructure. We now are attacking I think 73% of the addressable population in the market. Compliance is significantly higher than it was in our distributor -- our TAB Team had done out and basically self-regulated their own clubs. And like I said, they visited 25,000 of the 28,000. So we know that we are in compliance. We have lost 10%, which is the 10% we didn't need anyway.

I think because of that and the training that took place, why the TAB Team went out and audited, and more importantly trained the downlines, that we feel we stabilized the business at around 50 million volume points a month. And now our distributors are going to focus -- our leaders are going to focus their downlines on going out and recruiting new supervisors, which basically means opening new clubs. So it was a conscious decision between us and the leadership to stop recruiting and opening clubs for a while to stabilize. We are through that now. And now we will ramp back up the recruiting machine.

Focus is Recruiting

Michael Lasser - Lehman Brothers - Analyst

Then L.A. Galaxy sponsorship, how are you going to measure the return on that investment? And have you seen any initial indications that the investment has been successful? Perhaps you can -- aside from the number of impressions, you can share any other metrics that will help us understand how that investment is going.

Michael O. Johnson - Herbalife Ltd. - CEO

My favorite quote about marketing is always, I waste 50% of my marketing money, but I just don't know which 50% I waste. That is actually in all of marketing no matter what company you're in, especially in my old company.

But what we're doing is first of all, the jersey sales are a great indicator of potential impressions in the marketplace. And I know you said you wanted more impressions. We will look at obviously what our sales momentum, our growth momentum -- a lot of this business as you know is emotionally driven and it is confidence driven. Our distributor confidence from just branding efforts has been incredible.

The brand awareness that open stores and softens the ground for our distributors is one of the key and vital reasons that we purchased into this opportunity. It is an expansion of a relationship with AEG that puts our footprint out there wider. This gives our distributors -- what we promised them a long time ago is a recognizable brand throughout the world. And we expect that sales will -- distributor recruiting, retailing, retention.

This is a global opportunity for us. The MLS is not just about the U.S. more. This team will play in Europe. It will play in Asia. It will play in Latin America. Soccer is the number one sport outside the U.S. where we do about 75% of our business. So this opportunity offers for us, while you will say, what is the exact metric attached to the return, we will know that better over the next 12 to 16 to 18 months on the return value on this. This is the first two weeks, three weeks of this -- the big coming out

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party. We have been on the jersey for the last three months, but really this is the big coming out party, and you need a little time to measure.

Now on pure valuation, we have had -- as we have said before, we have had over 900 million impressions in valuation and media out there. We have already had some rough work done on it. And I don't want to give you a specific number on that right now, but it is in the millions, the media value that we've gotten just from covers of magazines to media impressions on news networks throughout the world. The big factor for us is, one, just driving distributor confidence, brand awareness and ultimately sales.

Michael Lasser - *Lehman Brothers - Analyst*

Do you feel like it is had an early impact in perhaps July sales?

Michael O. Johnson - *Herbalife Ltd. - CEO*

Not in July sales yet. We ran a promotion around a certain -- a vehicle was the Sports Illustrated cover. And it may have given us a little pop at the end of the month, but I don't think it has been huge, by any means. I think it is just sinking in. We had a lot of distributors out of the marketplace in July through a variety of our extravaganzas globally.

I think it is starting to set in. I think more people are seeing people walk around with Herbalife on their chest, and approaching them. And people are now asking us, and that is what I talked about the paradigm shift, what is Herbalife? And that is a new paradigm for our distributors, where someone walks up to them and says, you know, what is Herbalife? Who are you? We have become in a way a cool company like almost every night, which is very gratifying, very emotionally gratifying and confidence building for our distributors.

When they see that name Herbalife everywhere all the time, they get excited about that, and they get less -- what should I say -- less cautious about saying who we are, what we are. Not that they were ever very cautious, but they jump out there.

Michael Lasser - *Lehman Brothers - Analyst*

Can you provide a little more context about Percy's departure? Did he go to a competitor or is it something different than that?

Michael O. Johnson - *Herbalife Ltd. - CEO*

Greg and I sat with Percy for a good half-day after Singapore. And we sat down and went through all the things in China. There is a famous saying, horses for courses. Percy is a great builder. And we're moving into a new phase in China, and we're still working out arrangement, and he may end up being a consultant for us into the future. We're just not sure. But there is just -- there is time to make changes, and we believe that this was the right time. It is very amicable. We just sat down with him and discussed a lot of things. And we all came to the conclusion that it was time to make a change.

We've got a great management team there. We've got a great fundamental startup program. This is I think shifting from kind of an entrepreneurial environment to a very organized environment. We've got great government relations, a great head in [Jerry Lai] in sales there. We've got a great woman running Taiwan. And it really is a very -- he should be very proud of the good management team that he has built there. You know, there is time to make changes, and we just decided amongst the three of us that this was the time to do it.

Michael Lasser - *Lehman Brothers - Analyst*

Just a couple of more quick questions. How much of the growth in China during the period was from the Jiangsu Province?

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Rich Goudis - Herbalife Ltd. - CFO

We haven't disclosed that, but safe to say that obviously the catalyst for ongoing growth has been the license.

Michael Lasser - Lehman Brothers - Analyst

Then the SG&A leverage that you experienced during the second quarter, how much of that was due to a shift in timing of expenses, and how much is actual genuine leverage in the business?

Rich Goudis - Herbalife Ltd. - CFO

I would say the majority was leverage. From a dollar standpoint we had one event last year in the second quarter, which is our Asia-Pacific event. So assume there was \$2 million to \$2.5 million of costs that was in the second quarter last year that now flows into the third quarter. So even taking that out, I think you still see 100 plus basis points of leverage in the business.

Michael Lasser - Lehman Brothers - Analyst

Last question. I apologize for taking so much time. But the share repurchase program, there is \$160 million left on the current authorization. How are you thinking about whether to increase that or perhaps a future dividend increase?

Michael O. Johnson - Herbalife Ltd. - CEO

Everybody is going to faint on this answer around this table, but as I am staring at our stock price right now, and watching all this, I'm going to go to the Board and ask for as much money as I can possibly get. I think buying our shares is a very, very smart decision for us.

Michael Lasser - Lehman Brothers - Analyst

That sounds like a very good answer. Thank you very much.

Operator

Rommel Dionisio, Webdush.

Rommel Dionisio - Webdush - Analyst

One of your competitors mentioned in their call that they are seeing some regulatory changes in China to speed up the approval process for provinces. I wonder if you can just share with us is that an optimism that you guys share for getting additional approvals?

Greg Probert - Herbalife Ltd. - COO

This is Greg. As well we say China is a little bit tough to predict what is going to happen. We were I guess pleasantly surprised that we received our initial license for two cities in March, and then a few months later received approval for the entire province. I think that was faster than we anticipated. And we're optimistic that we will get several more provinces by the end of the year.

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Rommel Dionisio - *Wedbush - Analyst*

Greg, just a quick follow-up. Can you share with us any numerics or just even anecdotally how recruiting has gone in these first few months in Jiangsu since you got the approval?

Greg Probert - *Herbalife Ltd. - COO*

Well, it is really directly proportional to the sales growth, so the new reps coming in the business are really driving the growth.

Operator

Andy Speller, A.G. Edwards.

Andy Speller - *A.G. Edwards - Analyst*

Just a couple here. Most of mine have been answered. You guys referenced the 50 basis points of margin enhancement, Michael, that you have kind of committed to. Well, I know you're going to give guidance next quarter. Is that a good, rough guideline that we should look at longer-term?

Michael O. Johnson - *Herbalife Ltd. - CEO*

Yes, it is. As you guys know, I am top line, bottom line crazy. And I still think we have efficiencies in this Company to take advantage of. We're looking at things I don't want to divulge, but we're looking at things left, right and center that could be exciting marginal opportunities for us. So we continue to do that.

We just went through and recalibrated, and this may seem small potatoes, our HR department. We looked at it. We had hired a head of HR a couple of years ago. We probably overbuilt that organization a bit. I have cut it back. I decided for the type of employee base that we have here it is a better -- it is more sensible to downsize that a bit, and look at the technical side of it to make sure that we're providing comprehensive benefit programs and compensation programs. But looking at being very, very competitive, very thoughtful in those areas.

It is now reporting to Rich from the day-to-day operations. And the executive compensation, which is a big Board level area, reporting to Brett. We expect to pull some money out of the operational side of that in the next year. And we're doing that in every piece, in every place in our Company right now. We're toying with some ideas that we think can offer us over the years some significant margin improvement.

I think your guidance is good. And we're just looking at things, whether it is vertical manufacturing opportunities, vertical incorporation and some other areas that are going to be margin improvements. We have not gotten off that horse, nor will we get off of it.

Andy Speller - *A.G. Edwards - Analyst*

Then I guess secondly, I know it is early since the new products have been introduced, but are you seeing any cannibalization, especially on the kids line from that, or even on the H3O?

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Greg Probert - Herbalife Ltd. - COO

There is certainly going to be some cannibalization. I think more on the Formula 1 shake for kids. But we really look at it, not only from a product standpoint, but I look at it from an opportunity to bring new distributors into the business and to penetrate new segments. We have always talked about, for instance, the stay at home mom. So there is tens of millions of stay at home moms in the U.S. who have opted out of the workforce and are home with their children. We think there is a great opportunity to not only sell products to them, but also to bring them into the business opportunity side of the business. Again, we will look at not only product sales, but how does it affect our recruiting, and ultimately our retention of new distributors, and penetrating new market segments.

Andy Speller - A.G. Edwards - Analyst

Greg, do you expect then a little cannibalization as this gets rolled out or --?

Greg Probert - Herbalife Ltd. - COO

Yes, there's always cannibalization to a certain extent.

Andy Speller - A.G. Edwards - Analyst

Then lastly, just with regard to the U.S. market, I want to confirm the 20% growth expectation is a back half growth expectation for '07 or is that for the full year?

Greg Probert - Herbalife Ltd. - COO

Each quarter for the back half.

Andy Speller - A.G. Edwards - Analyst

Thanks a lot.

Greg Probert - Herbalife Ltd. - COO

Let me take one more question.

Operator

(OPERATOR INSTRUCTIONS). There are no (multiple speakers).

Greg Probert - Herbalife Ltd. - COO

Why that we just go ahead and close with Michael.

Aug. 07. 2007 / 11:00AM, HLF - Q2 2007 HERBALIFE LTD Earnings Conference Call

Michael O. Johnson - Herbalife Ltd. - CEO

I have these prepared remarks, but -- and then I'm going to make everybody jumpy again. Last night I was going over my prepared speech for you. And my wife, who is my partner in life, said to me, so how is it going to go tomorrow? And I said, well, let's see. Our top line sales are up. Our bottom line is up. We've got a buyback that we just completed that we're going to get more aggressive on. Our dividend is up. Our guidance is up. We've got more distributors signing up, more distributors moving up. Everything is up, except for that stock of ours.

So I said to her, look honey, we have got a tremendous second quarter, numerous financial distributor records. We have had tremendous excitement over the past three weeks as we traveled around the world. 40,000 distributors we have seen. We have re-enforced our core values, gearing up for our new game. All the press surrounding the arrival of Beckham and Galaxy. Our brand is more powerful, more recognized than anytime in our Company's history. Our distributors are more excited. And our new challenge is for the distributors answer to the question everyone is asking, what is Herbalife? And what could be a better environment for us than people coming to us, asking us what is Herbalife?

I told her I'm excited. I think -- I know our distributors are excited. And I want to say thank you to them. I know some of them are on the call. And I know they are out there telling the world exactly who we are. My job now is to work with you to get our stock up, so your investment value in this Company continues to shine and move forward. So thanks for being on the call. We appreciate it. We appreciate your support, your trust, your confidence. And we're going to live up to it. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect.

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FINAL TRANSCRIPT

Thomson StreetEventsSM

**HLF - HERBALIFE LTD at Goldman Sachs 14th Annual Global Retailing
Conference**

Event Date/Time: Sep. 05. 2007 / 4:30PM ET

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Sep. 05. 2007 / 4:30PM, HLF - HERBALIFE LTD at Goldman Sachs 14th Annual Global Retailing Conference

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Michael Johnson

HERBALIFE LTD - CEO, Chairman

Rich Goudis

HERBALIFE LTD - CFO

CONFERENCE CALL PARTICIPANTS

Simeon Gutman

Goldman Sachs - Analyst

Unidentified Audience Member

- Analyst

PRESENTATION

Simeon Gutman - Goldman Sachs - Analyst

We're going to get started and I'm going to introduce the company. I think we have a short video. We're starting already. Fine. Okay. Back to the introduction. We're pleased to have with us today Herbalife's management, represented by Michael Johnson, Chairman and CEO and Rich Goudis, CFO. I want to extend a special welcome to Herbalife on behalf of the Goldman Sachs retail team, as this is their first ever appearance at our retail conference and we hope they'll continue to join us in subsequent years. As some of you know, we recently initiated coverage on Herbalife with a buy rating, and our logic was threefold. First, the company is incredibly well positioned to take advantage of the rapidly evolving global health and wellness market and the appealing direct selling market; second, management's brand-enhancing initiatives appear very opportunistic; and third, with expected earnings growth in the high teens and a PE multiple below 14 times, the shares represent a rare blend of both growth and value.

One might wonder why a company with such good fundamentals trades at such a valuation disconnect. And if you glance at our retail business report, and if you heard Matt Fassler this morning, we see premiums for growth beginning to widen out, yet Herbalife shares have not benefited from this dynamic. We think this disconnect is due to perceived transparency and overall comfort issues with the direct selling model, and in that regard, I think this session will be very valuable, especially since Michael is here and as the key face of the company to the distributors, I hope you get a sense of the confidence he inspires. It might help to know that Michael, Rich, as well as the rest of the Herbalife's executive team were all outsiders to this business prior to coming to the model about four years ago and I think that serves as a testament to the strength and confidence they have with the model. Last but not least, this model is ultimately about branding and marketing and they're making an impressive push in this area. So even though David Beckham is currently injured, Herbalife's sponsorship of the L.A. Galaxy offers a pretty impressive proposition, and I'll leave you with this. The world's most famous athlete is playing the world's most popular sport in one of the world's most vibrant cities, and with that I'll turn the call over to Michael.

Michael Johnson - HERBALIFE LTD - CEO, Chairman

Thank you very much, Simeon. I'm going to stand, because I'm not good behind a podium or sitting down, so I'll wander around a little bit. Simeon said it well: We're a different company, and a much different style company than most of the companies you've seen today, which are retail operating out of boxes, big, small, whatever. We are operating retail models through what I will call flesh and blood, human beings who work with people day to day, face-to-face. It's a much different model, it takes some time to get used to, and I think when you come to valuations and look at a company like ours, it takes a little time with us to understand really who we are and what we do.

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Some of you in the room have attended some of our meetings throughout the globe and you'll see anywhere from 10 to 20,000 distributors show up for a meeting to be inspired, motivated, to learn about the business, learn about our products. We launch new products there. It's a very interesting phenomenon, something I wasn't used to four years ago. I came from the entertainment industry. Part of our business is entertainment. We entertain our distributors with opportunity, with dreams, stories, it's all a part of what this company is. So what I want to do quickly is to show you a tape. It's called Herbalife in action. It will give you a little bit of flare and sight into who we are and what we do. It'll probably just raise more questions. Let me introduce Rich Goudis, who is our CFO who came up here a minute after I did. Give us a little volume on this.

perfect
CEO
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[video presentation]

I'm going to let Rich to talk to some of the numbers of our company and I want to talk to you about the overall momentum, where our company was 4.5 years ago, where we are today, and where we see ourselves going. We're globally diversified. You probably saw that there. We're in 65 marketplaces and 80% of our bottom line profit comes outside of the United States, although the United States right now is one of our most vigorous and vibrant growth markets. Most of our business is done overseas. We operate through a distributor model. Distributors are our retailers and recruiters. They recruit new distributors into our business and they retail our products to those new distributors, and to their friends and family, and to their customers.

Distributors use a variety of methods in which to reach out into the marketplace. You're going to hear things today about nutrition clubs. Nutrition clubs are the opportunity our Hispanic market distributors have started, it was founded in Mexico. It's basically a party in a home. It can be in a light industrial area, in a small office complex, but they started in homes where people would come to somebody's house and they'd have a shake, have a meal with them, have a tea and an aloe drink. These three products comprise what a distributor does inside a nutrition club, and they recruit people in and inside that nutrition club, a variety of activities take place. I've been in nutrition clubs all over the world. I've seen chess game and checker games, I've seen massages, I've seen people work on pilates machines. It's been a variety of different events that take place, but it's a communal experience.

Part of that communal experience works with how people manage their weight, because at the core of our company is a weight loss company. They come there for that support among a group of people. They come there for the community aspect, they come for the recognition, the opportunity to be recognized for their weight loss, for their weight management, and for their good nutrition. In many marketplaces, we are serving the best meal that these people get potentially in their lives, but especially in their day. A 220 calorie shake with vitamins, minerals, nutrients, proteins. It's mixed sometimes with yogurt, sometimes with milk, sometimes with water, some fresh fruits and potentially vegetables in there. It's an incredible product these people partake with in their daily life and come back time and time again. And what might happen is in a nutrition club, I may want to open my own nutrition club and then I'm sponsored by that nutrition club, who manages and operates that nutrition club, and I become part of that downline. These are probably unique words to you, these are words in our business, and I receive royalties or I pass royalties up to the person above me, 5%. And we do that at three levels of 5%.

3 levels
B

We can get into that more specifically with you, but what it does is it builds a business model on a global basis. It's very fast because our global marketing plan is consistent throughout the world. There's no territories, there's no turf, there's no franchising here. They can build a business by meeting people, by introducing the product to them. We call it use, wear, talk. Most Herbalife distributors come in to this business by using the product, they create their own personal success story, they may lose some weight, they may feel better, they may look better. They talk to people about the product. They wear some type of identification, whether it's a button, whether it's an Herbalife jersey with David Beckham on the back, whether it is some type of recognizable Herbalife wear. So use the product, wear the button, or wear an identifier and talk to people. Use, wear, talk. It's a very simple, very straightforward, easy to explain, and easy to bring new people into the business.

testimonial
quote

Now, when we talk about our strategies as a company, besides the strategies the distributors employ, we basically have four key strategies that we want to get going in our business on a daily basis and that management focuses on. Those strategies are pretty simple. Focus on the distributors because they are our core income opportunity. They are the most important asset in this company. Our product is vitally important, but the distributors are the asset of the company. And that is something that

Distributors
more important
than
product

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01
Level
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it's hard to understand, because is it the box of the retail store, or is it the product on the shelf. With us, it's the distributor. They're the momentum behind the product. We focus on sponsoring them, making sure that they're full of confidence, that our products are fantastic for them, that they have a financial opportunity that's a level playing field across that every distributor that comes in this company has an opportunity to move up the chain, to move up the marketing chain so they can become successful too. We use successful distributors to inspire new distributors. We use the success of weight management and weight loss and testimonials for product to inspire new retail customers to come in and eventually they can become a distributor in our organization. So we focus on the distributor, and then we focus on the product which is a key strategy for us.

When we came into the company 4.5 years ago, we did a full audit on our product. We went through it completely. We looked at packaging opportunities and looked at market opportunities. What is one of the biggest opportunities in the world right now and unfortunately this opportunity is in front of us and it's sponsored by the U.S. and the way we have exported our food product around the world is obesity. I read the other day Mississippi is the first state in the union to crack that 30% of this population is obese. Unfortunately true, a huge opportunity for us in our business. To get people on a sensible meal plan, healthy, active lifestyle which will allow them to take in a meal replacement, which is our shake, for 220 calories in a meal, to replace it with that fast food meal that's 1200, 1400 calories, to get a sensible nutrition program in their lives and what we sponsor as you can see is a lot of activity through a healthy lifestyle. And that is a healthy active lifestyle so people can get out in their community.

We also work on major markets. We talk about the distributor first and their business opportunities and what they're doing, the product and then major markets. Right now we are in most major markets in the world. We believe there's some global expansion opportunities still in front of us, but today we see the opportunities obviously in the United States, which is a major and growing market for us, Mexico which is our second largest market that went through a little bit of a plateau, but we now have got our arms around that, and we can quickly react, because one of the things we've done with a proven, experienced management team in here, is we've gotten to the root of issues very quickly in these marketplaces and we can get our arms around those and we can see when Mexico -- when we came out in January and we announced that Mexico had slowed down a little bit, we immediately found out we have an infrastructure problem, we have some distributor motivation problems in there, we had problems getting product to marketplace, so we had some supply chain issues in there so we immediately got our arms around it.

We changed management, we went in and looked at a better way to deliver our product in the marketplaces that took some of the problems we had out, and we worked with the distributors to remotivate other distributors in the marketplace by putting best practices in place. In the latter part of the year, we come to the special promotion in Mexico that's going to allow even further growth we believe in that marketplace. Mexico grew from \$200 million to \$600 million in three years. We weren't fully ready for that type of meteoric growth in the marketplace. Now we are, now we're building an infrastructure behind there. Major markets up the road, obviously we're in China, we're seeing a growth there, we're not making money there yet, we will soon in that marketplace. We received new licenses about a month ago. In the marketplace, you have to operate with licenses in the Chinese marketplace. It's a vibrant growth market for us we're very excited about the future. I want to be careful because we've done a lot of business in China and China is still a bit of a hope and an opportunity, but the reality is still probably a year away for some significant financial bottom line return for us there.

The last part I want to come to from my speech here is the infrastructure side of my company. When we came into this company, we built an infrastructure from a much smaller company and a much different time. We've had to rebuild that infrastructure. Our IT system on a global basis was not equipped to handle the size and focus and scope of our distributor base, so we're completely rebuilding that. We've got an Oracle 11-I that's being rolled out globally. For any of you who have ever been involved in one of those, you know that they cost more and take more time than you ever dreamed. This is my second Oracle roll-out in my life. God bless them, they got a great product, but they just take longer and cost more than you ever expect. This is Rich's responsibility, so I'll let him address it straight up. But I shower him with affection and motivation every day about that system and getting it in place.

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What this will do, it will allow us to grow faster in the future because we have a platform that allows further and quicker expansion. Right now we're holding off on some of that expansion until we get this fully developed throughout the world. and also part of that infrastructure is access to our product. We want to build up more access and this is a challenge that we have for our distributors. As we build a brand inside this company, as we build a wider knowledge and a wider base of Herbalife and you see it on David Beckham's chest, and you see it on the little kids running around with the hundreds and thousands of jerseys that have already been sold, our mobile billboards if you will. Access to our company becomes more of a strategic imperative, not only for the distributors, but to the shareholders inside the company. So how do they get more access to the product? Well, we're working with distributors on that, we take about 40% of our orders in-house right now on the internet. We're working with distributors to explore ways that we can make the product more accessible on the internet footprint. Right now our distributors have a very distinct feel about how products should be pushed out into the marketplace. We're using a pull strategy in our advertising and marketing, if you will. We're pulling more people towards Herbalife. Now we've got to work with the distributors more quickly to make sure that access and opportunity is available to them.

I'm going to mention a couple more things here real quick. As I said, we have an experienced management team in this company. We've been together almost since the day I walked in. This team has been together now. Many of the team were with me in my former life in an entertainment company. So we have a very quick and easy flow of communication with each other. We've built a fantastic team under Rich and our finance department as well as our operations, our product, our head of product is a very senior development expert named Dr. Steve Henning, who came to us from a food business where he was a scientist and doctor and product development expert in many, many areas. We have Dr. David Heber who's head of the UCLA School for Human Nutrition, who's head of our nutrition advisory board. We have Dr. Lou Ignarro with us, Lou won a Nobel Prize for research and science in 1997, and he helped develop some of our products.

It makes us a little bit different than your typical direct seller, if you will. I don't mean that any negative, it's just that we've raised the profile a little bit in this company, we've raised the profile of the products, we've raised the profile of the brand, we've raised the profile of our science, of our management team in this company, we're raising the profile of our distributors every single day. Our metrics have never been better. We're raising the top line, the bottom line, our distributor metrics, the growth in the distributors moving up the marketing ladder in this company has never been more vibrant. We've attracted more distributors than ever before, we're retaining more distributors than ever before. So all of our metrics are moving up. Our growth rates are moving in a very positive manner. We continue to put growth rates on top of larger volumes which sometimes challenges the rate itself. All of the other numbers in our company, every metric we have, 18 consecutive quarters of growth inside this company continued return.

Raised the profile


So I'll go with Simeon's opening. We're a little -- what should I say -- we're a little perplexed by our stock price, but we're going to continue to do everything we can to raise the game inside this company and we're going to post continual growth in this company, we're going to be conservative about our guidance, we're going to be careful about what we do, but we're going to be very ambitious with our products, with our distributors, with our supply chain to make sure that we're getting and exercising every bit of margin control that we possibly can, and which we have been doing, we've been proving it by raising our margins every single quarter in this company.

And we're also going to continue to build a brand. I'm going to give you my final comments and turn it over to Rich. What I've focused on is four things in this company. I wrote this I think the third week I was in the company. I wrote the word integrity as an umbrella word and I put in there product, the distribution plan, brand, and image inside this company. This is what I tell distributors every day and this is what I believe builds confidence in them. We want them to have a premier product in the nutrition industry. If you say the word nutrition, what company comes to your mind? Hardly anyone. We believe that we can own that space. We want people to have better nutrition in their lives. We tell our distributors they are on a mission for nutrition. That inspires, it motivates them, it gives them confidence. We put scientists, doctors, research labs, we do clinicals with our product right now. We believe very strongly in what our product can do to enhance and help the health and life of people around the world. The second thing that I wrote under this word integrity is our marketing plan, and right there, under that marketing plan is to make sure everything is done with integrity. That our distributor's claims that they make, and this is one of the issues that are bandied about in our industry, some of the false claims that are made about wealth generation and

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opportunity, we've worked very hard to make it real, to make people understand they can come to our company for part time or full-time opportunity.

That is a very important thing, because a lot of our direct selling companies only talk about the full-time, only talk about the millions. We want people to understand they can make \$20, \$40, \$60 a day, which is very important to that 80% of our income where people are outside of the U.S. versus inside the U.S. So third thing that I talk about is the brand. When we first announced in our company that we were going to build a brand and you'll see some of the brand activities here, a lot of distributors looked at me and they didn't understand what I was talking about. What we said its we want a swoosh, we want a mouse, we want people to start to come to the leaf and understand great product, great business opportunity, great distributors, great opportunity. It rests here inside Herbalife. And as we build these factors, as we build the opportunity, as we build the better products, as we build and export the ideas throughout the world that the distributors have started these pathways of success, our brand will pick up and become stronger.

This is why we did the deal with the L.A. Galaxy. We knew there was going to be a worldwide focus on our brand almost right away. Immediately from the announcement of that, there wasn't a global network in the world that didn't pick up the name Herbalife. This is what we promised distributors. We said by August 1, everybody in this world will know our name. They may not know who we are or what we do, but I call it kind of our Aflac moment, we're out there with our name. And we've got our name in front of people. Now your job as a distributor is to make sure that you access that opportunity and you make your product and your business opportunity available to people. This is what we did.

What's the fourth thing? It's the image. If you combine the first three, the high quality level, the Nobel Prizes, the science, the community activities we expect our distributors to do. The events we do to promote the product and set up the sampling booth and reach out into the community, you've got a company that's something special. I implore you to come visit us. I implore you to come see one of our extravaganzas and our meeting with you and feel the energy and momentum, the excitement, the confidence that our distributors are feeling and that all equates to a better image in our community, a better image in the business community and a growing business. I'm going to turn it over to Rich to give you -- Simeon, do you have some questions?

QUESTIONS AND ANSWERS

Simeon Gutman - Goldman Sachs - Analyst

Yeah, we're going into the questions.

Michael Johnson - HERBALIFE LTD - CEO, Chairman

Oh, I've gone too far too fast.

Simeon Gutman - Goldman Sachs - Analyst

We have three questions that we're asking all the companies at the conference. I'm going to paraphrase them so we can get into more of a company-specific conversation. First, what is your assessment of the macro environment, both the current and the outlook, and what adjustments are you making for potential slowdown in consumer spending?

Michael Johnson - HERBALIFE LTD - CEO, Chairman

The question was asked to me this morning, interestingly enough in another meeting. I would say we can take advantage -- I'm going to answer the last part of it first -- of certain macro economic conditions and certain microeconomic conditions. As the

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marketplace starts to shake out, the consumer spending my slow down, you're going to find people out of jobs. You're going to find people who are underemployed. What our company does is offers part-time, full-time income and we have been through these times been able to take advantage of situations, the layoffs, the underemployed, people who are looking for an at-home business, ancillary income to add into their household. This is where this company really comes into play and starts to create an opportunity for people, especially as the brand name gets out there and the confidence.

Consumer spending slowdown for us. We are working everything in our supply chain to make sure that we are working on the margin, we are not predicting a large slowdown in our proposition right now because we believe that there is a couple macroeconomic opportunities still in front of us. Weight management is the number one health issue in the world, period. And we address that. We have an answer to that, we have an opportunity for nutrition, people are undereducated about nutrition in their lives. Our distributors go out and educate people, they show them an opportunity for a healthier, more active lifestyle and they change people's focus. When that happens, people are going to give up things before they give up their health. We have a saying in the company, it's an old Ralph Waldo Emerson thing that the first wealth is health, in our company.

So I believe strongly that if we open up our distributor base wider, we open up the educational opportunity, I'm not going to -- I'm not going to spend lots of time fretting about this, but we're always going to be focused on the bottom line of this company to make it more efficient, to take better advantage of a scale that we're starting to build in this company and look for right opportunities to enhance that scale.

Simeon Gutman - Goldman Sachs - Analyst

Okay. On the topic of margin expansion, what are some of the remaining opportunities you have in the context of some of these macro headwinds?

Rich Goudis - HERBALIFE LTD - CFO

I think some of it -- let's start with growth. The first is better optimization of our supply chain. Today we would agree that we have an opportunity to put more product with fewer suppliers, especially like in the U.S. with the new GNPs that have come out recently, working towards a higher level of quality. Back when we outsourced a lot of product in Europe, we're very well hedged in Europe, but that was when \$0.88 bought a Euro, today \$1.37 buys a Euro and is probably the opportunity we should be looking at to bring that product back home to manufacture and then incur the shipping and duties and probably still lower landing costs back into Europe.

Lastly, we want to get more vertical in the supply chain. There's a time where we think supplying the supply chain better from a quality standpoint, from a landed cost standpoint, will benefit us and our investors. And then down, continue work down the P&L, royalties, there's no leverage there. That's truly a variable cost and that mark up is in sync with our distributors and I think that's a competitive advantage unlike others, where we have in 64 markets around the world the same compensation plan.

Down in SG&A, you have different levels of -- you have highly variable expenses, where transaction fees and credit cards or maybe call center reps, but you have a fair degree of fixed investment and you have discretionary investment. That fixed investment we're evaluating now to convert some of our markets more to a variable model. At the same time, we have a level of discretionary investment that we're looking to potentially redeploy those into markets where we can get a return on equity at or above our current level.

Simeon Gutman - Goldman Sachs - Analyst

Lastly, the credit turmoil and maybe just mention something about getting vertical in the supply chain, how does that impact any of the decisions you make going forward?

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Michael Johnson - HERBALIFE LTD - CEO, Chairman

Well, right now we're in the process of raising additional debt so the credit markets today have been very positive for us, maybe unlike what other people are experiencing, but right now we're in the process of doing a best efforts loan to expand the ability for us to fulfill what the Board approved recently, which is our share repurchase expansion to 450 million. So with a model like ours, which generates a lot of free cash. It seems like the debt markets and the banks are very supportive of us.

Simeon Gutman - Goldman Sachs - Analyst

Okay. This is a business that's highly emotional, highly motivational, and inspirational. For a business where a distributorship can turn the lights on and off, how do you get control of this business and how do you convince others that you have control over this business?

Michael Johnson - HERBALIFE LTD - CEO, Chairman

First of all, that distributorship that can turn the lights on or off is turning their own lights on or off too, which is very important. These are large sales organizations. The people that manage these think about it as a regional sales head who has his own sales force below them who pay us to come into the company, which is kind of a reverse model of any sales organization I've been involved with. They have an annuity they're building for the rest of their lives in that organization. So they are profoundly motivated to keep that annuity alive and going. So if they stop working and they decide to just let it go, it eventually will dry up because of the leadership at the top. And they only get paid three lines down, so if somebody five lines down might be very successful, but it isn't feeding them at all. So they have to stay activated and motivated. We've never seen our top level distributors more motivated than they are right now, because they see all the things that are going on in the company.

So when you talk about confidence and momentum, I don't think that's any different than any other company, frankly. When employees show up motivated and confident and assured about the company and sales reps, they go in every day with a kick in their step. When they see the company dropping, the stock price dropping, failing, all this stuff, it may be harder to get them at that desk 8:00 in the morning than it is as 9:00 at 10:00, and they may not be as productive and there's a lot of chatter in the hallway. I've been around those environments, so I know them very well. So the motivation that these people -- it's self-motivation. It's a meritocracy. They're paid for their efforts. So you're finding people who are of a unique class. It's not politics that promotes them, it's performance and it's their performance. There's no other criteria. This is a very unique animal in that sense. It's a pure meritocracy. So I worry less about that than I do about some other external factors.

Simeon Gutman - Goldman Sachs - Analyst

Four years ago, this is for both of you. You came and looked at this business from an outside perspective. You went over those four items, sort of those initiatives. Why did you decide to come in and what convinced the other executives, what about this opportunity, was attractive? And are any of those four items higher priority than others, such as the branding opportunity, the image, than the other two that you mentioned?

Michael Johnson - HERBALIFE LTD - CEO, Chairman

I'll start and let Rich finish. When I walked in to this company, I had no idea what this company was. I thought it was a typical consumer product with a distribution channel and a consumer. I did not realize and nor did the two equity companies that bought the company, because the company they pitched me to join was far different than the company I joined. Because they didn't know it either. They didn't really understand what this company was all about. They thought it was a typical packaged goods company and everybody talks about product. Product product product product. That's what I started to focus on immediately.

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The most important asset in this company is the distributors. I switched. About six months in, I started to realize, I can release all the products I want and go after, but if I don't have it in the distributor's interest, in the distributor's margin and attacking what the distributor sees as a key target demo for them, then I am going to be lost. I could introduce the best product in the world, but if they didn't embrace it and didn't get behind it and they didn't see it as an opportunity for income for them, they're just going to pass it by. What we came to realize, you asks are what are if four most important. I would say that if you don't have a high quality product, you're going to be dead in the water. If you don't have motivated distributor, you're going to be dead in the water. The brand is an extra added level that builds confidence in motivation and it inspires them. I think you could live without the brand, per se. If we had to cut back investment, you could probably drop that and move on. I think it's going to be harder to do as time goes on, because I think our distributor has become used to it, and I don't want to be around a company that doesn't have a good image. I don't know what that has to do with the importance of the four, but if the integrity isn't high, if the image isn't as high, I didn't work as hard as I have all my life to be around something that's a questionable integrity. I'll leave it to you.

Product doesn't Matter

Rich Goudis - HERBALIFE LTD - CFO

Mine a little different. I moved across the country. I loved the business, I come out of a nutrition business and like Michael said earlier, most very smart people don't know what they need to take on a daily basis for their nutrition needs. That's a huge opportunity, that and obesity. Meeting Michael and the folks that came in from Disney where they had built a very tremendous business built on a high road of integrity. Michael and I - I've told Michael several times, to me at the end of the day it was Michael. Tone at the top, really. Michael said something to me.

Michael Johnson - HERBALIFE LTD - CEO, Chairman

When's the last time you saw a CEO try to kiss the CFO? When he needs money.

Rich Goudis - HERBALIFE LTD - CFO

Michael said to me at dinner one night, he said, listen, the guy that started this business, he had a lot of success but he had three wives and one child. He said, I'm different, I have one wife and three children. I went home and said I can work for that guy. Tone at the top is important.

Funny

Simeon Gutman - Goldman Sachs - Analyst

Why isn't there a globally recognized, and that could change after this LA Galaxy sponsorship, in the way that Tupperware has done it in kitchen ware, Avon has done it in beauty products, why isn't there a globally recognized nutrition direct seller?

Michael Johnson - HERBALIFE LTD - CEO, Chairman

I don't think there's a globally recognized nutrition brand period. And I think it is because of the forces that are moving in the other way. The advertising is on TV is about carbohydrates and fats and white and brown foods, not colorful foods. You're just starting to see people come to the realization that good nutrition is the source of the fuel of life. And so I think we're waking up. And why isn't there? I see that as a great opportunity. I don't know why, but there's going to be.

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Rich Goudis - HERBALIFE LTD - CFO

I don't think there's a brand. I don't sigh one company with a brand. GNC tried it, Numico tried it under a different brand and people by different markets, there's probably a leading brand in different markets, but Herbalife has a unique proposition where we go to market as Herbalife and we sell a product name under it, but it's Herbalife. I think we're in a unique position.

Simeon Gutman - Goldman Sachs - Analyst

And in that spirit to reiterate what you see in terms of the Galaxy sponsorship, I guess it's a bummer that he's injured, but it is what it is. How do you measure the return on that? I know sort of an obscure topic, but how are you thinking about it?

Michael Johnson - HERBALIFE LTD - CEO, Chairman

We did so the media measure on the absolute media value in the first week. I think the number is terrifically low because it's one impression per viewing, that's saying that Sports Illustrated only saw one set of eyes, and that CNN only one person was in the room and it was \$10 million in the first week. I think it's ridiculous, I think it's probably a multiple of that that's many times greater. What we expect is a return over 6 months, 12 months, 18, 24 months of distributor confidence of more people recognizing this brand of softening the ground so that distributor, when they say they're from Herbalife people say, oh, I know you, you're on the jerseys of those guys. What is that product of yours?

And those are the opportunistic stories that become the Aflac moment. No one knew what Aflac was ten years ago. They've never even heard of the company, or the name. Now they've got a duck saying AFLAC. Now people know what it is. It's an insurance company. Because Yogi Berra slaughters the language with it. The opportunity for us is going to be realized in distributor confidence, sales increase, more recruiting, more visibility for our brand and the company over 6, 12, 18, 24 months. So can I give you an exact measurement? No. But I think it's difficult for any advertiser to give an exact measurement unless it's an ad with an 800 number on it. Call immediately and then they can give you a response rate of 3 to 7% depending on what the ad is when it was aired, who it was aired to. We knew this going in, we were putting a push philosophy -- or a pull philosophy on a push company.

Our distributors are out there to push the product in the marketplace. Now we have some ideas that can help move that faster which we're not going to talk about today, but we're going to enter in those discussions very deeply with our distributors in the next six months about ways we feel can impact the business even more positively in time to take the fuller advantage of this opportunity.

Simeon Gutman - Goldman Sachs - Analyst

Audience. Questions? The microphone?

Unidentified Audience Member -- Analyst

(Inaudible question - microphone inaccessible)

Michael Johnson - HERBALIFE LTD - CEO, Chairman

Go to the slide of the distributors up the chart here. We measure distributors in a couple of ways. These are success levels of distributors and you'll see Chairman's Club at the top and supervisors at the bottom and actually you don't have distributor on here. Distributor is the person coming in and buying the product, which is the biggest universe. It's the largest group of people in here. These are people that are getting royalties in our business, largely getting royalties. We do it on retention and our

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retention rate is 42.5%. One of the highest in the industry right now. We do it on recruiting, the number of distributors that recruit. So we call it, actually the Rs, retention, retailing, recruiting -- recruiting, retailing and retention. We put it on those three Rs. So it's the vitality of the recruiting organization. How many new people do we bring in and we know each month what is signed up in our company. But on retention rates, we do an annual requalification that tells us how many stay with us over time and then we do it on the size of the retail activity that takes place. Did I miss anything?

Rich Goudis - HERBALIFE LTD - CFO

No. And I think in the handout you have is a little different portrayal of this slide where on the bottom right, you'll see since 2003, before Michael came on board, we've taken the retention rate of our supervisors from 28% up to 42.5%. That's a dramatic improvement.

Simeon Gutman - Goldman Sachs - Analyst

One in the back? There you go.

Unidentified Audience Member -- Analyst

Sorry about that. Just a couple of housekeeping questions. So what does it cost to become a distributor, is the first one?

Michael Johnson - HERBALIFE LTD - CEO, Chairman

About \$49.99.

Unidentified Audience Member -- Analyst

\$50?

Michael Johnson - HERBALIFE LTD - CEO, Chairman

\$50.

Unidentified Audience Member -- Analyst

Okay.

Michael Johnson - HERBALIFE LTD - CEO, Chairman

That's a little higher than some, and a little lower in some markets, but that's the general price.

Unidentified Audience Member -- Analyst

And that includes all the product you would have to buy?

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Michael Johnson - HERBALIFE LTD - CEO, Chairman

That includes a distributor starter kit and some product.

Unidentified Audience Member -- Analyst

And the average revenue per distributor is about what?

Rich Goudis - HERBALIFE LTD - CFO

You have different levels. We publicize this on our Web site, so you can take a look. If you look at the supervisor level, which is that first level business builder, their average income is about \$6500. You move up towards the high end where that Pres Team level is, they're average income is a little over \$300,000. The very high level, that Chairman's Club level, their average income is a little over \$2 million on average. You can go to our Web site and find out.

Unidentified Audience Member -- Analyst

Okay. The last question, what's the annual minimum purchase to stay in the network?

Michael Johnson - HERBALIFE LTD - CEO, Chairman

There is none.

Unidentified Audience Member -- Analyst

Okay, thanks.

Simeon Gutman - Goldman Sachs - Analyst

On the topic of nutrition clubs, they were started I guess in the Hispanic areas in Mexico, they flourished there. How transportable is that model to other ethnicities, geographies, demographics?

Michael Johnson - HERBALIFE LTD - CEO, Chairman

Jack, stand up real quick. This is Jack Kavulich and this gentleman joined us -- Jack, what, three years ago? Three years ago. Jack has one job inside the company and it is to expand nutrition clubs on a global basis. Jack is the disciple of nutrition clubs on a global basis. So what we're finding out is that they are taking on different lives. If you guys want to talk to Jack afterwards, he knows more about nutrition clubs than anybody on the face of the earth. They're taking on different styles in different marketplaces. I'm from a small rural town in Southern Michigan called Jackson, Michigan, and in Jackson, Michigan, Jack was up there four weeks or five weeks ago and there was an anglo or very white nutrition club in a strip mall that's just behind, no nomenclature on it because that's the rules of the road there, and that gives you the idea of what's taking place there. That's a breakfast and lunch club where people go in.

In Russia, we see a breakfast club phenomenon taking place there and distributors had a great line. They said, what'd you have for breakfast today and it's a fabulous introductory line to the company. If you're from England, they have bangers and mash and they say, fine, you just wiped out about 800 calories of your suggested 2,000 a day, and you put about 40 grams of fat in you, and they can have a discussion with them about why our meals are more advantageous, so as we see the growth, we see

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Leading
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it to take on different lights in different marketplaces, different styles in the nutrition club concept that started in Zacatecas, Mexico and it's caught like wildfire in the Hispanic community because it fits so much of their culture. And it fits in so well with an economic opportunity that it may not be this \$2 million a year person, but it may be someone interested in \$6500 a year in Latin America is big time money. So it's taking on different lives. Right now it's largely and I'm -- Jack, correct me if I'm wrong -- in the Hispanic community, starting to find ways into other communities throughout the world. It took three years for them to get this process going in Mexico.

Simeon Gutman - Goldman Sachs - Analyst

I'm going to ask one more and I think we're up as far as the general session. This is the only breakout for the last round of companies, so afterwards we remove the mics and continue on. As far as reputational challenges go, some of your peers are dealing with them --

Michael Johnson - HERBALIFE LTD - CEO, Chairman

What?

Simeon Gutman - Goldman Sachs - Analyst

Reputational challenges. There's a potential that that shadow could be cast across the entire group. To what extent or how has Herbalife avoided these -- how do you sort of stay out of that going forward?

Michael Johnson - HERBALIFE LTD - CEO, Chairman

I have too much Lift Off, so I'm going to look you dead straight in the eye on this one and say, it drives me nuts. In our industry, unfortunately, because of the government regulation that we operate under, it tends a little wide, and we've got some outliers in there. They've taken great products and screwed it up. So what have we done? We put together a political action committee inside our company. I am in Washington every quarter, if not more than that. I have a list of Senators and Congressman that I go in and see, I go in and see Henry Waxman. I've been right in his office. He hates the nutritional supplement business because he thinks it's untested and unclinical and unsupervised and I've gone right in and sat down with him and put our products on his desk and said let's go through these products so you understand exactly what's in these, exactly who we are. And the fact we're in your district and employ about 3,000 people in it, should be a positive thing. Have I persuaded him? No. But have we raised the level of this company? You bet.

I think reputation, going back to that image is vitally important and we unfortunately have some outliers in our business just like there's outliers in the pharmaceutical business, the automotive business, there's outliers everywhere. We can't be dragged down by these guys. We have got to continue to lift the image of our company, of our product, of our distributors and rely on our own reputation, understanding that in our business we're in two areas that have significant government concerns. One is financial claims, and the other one is health claims and we spend -- you've been to some of our meetings. We spend an incredible amount of time telling our distributors, you're not here to prevent or cure disease, you're here to improve the health of the lives of people around you. You're on a mission for nutrition. We go with our base concern and care and opportunity of nutrition in people's lives.

We're testing our products at UCLA, at the University of Mississippi who we've just done a deal with, we have our own science labs, we're doing eight different clinicals around the world right now. My job is to continue to build incredible confidence around our product, to make sure our distributors are operating at a level of the highest fiber in their ethical ground that they have. And the interesting thing is people say, well, you've got 1,500,000 people around the world espousing Herbalife, how do you control that? Amazingly, they control each other.

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Because I'm not going to let you screw up my economic opportunity by going and doing something that's going to damage the company, so I'm going to let the company know about you. And this is the way that -- it's a self-policing mechanism. And we have a whole system of arbitration, we have a whole system of the way we're dealt with when distributors, we feel, are outliers who have fallen out of line, and we enforce. And I think that's a little bit of difference maybe in the Herbalife of today than in the Herbalife of ten years ago. We enforce, we do everything we can to save distributors and keep them to be part of our organization. Sometimes they're misinformed, they don't know the rules, so we work with them. To me, reputation is the name of the game. Sometimes our reputational attacks are from the past. You go on the internet and find some pretty negative things about Herbalife on there. It's from ten years ago. And if you see the time and the dating of the article, today's Herbalife is frankly different.

Simeon Gutman - Goldman Sachs - Analyst

Audience questions? As far as Mexico goes versus your own internal expectations of when some of the issues in that market arose, were you surprised at the way things have stabilized, or did you expect given the breadth of management and your ability to control the model, did you expect there to be a pretty rapid solution to it?

Michael Johnson - HERBALIFE LTD - CEO, Chairman

Mexico -- we missed some signals along the way. We had some distributors talking to us, but not communicating with us. And informing us and I realize exactly the meeting, when it took place and Greg and I were in a meeting with two very senior distributor last year and they were trying to say to us that growth is great, but underneath it there are some issues. And we just frankly -- I remember this from my old company. Excuse the analogy here, but I was Head of the Video Division at Disney, and I was trying to tell Michael Eisner that we have this terrible piracy problem in the world, and we have this terrible problem in a meeting and we've got to allocate more resources to it and we've got to do something about it and it was right on the heels of Lion King. and he said to me, how many Lion Kings did we sell? I said, we sold 50 million copies of it and he said, we don't have a piracy problem and I was like, dude, listen to me. We've got this tremendous problem that's occurring in China and Italy and all out there, and he said, we sold 50 million units.

These distributors are trying to say, below that growth, you have some business ethics issues, you have some distribution issues and we're looking at a market that went from 200 to 600 and made the same -- it was like, duh. I made the same exact mistake -- I'm going, how many problems do I have in a market that went from 200 to 600 and I had an unfortunate CEO moment and that's never going to happen again. I can tell you that, were we surprised by the fix? We didn't think the problem was this severe as the Street reacted to it. Excuse me. The Street reaction was a \$41 stock turning into a \$27 stock in 24 hours. That was a little severe. And it clipped our value and clipped a lot of things. We knew that we had to do some things, change management, get a supply chain management in place, so did it -- was it as severe? No, it wasn't as severe. Was the fix as quick? Yes, it happened a little quicker than I expected it to, to be perfectly honest. What's your take on it?

Rich Goudis - HERBALIFE LTD - CFO

I think very early on, we worked very closely with distributors in early January after we made that announcement January 4, and I think a week later we saw collectively that we had at least a collective approach on how to fix the problems. I think we're all pleasantly happy that things are working well between what we've done in our distributors, the market basically stabilized at the 150, 200 volume points in Q1, Q2. The real test will be how we lead the year. We have a huge event in Mexico this month.

Michael Johnson - HERBALIFE LTD - CEO, Chairman

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Rich Goudis - HERBALIFE LTD - CFO

18,000 people, a sold-out event. That's good soft leading indicator that there's a lot of enthusiasm. So what do we do with that event and what do our distributors do after that event, that's what'll be key to watch.

Michael Johnson - HERBALIFE LTD - CEO, Chairman

We sat down, we had a management meeting in January and we grouped in that meeting, what have we learned here about ourselves, about our company, about our communication and it was a very vital moment for us to realize that we need to have this kind of visibility in the markets into the future to know that we can get the fix in very fast and understand what got us here, what took place, and what can we do to prevent this in the future.

Simeon Gutman - Goldman Sachs - Analyst

One more inspires another question. Great. Some markets are doing phenomenally well, some not so much. In those markets, how important is nutrition club or how important can nutrition club be and separately, are there any transportable lessons from Mexico that need a growth boost?

Rich Goudis - HERBALIFE LTD - CFO

Let's talk about the first part, when we went public in 2004, the U.S. business was flat to down. I think there was a lot of thought from the investment community, probably collectively that they'll probably never be able to grow a business that's 25 years old. Direct selling wasn't in vogue, probably not going to be able to resurrect the U.S. and here we are two and a half years later in the last four quarters we've been growing 24%-plus in the U.S. So what I think it indicates is you have catalysts in different markets. Those catalysts can be product, they can be regulation, they can be government intervention, they can be methods of operation, they can simply be things have changed in people's lives and they've come back to either work hard or work harder. You've seen that in the U.S., which is reaccelerated double digit growth. As Michael mentioned, Mexico which is probably no other direct selling company other than maybe those that are embedded in Mexico which is it's number one or two market in the world. So I think we've got a lot going for us and what it's showing other distributors around the world that these methods are affordable. Two and a half years ago, people in our company, our distributors thought, we think it's just a Mexico phenomenon.

Jack is proof and look at his passport. We've taken this around to almost all 65 of our markets, and there's stories of different levels of success from Mexico very successful, the U.S. now popping into the financials as being successful in the Latino population. Taiwan being successful, Jamaica off the charts, but Jamaica is a small business. We hope that in a couple years there now we're talking about not only nutrition Clubs, but we're talking about our internet lead generation business being transportable into some more of the high-tech marketplaces or our wellness coach and wellness adviser method of operation being successful into the higher socioeconomic where people will pay for that consultative sale. I think that's one of the great things that Mike McGregor brought here is that sharing of great ideas, which people harbored in the past because that was their competitive advantage.

Simeon Gutman - Goldman Sachs - Analyst

Also something, I don't know if everyone appreciates, but the product portfolio, when we did the work, in theory not a quantum leap from what you see out there, although it's reformulated to be of higher quality, potency, whatever, can you shed light on that, because I think there's a misperception? I've got a lot of questions about the type of product and what's going in and what's enabling some of the health benefits that's occurring

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Michael Johnson - HERBALIFE LTD - CEO, Chairman

The core is weight management, and that is a meal replacement, taking an unhealthy meal out of your life and putting a healthy meal in it, and then some physical activity on top of that and whether you're doing it once or twice a day, you're replacing your meals twice a day. Once you lose weight, the whole ball game in your life changes. You're putting less tension on your joints, less taxation on your system, everything starts to improve. It doesn't take a genius. In every article you read out there, all the things that obesity leads to. So at the core of our company is a weight management company. It's Lose Weight Now, Ask Me How was the original moniker of this company. So bringing people in under that is vitally important. Then what we're doing once we get them in, rather than lose them, is the idea of Herbalife for life. Keep replacing that meal. I hate calling it a meal replacement, I consider it a meal. Now for four and a half years, even before that at Disney, they used to call me The Shake Guy, I have a shake for breakfast every day. In fact, I feel strange without it now. So I'm an Herbalife for lifer.

Than what we've added into the product line and what has been existent in the product line is the vitamin supplementation. We've had a core heart health line for blood flow and strong cardiovascular activity and all the benefits that lead from fat and that's under Dr. Lou Ignarro's invention and supervision. We have a variety of products. We have a product called Garden 7, I'm not going to get too detailed. We have 128 products here, but it's the phytonutrients from 7 fruits and vegetables. So we have a tremendous line. We've added a children's line, which is a shake, a multivitamin, and a kid's liquid vitamin for them. We have an energy line in our company now, we have a hydration line in there, so whether you're working out, a casual sportsman or a hard core athlete, we have a tremendous product called H3O which we've just launched. These are tremendous new opportunities for us and we have what we call outer nutrition, a fabulous skin care line that frankly needs more focus in our company, and it's one of the areas I've got to kind of get focused on this year to make sure that we've got more things going in there in terms of focus because the product is so good.

Now beside doing the products, we've repackaged the products to help business opportunity. So we've put them in sample sizes, we put them in liquid, we have now an instant Formula One that's water mixable, water soluble and they're one of the best products we have in the company. So each thing we come out with is a higher level than the next one and we're working to make sure the margins are good on them and the opportunity. As I said, 128 products, it's going to be hard for me - I'm just touching across the top of them.

Simeon Gutman - Goldman Sachs - Analyst

Yes, please.

Unidentified Audience Member -- Analyst

(Inaudible question - microphone inaccessible)

Rich Goudis - HERBALIFE LTD - CFO

We've talked about the average income -- oh, I thought you said income. The average income at those different levels, is what I was answering. So, for example, supervisor, someone's who in the business part-time, potentially, their average income is \$6500 a year. Someone at the very high end, they're full-time

Unidentified Audience Member -- Analyst

(Inaudible question - microphone inaccessible)

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Rich Goudis - HERBALIFE LTD - CFO

No, that's their income. So then you're looking at now our retail sales, because the single biggest opportunity for those supervisors is their 50% off list discount. That's the biggest component of their income. They get a small piece on their royalties, because they really haven't started building a sales organization yet to get rewards down below. Whereas someone up in the very top, they're \$2+ million, they're probably working on very little retail margin, because they're not really retailers.

Retailers
Make
Nothing;
Executives
Make

Michael Johnson - HERBALIFE LTD - CEO, Chairman

They're recruiters.

\$2m+

Rich Goudis - HERBALIFE LTD - CFO

They're building their sales organization, so more of their compensation or income is based on the commission structuring in their multiple level marketing.

Michael Johnson - HERBALIFE LTD - CEO, Chairman

You can't add them together. They don't add up to the top.

Unidentified Audience Member -- Analyst

(Inaudible question - microphone inaccessible)

Michael Johnson - HERBALIFE LTD - CEO, Chairman

So ask the question again then, please.

Unidentified Audience Member -- Analyst

(Inaudible question - microphone inaccessible)

Rich Goudis - HERBALIFE LTD - CFO

\$2 billion in net sales last year. And on a retail basis, as distributors would view it, \$3.1 billion in retail sales.

Unidentified Audience Member -- Analyst

(Inaudible question - microphone inaccessible)

Michael Johnson - HERBALIFE LTD - CEO, Chairman

But that's with 50% margin.

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Rich Goudis - HERBALIFE LTD - CFO

Right.

Michael Johnson - HERBALIFE LTD - CEO, Chairman

We don't get that margin. We sell it for wholesale, they sell it for retail.

Simeon Gutman - Goldman Sachs - Analyst

Ask one more for Rich and close it off. If you can talk about topline growth expectations longer term as well as EBIT margin? I know the top line is sort of a tough issue, but EBIT margin especially and how do you envision the financial model?

Rich Goudis - HERBALIFE LTD - CFO

We're a very conservative company as it relates to our guidance. What I would do, Simeon, is I would ask you to tune in on November 6 after the bell to look at our earnings release, because then we'll guide for the first time for 2008 for our P&L. This year, the last guidance we gave was 9 to 11% topline growth for 2007. We don't guide to EBIT margin, but most analysts have somewhere around 14.5, 14.7% in that range. So a 50 to 70 basis point improvement over last year. Overall, our objective as a management team, our commitment is to try to get 50 basis points of operating margin or EBIT margin improvement a year. We believe that's realistic.

Simeon Gutman - Goldman Sachs - Analyst

Okay. Any final? Thank you very much.

Michael Johnson - HERBALIFE LTD - CEO, Chairman

We got a -- do you want to see a two-minute tape? I don't what these other retailers showed you. So part of this is motivation and in our meetings, we talk about dreaming and filling in the realization of the dreams. So I always kid the distributors, they captured one of my dreams on tape last night. So we opened up these meetings with this, so we're going to show you a dream scenario tape from a large event we're doing. So for all 20 of you in here, pretend like there's 20,000 of you in there and you're seeing what is the CEO's vision of the dream where the company can be and how big our brand can be. So let's be corny for a second and we'll roll the dream tape. [video presentation] Are you inspired? Thank you very much.

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million shares and an aggregate cost of \$204 million. In August, we closed a \$150 million additional credit facility to assist with our ongoing share repurchase program. Reflecting the strength of our credit, the facility was \$100 million oversubscribed.

Finally, let me reiterate our fourth quarter and full-year 2007 guidance. Due to the strong performance in the third quarter, coupled with the recent business trends, the balance for the balance of the year and anticipated for the balance of the year, we anticipate fourth quarter EPS to be in the range of \$0.72 to \$0.74 and full year 2007 EPS to be between \$2.62 and \$2.64.

We are also re-affirming our top line net sales growth guidance of 9 to 11% for the fourth quarter. For the first time we're providing guidance for 2008 and consistent with what we always conveyed last year, we're eliminating our guidance to top line and bottom line along with Capex. Net sales top line growth rate we expect to be in the range of 7 to 10% versus 2007. We anticipate our fully diluted EPS would be in the range of 3.17 to \$3.23.

Our Capex will be in the range of \$85 to \$95 million primarily reflecting the Oracle rollout. Please note that this guidance excludes costs expected to be incurred related to our growth initiative and tax adjustments to be in the first and second quarter as noted in our press release.

Our guidance also includes the accretion from the recent share repurchase of \$5.2 million and expectation that we will conclude the currently authorized \$450 million share repurchase throughout 2008. Before we go on to and open the call for questions, let me just comment on I wanted to adjust the disclosure we added on page 38 of our 10-Q following the SEC last night.

While the disclosure speaks for itself, due to several investor calls this morning, let me take a moment to elaborate a bit more. Number one this is a voluntary request, not a formal order by the SEC. Number two, the SEC routinely requests additional information from companies. Number three, we talked with the SEC and informed that we will fully cooperate with their request regarding the production of documents related to the personal use of Herbalife products by the company's distributors and the company's related policies and procedures. Fourth, the SEC did not disclose a reason for the inquiry but it might be safe to assume that it relates to the most recent fraud (inaudible) circulates to the SEC last week. And finally, I want to reinforce that the company had no obligation to disclose this matter, but in the spirit of full disclosure and our commitment to best practices in corporate governance, we add information on this voluntary request to attend yesterday. With that, let me open up for questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) Our first question comes from Simeon Gutman.

Simeon Gutman - Goldman Sachs - Analyst

For Michael and Greg, have you been insolate this business model from reputation challenges and we've spoke been it in the past, you know, it maybe from past experience you can elaborate and then it is something that seeps into the distributor base?

Michael Johnson - HERBALIFE LTD - Chairman, CEO

Well, it's Michael. Good morning. It does not slip into the distributor base at all. Interestingly, enough there's thousands of people getting shakes right now globally. They don't care or concerned with this ,they're concerned with good nutrition, a business opportunity and building, you know a future for themselves. So it doesn't slip into there. Our business model's incredibly strong. It takes a moment for corporate because we get, you know, we have to respond to things like this. We can't stand being dragged down in the dirt with this kind of stuff. As I said before, we won't be dragged down anymore. We have a lot of time

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spent, you know, hours spent some day in here. Everybody aim staring at's been here until 1:00 and 2:00 in the morning preparing this call making sure that we are giving you adequate information and defining exactly how our business model operates. We tried to be extremely professional and rise above this. This industry, unfortunately, has players in it who tend to spoil the image of it. Direct selling's a wonderful model. It is a model for people to have some income at home, large, small, whatever they desire to do.

We've got great products. We've got a great business opportunity and we've got great distributors. I'm very proud of what we're doing. It's a \$100 billion industry that we're living in, you know, and unfortunately, there's, you know, wins that are from the past that blow through every now and then. Frankly, you know, to be forced to be responding to them bothers us, but for our investor confidence for our distributor confidence, we do it. Right after this, we'll be on the phone call with our distributor leaders. To go through this call, to go through the quarter, to talk to them about what we've talked to you about, about the past, the present and the future of the company. And frankly, we'll use this moment to make sure everybody takes inventory and stock in what they're doing and how they are conducting their business.

So, we use this as a platform as we're learning, as a mechanism. Our distributors are frankly, a little tougher about this than maybe we are because they've been going through this for a long time. They've been hearing about, you know, the ills and wells of this industry and they sit there and watch people benefit from this. They say lives change and hear testimonial and watch weight get decreased. They see complete changes in people's personal conditions in lives both health and wealth and they're confident. So, you know, they have a ground that they stand on. We stand on a ground of high FX of strong moral fiber and we would be on a high road forever. So, you know, this is a moment where leadership is important, not only our distributors but it corporately and frankly with our investors too. So, you know, Simeon, I hate to be long-winded there but it's an important question. Thank you.

Simeon Gutman - Goldman Sachs - Analyst

No problem. Are there incremental conference calls that you'll be pursuing aside from the most senior level of leadership down or will it just start at that point and go from there?

Michael Johnson - HERBALIFE LTD - Chairman, CEO

We're just going to do it with the chairman's club. They'll work it down. This is where their leadership comes in the play and they show what they're all about. They're all about strong leadership in the organization. As I have said before, they have been through these types of moments. They're probably stronger at it and better at it that we are.

Simeon Gutman - Goldman Sachs - Analyst

Okay. Back to Mexico, can you talk about what the response has been so far from the new nutrition club promotion and then related to that, in the 7 to 10% top line growth assumption for '08. Is it fair to think that Mexico at least at this point in time is sort of a mid to low single digit grower in less context?

Greg Probert - HERBALIFE LTD - President, COO

Yes, first, I think the response the promotion's too early to tell. As we said it's a long-term promotion as we have a multi-year promotion. You know, we expect right now that given the run rates and the trend in Mexico that Mexico should finish up very slight single digits in the fourth quarter. Then we hoped we'd build continually and sequentially on that throughout 2008.

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Simeon Gutman - *Goldman Sachs - Analyst*

Okay and then as far as Capex for actually looking past '08, is this step up a temporary event for '08 and does it moderate for '09?

Greg Probert - *HERBALIFE LTD - President, COO*

Yes, actually have two stepups in '08. The majority which is the complete rollout of Oracle over the next 18 months. Then another stepup is we will be actually moving to LA live which is kind of like the Times Square of the West next year. There's a little over 10 to 20 million in Capex for that in. So, once we get through we'll have, you know, moved facilities, all of our major facilities here in the U.S. which we've been in for 20 years will have moved over the last '06, '07, '08, '09. We get down to a normal run rate. I think both in terms of information technology investment as well as facilities.

Simeon Gutman - *Goldman Sachs - Analyst*

Okay, and just lastly for you, Rich, have you guys ever thought about just more frequent updates on the business in terms of monthly sales but especially in this context of just more quarterly updates on the health of the business?

Rich Goudis - *HERBALIFE LTD - CFO*

It's a good question. I think, you know, we're pretty proactive with the investment community. We don't miss investor conference and we don't really miss a request to go out and market with people like yourself. I think we do a very good job reporting on a quarterly basis. Effectively what we're doing now is mid quarter update. I don't see us changing that method.

Michael Johnson - *HERBALIFE LTD - Chairman, CEO*

We have an investor date coming at the end of this month.

Simeon Gutman - *Goldman Sachs - Analyst*

Okay, Great. Thanks, guys.

Operator

Our next question comes Rommel Dionisio.

Rommel Dionisio - *Wedbush Morgan Securities, Inc. - Analyst*

Good morning, I'm from Wedbush Morgan. With regards to the U.S. business, first of all, great performance in the quarter. The Latino business has obviously been a key driver and I think nutrition clubs have been a big part of that. Can we just talk about the nonLatino force? I mean, you talked about sampling, helping that business. But, is there a thought of begin to push to promote the nutrition clubs to that segment of the U.S. distributor force?

Greg Probert - *HERBALIFE LTD - President, COO*

Right. This is Greg.

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Rommel Dionisio - *Wedbush Morgan Securities, Inc. - Analyst*

Hi, Greg.

Greg Probert - *HERBALIFE LTD - President, COO*

A couple of answers to that question. There is a lot of focus on the Anglo business as well as Latino. As the Latino, it's about 39, 40% of our business. Couple of things, couple of issue in there, one is the weight loss challenge, so a lot of our distributors are doing something we're basically think of the biggest loser on T.V. It's really where they are challenging and coming together in groups and mentoring and coaching and encouraging each other to lose weight and coming together again in a social environment. So, it's different in execution from the initial because it has a lot of the same benefits. We have attempted to community, we have mentoring, we have product results. That's one of the things we're seeing. As I said in my prepared comments, we're looking at penetrating the college segment and really trying to recruit and bring new and younger customers and younger distributors into the business. We have launched a generation age initiative a few years back in the U.S. where we had brought in distributors under 30. Now we're going down a little lower actually on the colleges.

We think it's a great opportunity in college. We think it's also a great part-time business opportunity or some money making in college. We figure if we can get people onto the product in college, you know, they can become Herbalife for life product users. We have clubs emerging in the Anglo segment. The central club, as well as in-home nutrition clubs. So, we have Kansas City. We have one of our distributor leaders is very, very successful at building Anglo clubs. So I think if you look at a lot of the things that are working in Latino business are moving over into the Anglo business and we expect those to start taking root. It will take a little bit of time. So, you know, we take a couple of quarters to see that. Again, as I said the sampling D.M.O. is very vibrant and again getting more and more people onto the products and make sure we have customer retention.

Rommel Dionisio - *Wedbush Morgan Securities, Inc. - Analyst*

Thank Greg and congratulations on the quarter, by the way. Good performance again.

Greg Probert - *HERBALIFE LTD - President, COO*

Thank you.

Operator

Our next question comes from Karen Howland.

Karen Howland - *Lehman Brothers - Analyst*

Good morning. Thanks for taking my call. Looking at the volumes that have been in the European region Middle East and Africa, I noticed on a two-year basis they have continued to decline. I was wondering what sort of initiatives you have in place to there to reverse that trend?

Greg Probert - *HERBALIFE LTD - President, COO*

I think there's a couple of things. You know, as (inaudible) it's a big big market and we try and break it down into what's happening at a market level. I think we have some very strong successes if you look at the Italys and Russia's sponsored that actually sound a pretty good growth, it's up 17%. We believe in Eastern Europe that we have a chance Eastern Central Europe as well as Russia.

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We have a chance to grow. That's one of the markets I think we have underpenetrated and frankly underperformed in the past. As we announced a couple of weeks ago, we just brought on a new executive to run our central and eastern Europe business which includes Poland and Czech Republic and a few other markets. So I think that's happening.

You see some of the D.M.O.'s going into Europe, have worked in other parts, specifically the sampling D.M.O., our biggest check in Spain, our biggest check in France are actually using that D.M.O. now. So, again we're seeing that D.M.O. move its way through Europe. Obviously, the nutrition clubs and central clubs are moving in and the wellness evaluation and wellness coaching, which actually started in France is now moving throughout Europe. I think Europe has a few markets that are down but a lot of markets that are very strong. And, so we think that, you know, the needle will start to turn. It has turned the corner, will start to increase. Again, will take a couple of quarters but, I think we're very confident and cautiously optimistic.

Karen Howland - *Lehman Brothers - Analyst*

And the initiatives you're talking about the nutrition clubs, wellness coaching, that have been run throughout. Is this something that's been gaining traction across the last quarter or is it something we've seen --

Greg Probert - *HERBALIFE LTD - President, COO*

Yes, I think the wellness is probably a little further along. I think, nutrition clubs and really emergency. Again, it is like -- nutrition club. You have to be culturated and have to be adjusted for the particular market. So, you saw in that typically in the central club in South America and U.S. Both in-home and clubs and central clubs and now commercial clubs. You know, that's starting to gain some traction. But, I think, you know, it's still, you know, several years away. If you remember, the nutrition clubs took many many years to get traction in Mexico. I think one another concept that emerging in Russia under our leadership there is really the breakfast club. And that's again an iteration of the nutrition club concept for Mexico that's been a culture and adapted for that market. And, we think that's one of the reasons that our Russian market is up 17%.

Karen Howland - *Lehman Brothers - Analyst*

Thanks for that color. And, then I think it's probably is an obvious question but that stock with the current level, what is that. Are you guys are the pacifiers of the reassurance of buyback?

Greg Probert - *HERBALIFE LTD - President, COO*

Yes. We're precluded from being in the market for at least in a couple days. And, after that, you know we'll just continue to monitor the performance and, you know, we would agree with you.

Karen Howland - *Lehman Brothers - Analyst*

Thanks so much.

Operator

Our next question comes from Christopher Ferrara.

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Chris Ferrara - Merrill Lynch - Analyst

Hi. Guys. I just wanted to followup on the buyback questioning. Can you talk about what the tax consequences if any there are associated with really, I mean, really pushing the authorization and the buyback given what's happened to the shares and if there are any? Is that part of the consideration? And are you guys, you know, meeting with the board to discuss these things any time soon.

Greg Probert - HERBALIFE LTD - President, COO

Well, Chris, we have a little over \$250 million in additional authority or capacity if you will on our buyback, so I don't think we have anything that governs us in the near term, and we'll monitor the situation closely. This is a business that generates a tremendous amount of free cash. We don't believe that the buyback over the next year would have any adverse impact that we're aware on our effective tax rate and, you know, again, we're looking at the stock right now. We're disappointed at where it is. We think on a value basis, the stock should be significantly higher, and it provides a great opportunity for us and others to take advantage of where the stock is.

Chris Ferrara - Merrill Lynch - Analyst

I just want to ask, I guess one of the big fears in the marketplace today like no big surprise is the SEC-related voluntary document request. Obviously, as you guys said, that hits on traditional MLM concerns, and I think I guess investor's worst fears are that there's some systemic issue with your model right? We're distributors. We make an initial buy-in, never use the products, put them in their garage, you know, then recruit a team of downlines that basically do the same thing only to just generate commissions on the initial buy-in. So, can you just address the concern that there are garages around the world filled with unused Herbalife product, understanding of course you don't have complete clarity but even anecdotes that help people get past that, you know, would be great.

Greg Probert - HERBALIFE LTD - President, COO

So Chris, let me just start with this first. There was another in one of our peer group - peer companies had a similar issue back in the first and second quarter, and it was the same routine, the same investigator and followed by an SEC inquiry. So, I think that that seems like to be just, you know, what happened. These models have stood the test of times by the review by attorney generals. We here - I think you've been here. You've actually walked through some of our ethical business practice group and our distributor relations group. We have what we believe are the leading controls in place that ensure that we operate at the highest level of whether it's a law or regulation, and we have a very strong oversight group that ensures that distributors comply with that.

Michael Johnson - HERBALIFE LTD - Chairman, CEO

Let me jump in on that, as far as product and garages, our fastest-growing D.M.O. is nutrition clubs that is daily consumption in retail of this product. We see our -- you know, it fired Mexico for three years. It's now starting to fire other marketplaces. That is not -- there's no garages -- the garage is the nutrition club in -- throughout the world. So, you have that. If we have places or if there are, you know, excess inventory moments, we have the ability to buy that product back. The distributor has the ability to return that product, so there's no need for a garage to fill up anywhere. If somebody has come into this business and decided that this is not for them or they've been, you know, at a meeting and got excited by the moment and then all of a sudden, you know, they get home and there's whatever -- a disagreement on business direction in the household, they have the opportunity for buybacks. Our buybacks are 1% in this company.

As the way the inventory flows and moves throughout, you know, the world, we are pretty confident that this is not a plan that takes place as the one you express where it's just recruiting on top of recruiting. We constantly and constantly go after any type

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of, you know, situation where that could incur. We don't see many of them, but we also foster through the sampling program smaller packages of sampling. Try the product first. See if it's something you're comfortable with before you make a larger investment in it. See if this is a business opportunity that you're comfortable with that you can do. Get on the products, get your own personal success story. These are all things that you become a successful Herbalife distributor with is your own personal testimonial. Our -- frankly, our best and strongest advocates of this company are people who have lost weight on a product or who've reached a healthier, more active lifestyle and become testimonials for the product themselves. So, you know, this is, again, are there problems? You bet. Are there strong opportunities in this company? They're much bigger than any problems that we have.

Chris Ferrara - Merrill Lynch - Analyst

Thanks a lot, guys.

Operator

Our next question comes from Scott Van Winkle.

Scott Van Winkle - Canaccord Adams - Analyst

Hi, gentleman. A couple of questions. You know, first, on Michael's comments about segmenting those 1.3 million distributors, that was from your analysis based on volume of those distributors. What happens when you ask the leadership where you do survey work? Do you find the same type of segmentation of, you know, how you will classified distributors?

Greg Probert - HERBALIFE LTD - President, COO

Yes Scott. It's Greg. Yes, we do. Directionally, we hear the same thing, so anecdotally, it supports, you know, what we've sort of quantified internally, and you know, it makes really common sense. If you're coming in to the business as a customer and you join up as a distributor, that entry price point is roughly \$50 to come in and you get a 25 -- at least a 25% discount and you're buying a couple of hundred dollars a month to get on the shape works program for example. You know, the payback of that entry fee is on your product discount is, you know, a couple of months. It's actually one month. So, under that model, it just makes a lot more sense to sign up as what we call a discount buyer, and that's probably a million of that 1.7 million distributors are actually discount buyers.

one month
payback

"Discount
Buyers"

60%.

The good news is, you know, that by becoming distributor, they also have the ability to buy directly from the company, in addition to getting that discount. So, that's new information we haven't broken out for you before, but we think it's important to understand that they're not in this for the business opportunity, they're in it for the product and their entry cost is minimal.

Scott Van Winkle - Canaccord Adams - Analyst

Is there a difference between those three segments in turnover rates? The discount buyer may stay on a little longer where you know a -- maybe a future supervisor decides he's not going to make it and jumps off the program faster?

Greg Probert - HERBALIFE LTD - President, COO

Yes, Scott. We don't track that. One of the things that, you know, we hope to do in the future when we get our systems, you know, Oracle rolled out in some of our biz works 2.0 is to be able to really penetrate that database and (inaudible) and do some C.R.M on those. Right now, we do not track that. We only track retention for the supervisors as we said in (inaudible) comments

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about 419,000 supervisors at the 1.7 million and our retention rate, you know, is 40-43%. So, you know, those people once they get to supervisor, you know, stay in the business and, you know, pretty good average earnings and again, that's one of the things we look at the turnover rate so that 1 million customers, is they tend to come in and out of the business. You know, they'll come in and get their product results go out and come back in and in the future we hope to do a better job today than minding that segment.

Scott Van Winkle - Canaccord Adams - Analyst

And second question was around nutrition clubs. Are there any different rules in place for a commercial club versus a traditional nutrition club. You know, given the fact that it is probably higher volumes and higher, you know, infrastructure investment on the part of the distributor?

Greg Probert - HERBALIFE LTD - President, COO

Yes. We have fairly extensive rules and manuals on all the club types so as they evolve, we adapted and, you know, for instance, you know one of the things with in-home clubs is we called the good neighbor policy. Is that, you know, if you are doing this in your home, you know, don't have too bigger club that you are opening a larger club, do it more on the central club or commercial club and we want to make sure that all of our distributors are compliant with local, you know, laws and regulations. So we spent a lot of time doing that and a lot of time with the leadership making sure that they are training those rules and regulations. They are downline. And we really are very proactive to make sure that we don't have the issue in Mexico where we grow so fast, that those rules and regulations and just good business practices were not passed down fast enough. We want to make sure to proactively address that in other markets.

As we said earlier, you know, in Mexico, we do go out and perform, you know, audits of the nutrition clubs and, you know, really with the goal of making sure that the training is taking place. So, the leadership are responsible for training. If you remember one of the things as they gone out and trained and so far all their clubs and sign a certificate to us. Then we go out on a random basis. We make sure that they're actually doing that. And again, it's less about, you know, finding someone doing something wrong than it is about training them to be compliant.

Scott Van Winkle - Canaccord Adams - Analyst

Thank you.

Operator

Once again, ladies and gentlemen, if you have a question or comment at this time, please press the one key on your Touch-Tone telephone. There are no further questions at this time. There are no further questions at this time.

Greg Probert - HERBALIFE LTD - President, COO

Okay. First of all, we'd like to thank everybody for participating today. Kind of an interesting summary we looked at, which was it took 16 years for this company to get to a billion in retail sales. That's retail sales. We're not talking net sales. Eight years to get to 2 billion and 2 years to get to 3 billion. The distributors, the employees who really, you know, make up tell Herbalife. Greg and I are really excite about the future of our company. You heard about these D.M.O.s, things that are growing and people responding frankly to this global weight loss dilemma. The growth potential of the refreshes and shareholders will continue to grow in this country. I hope to see many of you on neb 28 at our investor day. We'll take you through our nutrition club. You'll have a chance to visit. We are excited including a science lab and distributor call center. You'll get to hear more insight shared by the company. We'll highlight more on our key initiatives for 2008 and have our research and development team to give you

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more insight into our products. I hope you all have a blessed and wonderful Thanksgiving. Thank you for participating in our call today.

Operator

Ladies and gentlemen, you may now disconnect.

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Herbalife Limited - President and COO

PRESENTATION

Richard Goudis - Herbalife Limited - CFO

Okay. Good morning. Good morning, everybody. Good morning, ladies and gentlemen, those of you in the room and those of you who have joined us via webcast. Well, we are live from 10 o'clock this morning West Coast Time to 1:00 p.m. West Coast Time. For many of our investors and analysts, the investor experience really started last night with dinner. So, we thank you those who came out early, especially those who joined us this morning on tours of our Nutrition Club.

Over the next three hours, what we hope to do is a few things. One, introduce you to several different levels of management in the Company, as well as a broader introduction to several of our doctors, who are affiliated with our Company and employees of the Company. But, most importantly, we want you to hear from Greg and Michael about our business, about our business opportunity, about the channel distribution in which we exist and explore on a worldwide basis, better understanding of our financials, and our outlook for 2008.

So, with that, it is my pleasure to introduce Michael Johnson, our CEO and Chairman. Michael comes to us -- he has been with the Company four and a half years, and you have his bio both online and in front of you, most recently to Herbalife, Michael was 18 years with The Walt Disney Company, last position as President of Disney International. And we are very fortunate, not only to have that experience, but also the team of people that Michael [was] -- been affiliated with over the 18 years at Disney part of our team.

So, with that, Michael. Thank you,

Michael Johnson - Herbalife Limited - Chairman and CEO

Thanks, Rich. Good morning, everyone. Hope you had an interesting and enlightening morning so far out in the marketplace seen our Nutrition Club, seen our Company in action not only from an employee standpoint, but most importantly from a distributor standpoint, seen how they engage new distributors and see how they engage customers on a daily basis in our Company.

Today, you are going to find me a little more controlled, some of you who have been in my presentations before, and I get in emphatic and start getting emotional and jumping up and down, but I have been convinced by many people that this is a new

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group, and there's a lot of folks in here, and as we broadcast out, that I should be a little more controlled – a little more thoughtful here, and I will be both of those, but you are going to get some emotion.

So, I will keep myself a touch more organized. And as I said – before and Rich said it, we want you to see our team, we want you to feel our team, we want you to understand the passion, the emotion, the confidence that is behind this Company right now, how we are building this Company not only today but for the future. And the opportunities that we see in front of us are as exciting and as large as any time that this Company has ever existed. So, we are very, very excited about that.

When you're around Herbalife, you will feel our culture, you will see our people in here, you will see a lot of team Herbalife wear inside the Company, you will see what we stand for. You will hopefully be able to engage people on how we are changing and adapting to a new environment. You will get an idea of the size of the channel that we are dealing in, and I am going to show you that in just a second, and also show you that today, we hope that you will pick up that in our company, we see a growth rate that is very, very interesting.

And many of you are from the staple consumer products business, and you are focused on that area. I too am a veteran of that area, used to sell video cassettes at Disney and that was a -- is now considered DVDs and videos are considered not a staple, but they are definitely a consumer product. And as we see that we want to show you how that growth rate, or how our growth rate in our company is really better than that staple consumer marketplace, and how we are adapting and growing to a worldwide market. So, let us go through a few slides here right now, and I am going to again talk of a few notes here.

Successful track record, driven by global mega trends, we have had 15 consecutive quarters of double-digit growth inside Herbalife, very proud of that. We are living with two global mega trends, obesity -- and I heard this morning on the radio on the way in here and I couldn't believe this, I was listening to public radio.

But, in ten years, and just take a second to think about this, what percentage of just America do you think is going to be overweight? And Lou, you can't answer this nor David, you are not allowed to, because you guys live in this world, nor Steve. 75%. 75% of America in ten years will be overweight. That is a mega trend that is unhappy, but it is an opportunity for this Company like no other time in this Company's history.

As we talk about weight management, as you go through those Nutrition Clubs like you went through this morning, if you hear people talk about losing ten, 20, 30, 40, 50 pounds, because of the dedication to this product, because of the discipline that they follow in their lives now that they did not have before, and that is a big part of our product sale is the discipline to our products. This is a mega trend and an opportunity that is in front of this Company, not behind it.

So, we have a tremendous opportunity. And anti-aging, this is also a tremendous growth market. People want to feel as good as they do today forever and that is one of our key market areas. So, two global mega trends, obesity and anti-aging. Direct [channel] -- direct selling, excuse me, is an optimal channel for reaching out to people.

People need to be personally consulted in what their doing -- again you saw that in Nutrition Club this morning, working with people of their own like. It is almost, I would be careful of this, it's almost like Alcoholics Anonymous for weight. People get together and they learn from each other and they pick up a discipline, and they become connected, and they lose weight and they feel better about consulting. They don't want to get off that opportunity, they don't want it to go away.

And so, we are building really a future on this Company based on a global mega trend, but also an opportunity for people to grow in the direct selling business, because it's [consultative], it's person-to-person and it opens up a tremendous channel for us. So, emerging marketplace, we see this and you are going to see this (inaudible) on many slides.

The consumer packaged goods companies, Nestles of the world, Carnations of the world, they are coming into the direct selling marketplace by repackaging products -- we started doing that three years ago, packaging our products for special opportunity selling in the direct channel, direct selling marketplace. We are seeing companies do this in Brazil and India, and they are starting

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to repackage products so they can reach into a different universe of buyers. We have been ahead of that trend and we will continue to be on the forefront of it.

As I just mentioned to you, India and Brazil and China and other markets, we have geographic diversification and product categories diversified in this Company, and we will talk to you about those throughout today. We have four major product categories, we have -- and which we will go into.

We have a breadth of opportunities beyond our anchor of weight management, we have energy products, we have personalized nutrition and outer care, very excited about each one of those categories. In some marketplaces -- our outer care our Outer Nutrition as we call it, is growing our business. In many marketplaces, our targeted nutrition is growing our business.

And in most -- in all marketplaces, our weight management continues to grow. So, that -- those 15 quarters of consecutive growth come from not only building the business opportunity, but it is the product opportunity also. Our financial strength, and I think it is a given for many of you who have followed us, we have continued to have margin expansion, we will go into more of that in just a second, we are economically resilient in good times and bad times, people are either looking for a business opportunity [and] people are always looking to be healthy.

Emphasis on driving shareholder value, free cash flow has been allocated to high return on investment programs, again we are going to go into more of that today, we have been in the share repurchase -- been active in a dividend that we put into place. And lastly, but not least is our management. We are very excited about that management team, we want to showcase those for you today.

So, let's go to the industry history real quick. This is a 100 year old industry, in fact it is a little bit over older than that. AVON actually started in 1886, and there's been a lot of names through time who have been direct sellers or it's been Fuller Brush, or encyclopedia or bibles, or whatever -- it's been, there has been a lot of door-to-door sales, and this is an evolving marketplace. You heard me mention some of those companies that are coming in; we will show you a slide in just a second.

But just to show you a breadth of the activity in this industry, this is a snapshot obviously of the evolution of the industry, but this industry being over 130 years old, this chart shows how many long -- how long many of the key players have been involved in this business and continue to be involved, this is a long-term business channel that keeps getting reinvented; that's the important thing for you to realize.

This is not something that is just a trend that is going to come and go, this has been around 130 years and it's going to continue to be around, because it keeps getting reinvented. And as we see more consumer product companies enter into this channel, that is going to add more vitality and there is going to be a more vigorous attempt to capturing market in here.

If you look on this chart, all but two of these companies are public traded, so this is a marketplace that has lived in the public eye for quite some time. The direct selling industry is a growth industry. It has a -- CAGR in 1998 that you can see on there of 6% to 2006. But, it is also highly fragmented industry, nobody owns a majority of the market share of this industry.

And I think over time, you may see that change a little bit, you may not, but I think that as we grow our business, we certainly want to capture a larger share of this. 1980s, a strong growth trend was driven by new industry entrants and geographic expansion. In the 1990s, you will notice there was a plateau. And the 2000s, were rejuvenated by emerging markets, companies such as ours heading into China, India, Brazil, starting to build our businesses in new marketplaces. Growth is accelerating in the last five years, almost 7% again a little bit ahead of consumer staple.

As an industry we have been very, as I said before, economically resilient, we have gone through good times and bad times economically and the industry has continued to grow. This is a bit unlike consumer industry, where leading brands are accounting for the majority of the total share, I just mentioned that, this is highly diversified.

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Direct selling is fragmented, and it is where leading brands collectively represent a minority of the total business. So, we have, believe me, an opportunity to gain share in this because we believe that the leading brands will continue to gain share. We build a brand around Herbalife, it is for consumer friendliness, it is for distributors, but it is also to make people more aware of the brand that is out there and use that as a way to build share in the marketplace.

Traditional companies entering direct selling, you can look up here and you can see that these are some of the biggest names out there, Warren Buffett and Berkshire Hathaway, Citigroup, Jockey, Time Warner, P&G and Nestle. We -- Nestle is in the market in Brazil right now breaking down products and putting door-to-door sellers into the lesser economic areas of the Brazilian marketplace.

They have been very successful with this approach. We are keeping a very careful eye on what they are doing. But, we are also breaking out our products in the lower cost goods. We just launched a new skin care line in Brazil at a much lower cost, packaged in smaller units down there to be able to make it an easier sell for our distributors and an opportunity for our consumers.

Just going to Herbalife for those of you who have not been around us for a while, past, present and future, and this is kind of a -- usual part of my presentation. I came to this Company with Greg, and Brett, and Rich, and Paul and the team in here in 2003, and what we found in the Company was a great set of executives already here, we found a great distributor base already here, but frankly without a direction.

They had suffered the loss of their leader in 2000, there have been basically four managements in the year 2000 to 2003, and I came in here in April of 2003. We found a company that had frankly lost its compass, and we believe that it was very necessary to put some things in action in this Company very early, a strategic plan, so we came up with a five year strategic plan almost initially.

Those were unheard of words in the Company, the Company worked on a 90-day plan, they thought about the next 90 days all the time; they thought about with our distributors, they thought about with employee, and they thought about it through every phase of this action. What are we going to do for the next 90 days?

We thought that the Company needs a longer term focus. What are we going to be about the next five years? Where are we going to be as a company? What strategic ports will we sell into? What are the opportunities for our distributors, our employees, for our brands? What is the building block that is going to take this Company into the future? How are we going to create the next generation of Herbalife distributors?

So, a lot of things were put into place in that first five-year plan, and it is amazing when we first did it, we didn't think it was as valuable, but we look back at it now and we realize there is a lot of things in there that we have taken action on and we continue to update that plan on an annual basis.

So, our distributors, our employees, they had lost confidence in this Company, and my initial job was to restore confidence, it was to provide an opportunity of stability to say that we are going to go forward, we will survive, we will be strong, we have too much opportunity in front us, those global mega trends that are out there can provide for us.

So, what did we do? We restored confidence in the Company, a new management team, a strategy. We built top line revenue, distributor momentum; strategies to strengthen retailing, retention and recruiting, and those are the three Rs that we talk about around here consistently. Everything in this Company starts with recruiting new people in just like it does in any consumer staple company.

You have to recruit new customers, you have to recruit people to buy something off your shelf, to get them through your front door; we are just like that. We recruit new people to our business opportunity and to our products. Retention of those customers is vital to us, what you saw in those Nutrition Clubs today was the paradigm of perfect retention.



Buffett
ENTERS
DIRECT
SELLING?

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They people -- those folks come back to those clubs day in and day out for years, not just weeks or months, but for years. We can take you down into Mexico and show you Nutrition Clubs that have had customers for four years, amazing story that take place and transpire. So, retention is vital, and recruiting as we said -- as I said before. So, retailing the product, you saw that today; retention, you saw that today, and recruiting you see that everyday inside Herbalife.

Expanding our geographic reach, we are continuing to grow in new marketplaces. We will throttle that back a little bit in 2008 as we build an IT infrastructure to support further expansion of our growth, but we did expand into many markets over the last five years. I don't have the list off the top of my head, but I can name -- in Latin America, we expanded in three or four markets, in China, we have gone into Eastern Europe and we continue to grow in those marketplaces, and we will be looking at other markets in Asia over the next two years.

We also are sharing best practices, which is something I think has been vital to our growth in the Company. Actually, this is an old Disney trick that Greg and I picked up, we used to bring our employees together on an annual basis inside the Company, we have a great idea session. And that great idea session was one of the most valuable meetings that we have inside the Company, because the guy from France would talk about how he grew his business, and the woman from the Germany would sit there and listen to that.

And you'd think well France and Germany, they must talk all the time, right, because they are right next to each other, well they're a foreign country to each other and they speak a different language. And the only border crossings in France and Germany are using unfriendly -- no, that was just a joke. I should be careful of those jokes. But, they didn't, and so the German, hears a great idea from the Frenchman and says, wow, I can import that into my marketplace.

This has been the basis of some of some of our growth and our strength in this Company. We populated executives -- if I look at Rob Levy back there, sitting next to David Heber, raise your hand Rob and say hi to everybody. We have Rob running, I don't know, almost every market in the world for us at this point.

But, Rob has gone from country to region to different geographic areas and he spread good ideas. He takes distributors from northern Latin America, which is growing like mad for us right now, and brings them into Asia to share ideas with Asian distributors, how do you grow your business; how do you build these Nutrition Clubs, how do you recruit new people, what are you retailing techniques, how do you retain.

And these people start to populate ideas across the universe that became very, very powerful for us, and we see the impact sometimes six months or even a year down the road, it is not immediate because it takes time for absorption, it takes times for ideas to hit the road, that they've put into place. So, it is a very valuable tool that we have in this Company, where we have a success center.

And right now, the U.S. is growing, it grew last quarter at 20%. So, why is the U.S growing, the oldest market that we have? Well, we have certain reasons that it is growing, the Latino marketplace is booming with Nutrition Clubs, we have a sampling pack that's going in through the Anglo marketplace, it has been widely successful.

So, the French come over and look at the sampling and they say, maybe I can implement this in my business. The Italians come over and look at the Nutrition Clubs, Germans look at the Nutrition Clubs, they go to Zacatecas, Mexico. So, we are fomenting this wonderful sharing of ideas across our firm.

Okay, so let's go to performance, which we are most interested in. Here is an interesting slide. And in terms of where this Company is today, when we talk about retail sales, we are talking about the mark-up value between our wholesale price, which is the price that the supervisors pay for the product a 50% discount and the market price. And everything you saw today in Nutrition Clubs with market price, there is full retail margin being charged in those Nutrition Clubs.

NC =
Retail
Sales

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Those distributors are putting retail margin in their pocket every single day, and that is an important thing to remember as we get deeper into our presentation today. So, 16 years for this Company to reach \$1 billion in sales, eight years to \$2 billion, two more years to \$3 billion, that's pretty fantastic growth rates, and that's being powered by many of these new business initiatives that we are sharing market-to-market across.

Top line growth, as you can see, has been aggressive. Expanding margins in this Company is one of our goals, it's absolutely a principle and a goal in this Company that we live with every day, I drive Rich crazy with this. Greg and I have got a goal of much higher than what we told you guys, because we are going to be conservative and only deliver to the numbers we promise you, but that goal that we have internally in our minds is much higher than what we are broadcasting.

Free cash flow, it continues to grow inside our company. The balance sheet, we have delivered a cleaner balance sheet every single year inside this Company, and we have accelerated returns to shareholders as we said early through dividend and purchase – repurchase of shares.

Confidence in our company. One of my main job is to build confidence about our Company in what we do, our products, our business opportunity, our brand, and our image, that's what I do. I am the -- Greg is a much better business mind than I am, so is Rich. I am the head cheerleader for this Company. I am the one who sits up in front of the distributors who drive them to say, look, you have a great opportunity here, you are living in the mega trends of the world.

As we bring people like David Heber and Dr. Lou Ignarro, Nobel price winner, we bring these great minds from UCLA to join us, to give them confidence in these products, to make sure that they understand that the global mega trends in front of them are very real.

Dr. Ignarro has basically started the world on the track of nitric oxide, has made the world understand that a healthy blood flow is a healthy body. And we are the first company to come out with a nitric oxide product in the marketplace, it was laughed at initially and now it is copied. It is a very interesting trend that we are in there.

That is confidence, that gives our distributors a ton of confidence in the product, in our science, you saw our science center in here today, we have a relationship with the University of Mississippi, we will talk a little bit more about that, with UCLA, we are doing clinicals throughout the world, this is all product confidence. This is [the delivery] to the distributors substantiation for the claims we make that differentiates us among companies of our type in this world. We are not selling anything that isn't substantiated, we are building confidence in our product.

*NCE
SUCCESS*
Confidence in our business opportunity, it's distributors who succeed, it is that simple. Those distributors you saw this morning are succeeding with these Nutrition Clubs. They are becoming part of the culture of success of Herbalife. We put them on stage, we make sure people hear their stories, understand the way that they are going about their business with high integrity, with building an opportunity with a culture for success and they are confident everyday in that business opportunity; how they build it, what they do, how they recruit, retail, and retain distributors.

Confidence in our brand. You see our brand growing around the world. You see David Beckham, I would say. They called Barb the other day and Monday I wasn't feeling too good, so went home a little early to get some sleep to prepare for you guys, sleep a day early. But I flipped the TV on and there is David Beckham on in Australia with this Herbalife Jersey, and some kids crying in Herbalife [jerseys].

I thought, oh my god, I don't know what's happened, but he missed some kids he was supposed to see who were cancer patients, who were there waiting to get an autograph from David Beckham, and it was the press who of course was doing their thing. Is this negative or is it positive, and I am sitting there looking at it and I am thinking of the old Errol Flynn line, hey good news or bad news, spell my name correctly, out there and so our name spelled correctly.

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It's Herbalife on there, he goes and he signs the kids jerseys later, he meets with them, it is all a good news, feel good story, but this is in Australia and it is making the news in the United States, as well as throughout Asia. Our brands expanding, it is exploding, the opportunity that we built around it.

We're giving distributors tools and mechanisms to reach out in their marketplace and become marketing tools for this brand every single day through local events, whether it is a music festival or there is a swim meet, or it is a triathlon. I know some of you in this room have competed in Herbalife wear in triathlons, and you will see more and more of that as we build this brand on a global basis. It is very, very exciting.

Confidence in our image is all about the good things that our distributors in our company is doing on a daily basis to go out there in the marketplace through their goodwill and their good acts. I could go on and give you a list, but I see Rich doing this over here like I am running out of time already, so, I will go fast here. So, our image is growing through the good acts of our distributors in our company through our Herbalife Family Foundation.

Confidence in our products, we already talked about this. Our products fall in a large growing global category, Weight management is a \$33 billion category projected to grow 7% driven by the global trends in obesity. When I heard this morning is 7% is probably conservative, 75% of Americans in ten years will be overweight, very sad. Our weight management business is nearly \$1 billion in sales and growing at plus 12% a year.

Targeted nutrition is a \$33 billion category, projected to grow 7% driven by anti-aging. Our Targeted Nutrition is growing 17% year-to-date. Energy & fitness is an important category for Herbalife brands as these products reinforce our commitment to a healthy active lifestyle. This category is projected to grow 52% and our business is growing 16%, so we have got some room there.

Personal category – or Personal Care is obviously a tremendous category, huge category, and we see continued opportunity to complement our inner nutrition line. And with the application of vitamins and nutrients to the skin, our skin care line is about vitamin A, C and E, we call it ACE for your face. And it is a great topical application of vitamins.

SKIN WHITENING SERUM

We continue to encourage regions to identify products that can perform well in their respective markets. Some examples include outer care in Brazil, which I mentioned to you, tooth paste in China, skin whitening serum in Asia and others, and these products, if you look around the room today, they are on display in the room and you can see some of our localization. Our product portfolio is built to fight the mega trends of obesity and anti-aging.

I think we have driven this topic into the ground, but as you can see, that doesn't take one glancing at the major media of the world to be not aware of what's going on out here. It is unbelievable, there is articles written every day, there is something on every news cast, there are specials.

And I watched on ABC, Good Morning America, the other morning this guy lost 40, 50 pounds and he was going on to sound like a Herbalife testimony and he will say, well, I'm off my diabetes drugs, I'm off my arthritis drugs, and I am like duh, you lost 60 pounds and you are healthier, and that is the basic summation of this Company; you lose weight, you get healthier.

Let's go to our business opportunity, confidence, again in our business opportunity, we have a strong compensation system. One of the facts that is often misunderstood about our compensation system is the distributors make money day one on the retail margin of the product. You saw in those Nutrition Clubs today, they are making 100% retail margin every single day on those products. This portion represents \$1.5 billion of our distributor allowances, that's the retail margin.

7% PB to HLF

We pay 15% royalty override, which is common in many multi-level marketing plans, a 7% production bonus, this is unique to Herbalife, it's something that Mark instilled in this Company in the late '90s in order to re-motivate the staff to get the sales group back out there. It is a break-away aspect, you will hear about the term break-away in multi-level marketing.

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And then, we have what we call the 1% Mark Hughes Bonus, and this is a discretionary management bonus plan. This drives distributor attitudes, this drives distributor performance. Last year, we gave away \$30 million in this, so our top distributor got \$1.8 million on stage in front of other distributors, further to motivate and give them confidence in the business opportunity. It's a very moving evening, I think some of you were there for that. This makes up \$675 million in royalty overrides in our company.

→ 7/10/07
to top
Distrib.

Vitality of our plan is that we see growth across all levels within the marketing plans, from Supervisors to Chairman's Club. This week alone, I have done 15 first cut price -- or third cut pricing call, that doesn't mean anything to you, that is local language.

TOP guy =
6% of RO₃

Third cut means they are in their third month of qualifying to reach the President's Team, which is that level right here, just before Chairman's Club, means they have a very good sized organization and are earning in triple-digit income mostly around the world. And these folks -- I did 15 of these and some of these people were in this Company less than four year, it's amazing.

So, new into the Company, in four years reaching almost triple-digit income, I don't want to say that is consistent, because it is not true in every case, but it is largely true that they are in the triple-digit income level. Some of these people made \$50 a month five years ago, six years ago.

This is a world that's unknown to them, this is a world that hard work, a great product, a great mega trend, a business opportunity built for them and changed their life. So, the vitality of our plan is evidence of the growth opportunity that continues to exist, and the real opportunity for an individual distributor signing up today that in four years, to have a great opportunity in this Company.

It's not just four years, some of those distributors were here seven, ten, 13, 15 years, but the amazing thing is when I hear the stories about the folks who have been here four and five years.

We are transparent with our earnings potential among supervisors. The staff on this page which is the average gross compensation of U.S. supervisors is a public document, it is available on our website and is part of our introductory business pack that all new distributors receive. So, every new distributor in this Company knows exactly where they stand and what their opportunity is inside the Company.

These average earnings reflect not only the compensation from royalty introduction bonus, it does not include the \$1.5 billion paid out against their retail margins, their discounts seen here, so that's just something that we need to remember and think about in here when you hear certain pundits take shots at our company.

Confidence in our brand. This is a brand that is growing, I mentioned it before. Beckham has obviously then a huge advantage for us, he is now traveling the world, they were up in Canada last week, Australia, they are in another meet somewhere in Asia, I can't remember where it is in the next couple of weeks. But, this is a growing opportunity for us. Soccer is the number one sport outside the United States.

In the world, it has got a fan base in the U.S., that's growing -- any of you have been to any of these Galaxy games down here, it is mayhem, they've gone from the average attendance of like 12,000 or 13,000, to somewhere around 24,000 to 25,000. Down here, it is a great family sports, a great time of entertainment and it is great for our brand, because it touches the distributors that we have and touches their lives.

Let's talk about image and integrity, and I think this is important for us and we are going to -- then we will come to some more of the business discussion. Today's business world operating with complete integrity is not a nice way to be, it is the only way to be. It is the only way to be, and it is one of the things that I believe this management team has added to our Company, I think the integrity was here, I think we reinforced it and we built upon it, and we made it a focal point in every single thing we do.

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We have invested in staff and other resources to strengthen our internal controls policies and procedures. We have a corporate whistleblower hotline, which among other things handles complaints by and against our distributors, and we deal with that every single month in this Company.

The number of incoming complaints in the hotline is very low, but we deal with them all every single month. Complaints are investigated by our ethics and business practice staff, they are well trained this Company -- this group has been around for a long time in this Company. It's not always the most popular thing we do, but it is necessary to protect the long term business interest of this Company and of our distributors who do things right.

We review these quarterly at our audit committee, some complaints come from other sources, they are all carefully acted and -- they are all carefully investigated and acted upon, excuse me. We are constantly evaluating and as appropriate strengthening our rules of conduct in this Company. Our distributors are independent business people, but they must operate within the guardrails we established.

Some key rules and policies that you should know about, and I am going to read these. We have a ten customer rule. To earn, supervisors -- and that means to earn royalties, supervisors are required to sell at least ten retail customers each month. They must certify in writing that they have complied with this rule. 70% rule, to earn supervisors are required to retail 70% of their total products purchased in a given month.

They must certify in writing that they have complied. So 70% -- if I purchase \$5,000 worth of goods, \$3,500 of those must be retailed. The 10/70 audit, we audit 10/70 certifications for three separate purposes. Random audits, and that's the ten rule and the 70%, random audits for earning eligibility of supervisors, ethics and business practice investigations including audits, [pursuance] of complaints or suspensions about specific sales volume, qualification audits prior to improving individuals advancing to the higher levels in the market plan.

So, all these new ^{res} [price] team members that I had phone calls with this week, they are being audited and is part of the standard course of the Company, they don't love it, but it is standard, and we make sure that the business that they are doing is legitimate and operates at the highest level of integrity.

The business method. Any business method must be registered with the Company, they must be reviewed by confident multi-level council, they must make sure that they engage on these. Business method sellers, must show potential buyers in strongly worded disclosure statements prior to consuming a sale.

We want people to understand what they are buying into in this Company. Business method sellers must buyback intangible items within 180 days including shipping and handling. So, somebody has 180 days to get out of any plan that they are in, that's pretty good. I don't know where you can get in or out of a plan like that almost anywhere.

Business method -- excuse me, products guarantee. Distributors are required to give full refunds within 30 days of getting product purchase. Distributors are required to give full refund in 30 days. Buyback policy. We give 90% refund on resalable items within one year. So, the distributor has up to one year to return 90% of their goods to us.

No profit on IBP, we do not pay distributors to recruit and they cannot profit on the sale of a starter kit in this Company, they don't sell franchises, they don't sell licenses, they sell starter kits, but they don't profit from them. We have a worldwide ethics and business practice group that monitors distributor activity, and responds forcibly to questionable business practices.

Again, this is the hand that is not always loved, but it is the hand that is necessary. We have a worldwide internal audit staff that reports directly to the audit committee, which itself is part of the Board of Directors. We have been SOX complaint for each year we have been public. We are SEC, NYSE, FDA, FTC regulated. People say we are unregulated and I beg to differ. Day in and day out, we deal with regulations.

70% / BOSS?
SUs only

Res Team
Audited

one year
buyback??
No profit
on IBP??

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So, with those as my opening comments, and with that, what I would like to do is turn this over to a gentlemen that we are very proud he is part of our Company, his name is Steve Henig. And Steve, I am going to ask you to come up, introduce you on the way up. Steve has been in the food science, nutrition science business for his whole career.

He has been part of many great companies, we are honored to have Steve here. When I recruited and brought Steve into the Company, I said, look, you like I am you in here to help me. Fix what you got and take us to the future. And he has done an admirable job of both, so let me introduce to you PhD, Dr. Steve Henig. Thank

Steve Henig - Herbalife Limited - Chief Scientific Officer

Thanks, Michael. Hey, great to be with you. Good morning to the folks here, and good afternoon to whoever is on the east coast. And what I will do is I will take you through our products, I will drill down a little bit and Michael has covered some of it. And so, let me start with our product aspiration.

Next slide, is we have set a high bar for our vision and mission, we aspire to be the premier nutrition Company of the world; quite an ambitious goal, but we intend to get there. Also, we want to have a lifetime commitment of distributors and customers, Herbalife for Life. So, we use that lately in all of our events.

And my observation having been here for two and a half years is the remarkable degree of commitment of our distributors and customers to this Company. Surely, a lifetime commitment committed to the product, to the business and it is just a tremendous strength that we have. In terms of the specific mission that we have set for ourselves is to -- I (inaudible) is to provide balanced nutrition, very important, balanced nutrition, personalized because that's the unique point of differentiation for a healthy active lifestyle. That's what we do, this is what the products do.

In term of resources, to create the kind of company we aspire to be, you need four things in my mind; great people, outstanding people; resources, physical resources, laboratory access to good ingredients; you need to have processes; and you need to execute with excellence. And in a second, I will talk about how we do it, but we are just blessed number one to have outstanding people.

You have seen some of them in this [tour of the lab], you have seen to my left some of the greatest minds in nutrition in the entire world. And so, we are just blessed to have great people, we are bonding together to work as a high performance team. Michael mentioned the key trends that drive us. I'm not going to be repetitious, but those are really the cornerstones to our product strategy.

So, our product strategy relies on those three trends, obesity, anti-aging, and healthy living. For example, the obesity more quantitative look at this chart that basically is scary, on top is the U.S. and you can see that from say 2000, if you look into 2010, over 35% of the population is bound to be obese, not just overweight, two thirds overweight. Not a good trend, but we have trying to do -- we are doing something about reversing that.

The second trend is that of an aging population that is very sophisticated looking for ways to stay healthy as we all age. And if you look at the red bars, this is where we stand in 2005 roughly today is the percent of people over 65. And looking forward, more and more people are going to break into that, looking to stay healthy, to stay active. And we believe that our product categories -- our product just cater right to that. So, we have the foundation to grow, because we work with those trends that are embedded in our society.

Let me now drill down and talk more about our products. Michael already teed up the four categories, so what I would like to do is quickly scan through and present three of the unique selling propositions from some of our key products. So, as you look at weight management in terms of core products, we have Formula 1. So, I will give you like three bullets relating to each product.

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Why is Formula 1 such a good healthy meal, not just to lose weight but to maintain your weight, the right weight? And it contains 18 grams of protein, high quality protein, I should say, and when you mix it with eight ounces of soy or milk, you basically get 18 grams of protein, it is contemplated to about 200 calories.

And as you know, to lose weight, to maintain your weight, it is calories in, calories out, simple equation, never fails. How to -- the discipline to do it, but Formula 1 provides that good balanced nutrition, it is packed with essential vitamins and minerals, it's got three grams of fiber is low in fat, also designed in a way that the micro nutrients are in the right balance, it is right percent of calories coming from [protein], which is a key to [society] and controlling appetite as you go through weight loss as well as you maintain your weight. So, it is a great foundation product for us.

Formula 2 provide essential nutrients for overall vitality and help you get the nutrients you need as you go through weight loss and as you maintain your weight. Cell Activator with the [Pycnogenol] enhances the absorption of those vitamins and minerals. So, those three products essentially are the core to our program. That is what's constant with our healthy [meal].

Moving on to Targeted Nutrition, we have recently introduced a line of kids products, we are very proud of. It is designed for kids in the age bracket of four to 14, draws in the same kind of logic and principle for Formula 1, except it is built for kids of that age. So, instead of nine grams of protein in the product, we have six plus the eight ounces of milk, nine -- about 15 grams of protein.

The unique selling proposition, it is about half the sugar in other typical products that you will see in the marketplace for kids, also packed with the right nutrients in it. And so, we believe it's a unique product, recently introduced in our Extravaganza in Dallas, it's got no artificial colors or flavors or sweetness for that matter, and kids love the taste. Some of you going through the lab, you have seen how we examine that in our [sensory] lab, it's a good tasting product.

In terms of cardio health, I would defer that to Dr. Lou Ignarro, who will talk about it a little later, but we have a wonderful range of products from Herbalifeline to Niteworks to Tri-Shield. Digestive, we have a nice range of digestive products, aloe and fiber products. We are in the process of adding and upgrading fibrous products. [Be] featured in 2008, as Greg will talk about, we're going to launch some of those new products in the digestive area.

Shifting to energy and fitness, we have introduced a couple of years ago Liftoff, [it's been] very success so far, it's a energy drink ginseng and ginkgo in it here in the U.S. In other countries, slightly different ingredients, it has been very successful. You have seen the [fizzy] tablets right in front of you.

This year also in Dallas, we have introduced H3O, which is a hydration drink, again unique because it is not only quenching your thirst, but it provides the right balance of electrolytes, provides antioxidants for cell protection as people exercise, and it has got a unique combination of carbohydrates for slow release of energy, very low in calories. That is our energy and fitness.

And as Michael mentioned, in our skin care, outer nutrition, our two leading brands right now are NouriFusion with A, C and E, and Skin Activator, collagen-building glucosamine in it, which improve appearance and hydrates the skin and firm it up. So, kind of a quick description of our products and you have seen the lab where we develop them.

Let me switch now to the science program, and as you have seen, we have invested in our own laboratory and this is very important, that investment is so important because it allows us to do things in a better way much faster in taking control of our own formula. We are now in a position to be more innovative, to specify the kind of ingredients that go into our products and to execute its fee. So, over the last couple of years, we have really have improved as a team our ability to bring products to the marketplace.

Our Scientific Affairs Group has started and strengthened a botanical evaluation program, testing all key ingredients -- so the product ingredients in our products testing it for purity, for key ingredient safety and efficacy. Another important thing that this group does is claim substantiation. We have scientific dossiers, scientific white papers, if you will, behind every product.

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And so, when you walk through this group, you can see the binders with the scientific dossiers, obviously it is online as well, and this basically provides scientific substantiation for all of our products. Besides the internal resources that we have, we are blessed with outstanding external resources. UCLA, under the direction of David Heber, the clinical nutrition lab there, the molecular biology lab working very closely with us, supporting us in what we do.

They obviously do more of the basic science rather than product development, but just tremendous add-on to our program. We have recently signed an agreement with the University of Mississippi, whereby they have possibly one of the best botanical program in the entire world, heavy investment, Senator Thad Cochran is head -- support the state of Mississippi in that particularly University to build that up, and the head of our science Dr. Ezra Bejar actually is a graduate of that university, so that is a recent addition to our resources.

Another thing that we have started to do about three years ago, [David did say], was to back our products and our claims up with clinical studies. Prior to that, the Company relied primarily on studies done by others to substantiate the efficacy of our products. We have decided that we are going to do selective clinical studies ourselves.

And so, we have completed some, you can see the list, Niteworks at UCLA was completed basically showing that you can improve the threshold (inaudible) as you consume Niteworks, very important for them. And if any of you run a marathon, half marathon, biked a long time, you know when the anaerobic lactic acid takes a hold of you, it is hard to continue and this can defer that, so good positive outcome.

Another study completed at UCLA was done on our Formula 1 and weight loss, proving that our way of weight loss, i.e., lose weight the right way, lose your fat, retain your muscle, lean body weight works, and that study has proven that. Most recently, we completed a clinical study in Germany done in an outstanding fashion, done in a highly disciplined manner, 100 people recruited for that study, 50 is the control, 50 is the intervention group, and the results are just wonderful.

It is in the process of being published, at which point obviously you can -- we can all read that publication, but I can just give you a glimpse, a peak under that tent that the result is absolutely spectacular, demonstrating that using our Formula 1, Formula 2 and the core nutrition the right way, you can actually lose more weight in a better way than taking some of the medications others prescribe for weight loss. So, we can't wait to have this study be published, and then you can see that we have committed to running other clinical studies.

Let me now shift to quality and regulatory, and Michael has touched upon that, that in this day and age of highly regulatory, if you will, sensitivity and ministries of health around the world tightening up the screws on the pharma industry, on the dietary supplement industry, we are well positioned to completing that all as you have seen, we have made the investment.

So, we have upgraded all of our quality systems, policies, procedures, our auditing capability, we have included our testing capability, we pick up randomly products, we test them for labor compliance, we test the ingredients, we are using our own internal labs that you have seen, we are using UCLA, the University of Mississippi will work us on specific [actives] and so the testing programs has been upgraded.

As you know, we use a lot of external suppliers and we have a very robust auditing program. We send our auditors having an audit manual and they audit them on a regular basis. And actually, we have developed a scoring system. So, we have score card for those audits.

So, that's very helpful to just make sure that we stand up to the high standards that we have established. And recently, we have also introduced a new database for our specific patients that is highly interactive, meaning we input that and we can communicate instantaneously with our vendors and dialog back and forth. So that's really a [great assist] and will serve us well in the future. So, upgrades to the quality system.

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And the last piece in that puzzle is global licensing. Again, it's -- for us, it is a very, very important activity operating in 65 countries. As you can imagine, tremendous complexity in maintaining product licensing across 65 markets, and frankly, it is a barrier to entry in some countries, because of regulation.

But, we are blessed to have a very skilled group there, who have diverse skill set to handle multiple countries, multiple languages, they have built very strong relationship with regulatory agencies, and we have put some licensing resources in the marketplace.

So, we have regionalized their growth. We now have a licensing group in Europe, [added] Brazil and other countries, as well as a group here that does primarily the global kind of strategic thinking and licensing across the board and specific activities within the regions. So, hopefully, in those few minutes I have given you a good kind of glimpse into how we do product development, science, regulatory licensing, and so forth.

It is all about having a strong team as I suggested, and I just want to introduce now our team members, and they will take their specific areas of expertise and talk to you about what they do and how they support us. So, we will start with my colleague here to my left, Dr. David Heber, again a professor at UCLA, head of the clinical nutrition, is running obesity program, [I guess] one of the best in the country, for the last 30 years and truly a world-renown expert, a pleasure to work with him.

So, David?

David Heber - Herbalife Limited - Chairman, Nutrition & Scientific Advisory Boards, United States

Okay, thank you. It is my pleasure to be here today, and I just want to thank Steve. And Steve and I have been colleagues as he mentioned. I have been involved in the field of medical nutrition for the last 30 years, as the Founding Chief of the Division of Clinical Nutrition at UCLA and the Founding Director of the Center for Human Nutrition there in 1996.

But, I can honestly say that my experience in the industry working with Steve in probably four different companies that he has been involved with in the last 15 years, that this is the most exciting challenge that I have been involved in my professional career. Herbalife is a unique company because of the global challenge of obesity, which Steve just reviewed with you. And some of you may not know this, but in the country of Vietnam, 20% of the population is obese, and Herbalife is in Vietnam.

Now, the opportunity to take a message about how to treat obesity, which as Steve said, calories in and calories out, very simple message, but to take that globally is something that no single physician can do, there aren't enough airlines and enough days to visit all of these countries. So, as a result, it dawned on me after consulting with the Company for a period of time, that what was needed was a worldwide nutrition advisory board. And in thinking about that, and speaking with Greg and Michael about it, we came up with a very good role for the nutrition advisory board and how to make this the best in class.

If you look in this industry and you look on websites, you will find many people who have scientific advisors. Unfortunately, you won't any one that has a Nobel price winner like my colleague, Dr. Lou Ignarro. You will not find in many of those even credible scientists or doctors, but on the Herbalife nutrition advisory board, we have very strict requirements for membership and a very defined role for each of those people.

First of all, what do they do? The nutrition advisors actually represent the Company in local markets throughout the world. They were closely with the Company's country managers and they train the distributors in our product messaging, which is unified around the world.

Dr. Luigi Gratton who you will meet in a few moments is also intimately involved in training supervisors and distributors throughout the world in consistent product messaging. It is one of the most important things that we do. Our products start with good science, but if the product messaging is not consistent throughout the world, then that falls down.

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And unlike products that are sold over the counter, these products come with, I like to call an agent of change, which is the Herbalife distributor who educates the customer, calls the customer back and follows up on what they are doing, and I would like to say, that here in Herbalife, we have over 1.5 million agents of change in 65 countries.

They also service as local scientific and nutritional experts with regard to our corporate communications group headed by Barbara Henderson, and each of them have their four specific requirements. Number one, they must be affiliated with a university, and each one of our advisors is affiliated with a university.

They cannot be a distributor or be married to a distributor, and we have some interesting people who are quite renowned physicians around the world, but they were disqualified for being on [the] nutrition advisory board because they happen to married to an Herbalife distributor. They also must have a good rapport with the distributors in terms being able to train distributors.

Not all doctors are able to speak well from a training standpoint, and they must be knowledgeable in the fields of obesity and weight management, heart health or sports medicine. And I would just like to show you -- the next slide which is a picture of a group of advisors. We have now close to 20 nutrition advisory board members throughout the world.

They all fulfill these criteria, but on the next slide, I would just like to highlight four of these. On the first red circle, you will notice Dr. Lou Ignarro, who you will be meeting personally because he is here with us today. Dr. Ignarro, winner of the 1998 Nobel Prize in Medicine and Physiology. But, more importantly, Lou is at the cutting edge of heart health today, which is health of the endothelial cell.

These are the cells that line the blood vessels. Our understanding of heart disease has evolved from the 1980s where we thought it was all about cholesterol and cholesterol clogging the arteries, to where we now understand that your blood vessels in your body are living cells, and that Dr. Ignarro work was absolutely with absolutely seminal in moving the field ahead, and it is linked to the areas of obesity and inflammation and the other things that we do.

Additionally now, Marion Flechtner-Mors in the second row down, Marion was a fellow in my laboratory at UCLA for two years, she is now affiliated with the University of Hohenheim in Germany, where she is on the faculty and does research at University of Ulm in Germany. Marion and I have been together in Germany a number of times now, and she is an excellent trainer and really a person who bonds wells with the distributors.

The next person I would like to point out is Rocio Medina, I point her out because of course Mexico is one of our most important countries, and Rocio is affiliated with the University of Monterrey, where she is a professor in their division of clinical nutrition. I met Rocio a few years ago at a obesity conference where I spoke in Mexico, and she has now been training with Dr. Luigi Gratton just this last week in Mexico and is an outstanding representative of the Company.

And then, finally, I would like to highlight Dr. Ralph Rogers from the University of Surrey in the United Kingdom. Dr. Rogers is an MD, PhD, and the reason I want to highlight him is he is a representative of a group of our young NAB members, who are not only expert in nutrition and weight management, but also the emerging field of sports medicine.

And you will notice the Herbalife jerseys behind me, this representation of sports and healthy active life style are one of the three pillars, balanced nutrition, personalized for a healthy active lifestyle. And a representative of that healthy active lifestyle you'll meet in a few moments is Dr. Luigi Gratton, who is also a fellow at UCLA in my laboratory for several years.

So, with that, I will turn it back to Steve.

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Steve Henig - Herbalife Limited - Chief Scientific Officer

Thanks, is the mike on? Yes. And a lot has been said about Dr. Lou Ignarro, a Nobel Prize winner, so I would just add that he is a trailblazer in a true sense on heart attack. So, it's all yours, Lou.

Lou Ignarro - Herbalife Limited - Member, Scientific Advisory Board

Thank you. I think I will do something different sit in my director's chair or doctor's chair.

Steve Henig - Herbalife Limited - Chief Scientific Officer

You are allowed.

Lou Ignarro - Herbalife Limited - Member, Scientific Advisory Board

I just ran a marathon seven weeks ago in St. George, and I am going to run the Tucson Marathon on Sunday, and with a lot of cycling, Michael, in between. So, I have to rest --

Unidentified Company Representative

(inaudible - microphone inaccessible).

Lou Ignarro - Herbalife Limited - Member, Scientific Advisory Board

I have got to rest my legs. I usually do pretty well not in the overall rating, but in my age group, because I am in the 66 to 70 group. So, I will be 67 years old in a few months, and I have to attribute all of this to Herbalife. Let me just explain, I don't have -- actually, it's very true or at least it's a great time coincidence here.

I need to make -- those of you who know me know I would like to talk for no less than 50 minutes, but I have five minutes or less. Well, I spent the first I guess 40 years, that's frightening, 40 years of my life doing basic research, working very hard to make a difference, and my interest has always been heart health.

What causes heart attacks? What causes stroke? Why do heavy people get more heart attacks than those who -- who are not obese? Why do people with diabetes get -- have such a high prevalence of heart attacks? How come people who lead a sedentary lifestyle even if they are thin get more heart attacks? What is going on here? So then, ten to 40 years of research, which resulted in a number of discoveries.

I am not here to talk about my discoveries, but I want to point out one, we show that our bodies make a unique molecule called nitric oxide, not nitrous oxide, it's not laughing gas that you get in the dentist office, that's nitric oxide, and if you were to inhale that, you wouldn't be laughing, I guarantee you. So, nitric oxide is very important to protect the cardiovascular system against disease.

It lowers the blood pressure, it prevents cholesterol plaques from depositing, it can prevent metabolic syndrome in diabetes, it can prevent strokes, it can prevent heart attacks. That is not the result only of my work, it is the result of over 10,000 laboratories doing this work, so it is important, it is real and it got the attention of the Nobel Committee in 1998.

So, after spending 40 years doing this research, I felt as scientists, we know what's going on, we understand about nitric oxide, we know how to deal with our health. But, how do we deal with 99.999% of all the other people out there, who don't even pay

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attention to scientists, because usually we don't explain anything in a way that they can't understand what the hell we are talking about?

And so, I decided to maybe start my own company, but I didn't have enough money. So, I started looking around and I spoke to companies, and finally I came upon Herbalife. And I realized that we shared exactly the same views, and this was exactly at the time that the Company underwent new management.

I got a chance to meet with Michael Johnson and I realized, even before I spoke with him, that he was obviously an athlete, and we shared the same vision. The vision we shared was so simple it was that -- most of the diseases that we suffer from are lifestyle diseases and they are.

More people die of cardiovascular disease than any other disease, that's true for both men and women and its throughout the world, and in about ten years, it will be the number one cause of disease of death in Asia, believe it or not, rather than cancer, and this is all due to poor health -- poor lifestyle, poor diet, lack of exercise and so on.

So, we thought that, well, by advocating a change in lifestyle, by eating a healthier diet, by engaging in an exercise -- even a moderate exercise program, by supplementing all of these things with healthy dietary supplements to reinforce the production of nitric oxide, to reinforce cellular nutrition and so on and so forth, we just might be able to change people's lifestyles or take advantage of their change in lifestyle and cut back on death due to cardiovascular disease.

And so, I felt honored and proud to join Herbalife, and as every month goes by, we develop more and more products and I see how we talk to distributors and what the distributors say to us, I can tell you, I am very honored and very proud to be associated with this Company.

Now, as a Nobel laureate, it's been a very difficult task for me because you see I am Italian, I have Italian genes, I usually say what's on my mind. I never think about whatever it is I am going to say, but I am in a position now I have to be careful what I say, when I say it, who I say it to, who I associate with.

But, I can tell you, having said all that, this is -- I feel this is one of the greater things I have done with my career. I am going to spend the last part of my career now working with this incredible company to try to spread the good word that a change in lifestyle is really all you need to live longer, it's the best possible way to protect against cardiovascular disease, and to extend aging.

Science is about 10% fact and 90% common sense. And certainly, you must see that what I am talking about is common sense. All right, now, let me talk about some of the products that I have helped Herbalife develop. I had some ideas in 2003, and I talked to several people here and [opposed] to the people I talked to at other companies, the folks at Herbalife were very interested in what I was talking about.

And in record time, Niteworks was developed. This product is really a combination of amino acids, the same amino acid that you get in fishes, in nuts, in meats, but with all the -- without all the other stuff that's present in the food, the mixture of amino acid and a mixture of antioxidants, which has been shown for many years to boost the production of nitric oxide in the body and that's what we want to do.

There are no prescription drugs yet available to do this. There will be, there will be plenty of them in a few years with lots of side effects and \$10 a pill. There will be plenty of them. But, right now, you don't need the prescription drug to do this. We could do this by taking dietary supplements, by engaging in a healthy diet, health diets are rich in unsaturated fats, lower in saturated fats, and filled with antioxidants.

This is what the body does to make nitric oxide. So, we can sort of fuel that system by ingesting more of these healthier components. And also, exercise is good for your health, we have known that for centuries, but nobody has ever understood

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the mechanism. Well, it's very clear now from the work of others, not me but from others that exercise is the body's most important way to stimulate nitric oxide production.

So, if you exercise, you have a healthy diet, you take Niteworks, other dietary supplements, you are going to really boost your nitric oxide production. And if you keep it up there, I think you are going to live a healthier lifestyle.

And then, another product we developed, there have been several, I am just going to focus on this core complex, which is a mixture of things. And I don't want to complicate the issue, but the major ingredient here is really omega 3 fatty acids. These are concentrated from fish oil, ordinary fish oil, also from a special fish -- a crustacean from the Antarctic Ocean called krill oil, which is very rich in a potent omega 3 fatty acid.

It's fortified with antioxidants, which preserve the fish oil. These things are spectacular for heart health, for blood vessel health, and it's strongly advocated by the American Heart Association. So, it's certainly okay to say that there are so many products on the market which contain these kinds of products, omega 3s.

But, this one is unique because it has a unique combination of not just the omega 3 fatty acids but critical antioxidants, critical phytosterols that can all work together to protect and boost the production and action of nitric oxide. Because in my opinion, being a Nobel laureate, I can state whatever opinion I want.

In my opinion, nitric oxide is really the basis, the basis for the protective effects of all of these kinds of substances in the possibility of prolonging cardiovascular health. And so, it's been so much fun working with Herbalife because they are very conducive to my ideas.

We can chat all about the ideas we have, the ideas they have, and the greatest thing to see is the ideas come together as a product, that's not only very colorfully packaged, but also distributors love it and they become very popular. And of course, the long-term goal, what I would like to see if I can live long enough is actually see a reduction in the rate of heart disease in this country and elsewhere.

Instead of that slope going up, it would be so wonderful to see it begin to slow down. I think we can do that, I really think that this Company is in the most unique position to do this, not pharmaceutical companies. Now, I am pharmacologist, I have a PhD in pharmacology, I [work] for a drug company. I love pharmaceutical companies.

We need those kinds of drugs because somebody has to bail us out of the mess that we get ourselves into once we get very sick. You don't need prescription drugs to prevent you from getting sick, you can't take prescription drugs to prevent you from getting sick, you have to change your lifestyle to prevent you from getting sick, and that's what we do at Herbalife.

Steve Henig - Herbalife Limited - Chief Scientific Officer

Thanks very much, Dr. Lou, great. And we are so blessed because a high performance team is based on complementary skill. So, here we have got the complementary skill. There is also an age bracket in the group, as Lou already disclosed, so I want to feature the next team player, clearly in a younger age bracket than some of us, trained differently as a physician, general practitioner, and he is our VP of Medical Affairs and Training, Dr. Luigi Gratton.

And before he comes up, as a trainer to a large group of distributors, you have to have special skill sets. And Dr. Luigi is just blessed, it's just a pleasure to see him train, lecture, and train distributors. It's an experience to see him train 18,000 distributors, whether (inaudible) Dallas. Uniquely talented, wonderful to be with, great team member, Dr. Luigi Gratton. So, he is going to talk to you about what he does.

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Luigi Gratton - Herbalife Limited - VP, Medical Affairs and Education

Thank you, Steve. Wow, this takes me back to my days at UCLA, where I ran track for three years, and when you run track, there is usually four folks in the mile relay. And the last anchor leg usually supposed to be the strongest, but in this example, I always feel like just don't drop the baton, that's what I am thinking right now. Don't drop the baton.

Steve Henig - Herbalife Limited - Chief Scientific Officer

Run, baby run.

Luigi Gratton - Herbalife Limited - VP, Medical Affairs and Education

Yes. So, I went to medical school a place called Mount Sinai, New York. And when we start our lectures, which use about 45 minutes the length of this presentation, the doctors always knew that you have to keep it relatively short because you lose your audience by about 30 minutes. So, here I am getting you at the last five minutes. So, I want to try something different, to try and kind of let you guys know what -- the guys and girls know what I do.

I do a lot of product training and I have worked -- I work at ULCA with Dr. David Heber and Dr. Lou Ignarro, and part of my job is to take the complicated science that these gentlemen do in their laboratories and try and make it real user-friendly, so that distributors can duplicate the message. And we try and do some creative things, but I want to sort of take a moment to give you an idea of how the nutrition and supplement industry has changed.

27 years ago, when our company was first started, people would give what's the called a testimonial and they still do. And generally, the testimonial went something like this. It would be like, Hi, Lou, you look fantastic. What have you been doing? Well, I am taking these great shakes. I do two shakes a day and a healthy meal. I have lost weight, I have run 20 marathons and my energy is going through the roof. And that's it, that's the testimonial.

Well, great, I want to buy some of that stuff and so the shake is sold. With the explosion of the Internet, with all types of information being out there, now the pitch is a little different. Now, it goes something like this. Lou, you look great. Wow, you look fantastic, what are you doing? Oh, I am taking these great shakes, two shakes a day. My energy is going through the roof.

Great, let me take a look at the shake. Oh, wow, I [notice] this has got soy protein. Is that healthy for me? Wow, soy protein, what do you know about soy protein? Oh, I was on Google earlier, and I was just looking up some information on it, and does it help lower my cholesterol? In fact, it does actually, and you will see a little red heart symbol on here, which allows, which basically FDA allows us to say 25 grams a day of cholesterol -- 25 grams a day of soy lowers your cholesterol.

So, now the pitch is a little bit different in terms of selling to the customer because the customer is a little more sophisticated. So, what we try and do is take all the science that they create at UCLA, that we are doing research, and we make it very user-friendly. We try and help the distributors out with claims and with basic messaging.

Another thing that Dr. Ignarro mentioned, it's nice that we have him on the team, as a Nobel laureate, he will endorse the products with a signature for our heart health line. Dr. Heber developed the ShapeWorks line. So, a lot of our messaging becomes very simple because we can tell them, look, we have the confidence of our Nobel laureate, of our physicians, and our PhDs around the world endorsing or supporting the products. And so, it becomes a little easier.

One of the things that Dr. Heber mentioned earlier with the universal product messaging set, I have been with the Company about three years now, one of the first things that Michael and Greg asked me to do when I came into the Company was develop a universal messaging set so that distributors in the Philippines, distributors in Mexico, and distributors in Italy say the same thing about our shake.

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They are not saying, well, it's going to help me grow in height or it's going to help me run a faster marathon, but you make the similar claims, which the local regulators and governments will allow. So, we create -- we created a template, which all the distributors use, it's basically very easy to use.

It's based on five questions. It's the who, what, when, where, and why of every product. So, what is formula one? What does it do? Why is it important? And the local regulators in Philippines or the lawyers in Mexico will help massage the messaging for us. That's basically what I do. I take the science, we sort of make it very user-friendly, so that the distributors can duplicate the message.

And with that, I will turn it back over to Steve.

Steve Henig - Herbalife Limited - Chief Scientific Officer

Okay, thanks very much. And so, that wraps our session up, and maybe Rich to move on.

Richard Goudis - Herbalife Limited - CFO

Thank you very much, Steve. In the next couple of minutes, we just want to transition, thank you to the doctors. I hope that gives you a better perspective, not only from a science, as Steve started the day, right, it starts with ideation, but all the way through that process how each of the doctors, not only here but also of the NAB play a role whether it's through the ideation process, all the way down to how do we teach our distributors, our independent sales force how to sell the products, how to coach, how to advise. Hope you got a great perspective of that through these four gentlemen.

Now, it's my pleasure to introduce our President and Chief Operating Officer, Greg Probert. Many of you know Greg, many of you have met him and have spent time with him. Those of you who haven't, Greg is the brainiac who runs the day to day of the business.

Greg has a trained finance background, went over to the operations side when he was working for Michael at Buena Vista Home Video business back in Disney. And about a month or so after Michael joined the Company in 2003, Greg joined. So, it's my pleasure to introduce my business partner Greg.

Greg Probert - Herbalife Limited - President and COO

Thanks, Rich and good morning, everybody. Good to see you. It's always hard to follow those doctors because they are an impressive group. What I thought I would do today in about 30 minutes is go through our four key strategies of the Company that you hear me talk about on every quarterly earnings call, and then give you a quick update of each of the seven regions, the P&L centers that we have, really what's happening currently and some of our '08 initiatives for growth in each of those regions.

So, if you really look at -- these are our four key initiatives, one is really a major market focus and it's something we talked about last year when we did our OFG process and that was really to realign the reach of the Company, from low growth markets to high growth markets, to make sure we are penetrating, and that really -- China is one of our big investments over the past couple of years.

We have put about ten of millions of dollars in building infrastructure and hiring employees and launching products. And it has been a bright spot this year, and as we said, really one of our bright future growth, and I will talk about that in a little more detail when we get into the regional presentation.

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One of the other things we are really looking at is developing the Eastern Europe strategy and really penetrating that market. It's a market where you see a lot of our competitors, direct selling experiencing double and triple digit growth. It's been frankly an underperformer for Herbalife and we are going to focus very, very heavily on that.

And when I talk about EMEA, I will talk a little bit more about -- detail about what we are doing there. Brazil, which is one of our top four markets in the world, has flattened out a little bit this year. We have talked about why, the transition of DMOs from more of a recruiting, to more of the balance of three Rs, and we do a lot of focus on Brazil, and as we said in our last earnings call, we expect that to return to growth late in the second half of 2008.

And then really getting into new markets, I think there is a lot of untapped market around the world. We launched a test case in Zambia a few months ago where we went in with three products under a Nutrition Club DMO. But basically, no one has really penetrated Africa, the continent, and there is obviously several hundred million people that need our nutritional products that could use the microeconomic business opportunity. So, again, we are nurturing a small launch in Zambia. This is a test [that's out] and we will report back on that in future quarterly earnings calls.

One of the other areas we look at is getting into new markets. I think David -- Dr. Heber mentioned that we are in Vietnam. David, we are there in spirit, we are there in mind, but we are not quite there yet, and it's going to be one of the markets that we will focus on opening next year. We are waiting for the regulations in direct selling to stabilize. Well, our hearts and minds are there.

And David, you are right, there is a lot of people that need our products and we are going to get there as quickly as possible. Steve and the other doctors talked a lot about our product strategy, really focusing on segmenting the market, and going after consumer needs. We really focus on what are the needs out there. So, the mega trends like Michael talked about, obesity, aging, population of every country in the world is aging.

Japan is in zero population growth, the U.S. baby boomers are getting past that 50 mark now and past the 60 mark, and in greater need of our products. So, again, we will focus on market segmentation. I think I won't go too much into the science, you have heard that from all the doctors, it's really a strong, strong focus in this company on the science behind the products.

And as Steve said, we are doing a lot more clinical, we will be announcing those in the future, we are putting a lot of more R&D money into substantiating the science behind that and also more and more affiliations with doctors and PhDs around the world in top institutes.

Distributor strategy, again, what we continuously talk about is segmentation of the market in support of DMOs that go after market segmentation. So, if you looked at one of the reason that Mexico grew so much was because of Nutrition Club DMO and the ability through that single serving daily purchasing pattern of the product to penetrate the lower socioeconomic segment of Mexico.

And again, that's 60 million people of the 110 million that live in Mexico. And before that DMO, we couldn't penetrate that market, no one could afford to buy \$200 in a monthly purchase. So, by breaking that down into a daily purchase pattern, we were able to penetrate the segment that we have never penetrated before, and that's really a lot of the focus.

If you look at our product development, our toolkits, our infrastructure investment, it's really all geared towards supporting distributors, daily methods of operation in penetrating specific market segments. So, Steve talked about in the U.S., the kids line, really going after stay-at-home moms who are -- have natural Nutrition Clubs or talking to other moms, they want good nutrition for their kids.

It's hard to find something after school that -- you are a father of three, it's a great product. It's great in the morning, it's great as an after-school snack, on weekends. So, again, we think that will not only be a great consumer driven product, but also drive distributor acceptance and penetrate that from a distributor's standpoint and recruiting standpoint as well.

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Building more business tools, so if you look up here, there is two. BizWorks, which we talk a lot about, that's really a distributor management system. Think of a consumer database. This is for distributors. So, they can look at their downline, they can see who is performing, who is not, and it really helps them focus their energies and their times to focusing on distributors that are driving the business and actually probably more importantly, distributors that aren't.

So, they can wake those distributors up and they can talk to them and see why aren't they growing the business. You don't understand the product, then you need more product training. You don't understand the marketing plan. You don't understand how to recruit, you don't understand the new DMO, whatever it is, this allows our downline. And they never really have the visibility into their business, and so we launched BizWorks a few years ago and we will continue to enhance that. We will roll out a new version of that, Q2 of next year.

And really, as we talk about the three Rs, we are always focusing on the three Rs, recruiting, retailing, and retention. And infrastructure, one of the most important things that you will see us spend money on next year is on building the infrastructure to support the double digit growth in this business. I already talked about Oracle, rolling Oracle out around the world. We need that for two reasons.

One is because we are growing, we need more robust infrastructure and two, we need better ability to data mine and get visibility into our business. It's something that Mike and I are continuously asking Rich in the finance and the analyst side his visibility into our business. So again, that investment is growth driven and to increase visibility. And it's something Michael talked about, our ethics hotline, adverse events on our products, hotline is there, and worldwide EBP.

As Michael said, the purpose of that is really to ensure compliance with regulations and laws, make sure our distributors are making correct product claims, correct business opportunity claims, and that is really to ensure that our growth is based on a solid foundation of retailing, product consumption, and ethical business practice. It's great grow, but more important to grow on a solid foundation.

Now, let's talk a little bit about each of the regions. So, North America has -- let me explain these four slides, see they are in your decks. One is just three year trends on volume points -- total volume points and percent growth year-over-year. The '07 number is obviously only nine months. So, even though we are growing, it looks smaller than '06. Same thing for new supervisors, one of the lead indicators of this business.

Growth is our ability to attract new distributors into the business and to retain existing distributors. So, one of the things that we release to the Street every quarter is the number of new people coming into the business. And then, the second most important thing is keeping those people in the business.

So, we are just bringing them in, they are going out, it's a hamster on a wheel. So, we really are focused on retention. So, if you look in the U.S. from a couple of years ago, we have almost 500 basis points of improvement. That's huge. If you think about how many distributors we have in the U.S., we are going to keep 5% more of those every year.

That's a lot fewer that we have to bring into the business. Couple that with strong supervisor growth and that's the reason U.S. business ultimately has turned around. If you remember, when Michael come to the Company, the U.S. business was going through a double digit decline. Four years later, we are in double digit growth.

One of the new things, the distributor order stratification is something that we started disclosing last quarter on our quarterly call. With an attempt to take our distributor base, and that's the distributors that are below supervisor level, and stratify them by what we considered discount buyers, so think of Costco in the U.S., where you just -- you pay a fee, come in, and you get a discount from 25% to 42% on your product depending on the amount of purchase.

(Incorrect)
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And so, we stratify this by discount level, which really tells you, for instance, you come in and you just give me a 25% discount, you are buying product, you are a Costco buyer. As you go up and you get more volume and the order size gets bigger, you are probably starting to build a retail business, and you are already -- probably working towards becoming a supervisor.

So, we did it and really stratified this into three groups. The left is what we call discount, middle is the small retailers, and the right side is people that are really starting to build the business and moving up there, supervisor. And what you see in the U.S. is obviously very strong consumption of the product and see a lot of the distributors are being brought in, they are buying at discount and they are consuming the product, and they are reordering. And this is -- the average order is \$100 or less, so these are -- people are just consuming the product over and over.

27 years in U.S., our oldest market, when distributors or everyone asks us about, well, when do you mature the business? This is obviously our first market, our oldest market, 27 years old, and our fastest -- it's one of our fastest growing markets in the world. So, we are still very underpenetrated. If you look in terms of per capita consumption, we are under two volume points per capita in the U.S. compared to six in Mexico, and over eight in Taiwan.

So, again, we feel that we have a lot of geographic and demographic expansion available in the U.S. Five straight quarters of 20% growth, again very, very strong performance, driven largely by our Latino business. The Latino business is now about 61% of the U.S. business, 46% up.

So, again what you are seeing is lot of the business, DMOs like Nutrition Clubs, and central clubs, I think some of you saw this morning that come from -- that come from Mexico and being embraced all over the U.S., and those are not only in Latino growth, we are seeing a lot of the Anglo distributors are also doing Nutrition Clubs now, St. Louis, back in New Jersey, all over the U.S.

So again, we think that will -- it's a little bit behind the Anglo groups. So, we expect that to drive the non -- the Anglo group and non-Latino segment of the market. One of the most important things that we are going to be doing in the U.S. market, we actually done it two weeks ago is we are going to bifurcate the P&L responsibility for the U.S.

And what that means is we are now going to have a P&L head for Latino business and we are in the process of recruiting that person, and we are going to have a P&L head for the non-Latino business. And the reason we are doing that is they are very different businesses, different DMOs, different consumers, different distributors, obviously different language, different tool kits, different marketing.

And so, what we want is really an experienced Latino business person to bring in a VP to run that business, reporting to Tom Zimmer in the back, raise your hand, Tom who runs all of our North American markets for us, U.S., Canada, Jamaica, and Dominican Republic.

The non-Latino business in the U.S. is being driven primarily by the lead -- Internet lead capture system and we also couple that with sampling. That's been very, very effective in running media, driving people to the website, giving them either a business or a product opportunity following up with sampling.

And the very -- and the good thing is not only it's driving recruiting, but we are seeing very strong retention in that DMO and that's a DMO that's actually being moved out around the world now, and it has been -- if you look in Spain and France, the growing markets, the biggest and fastest growing check in both those countries are through this DMO.

So, again as Michael said, part of the corporate's job is to go around the world and take these best practices and let distributors know, are them with information, and then they will take the DMOs, they will cultivate it, and then launch it in their local markets.

Next -- so what do we do next year in the U.S.? I talked about bifurcating it. On promotions, we will continue -- one of the big things, markets that we are going to penetrate next year is the college market. We think college market is great from a product opportunity.

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I think a lot of college kids would be interested in weight loss and certainly in energy, certainly in the fitness line and target nutrition, and also I think for the business opportunity. I think it's something that they can do part time selling in their door. They can do over the summer. Instead of an internship, perhaps they want to go out and become an Herbalife distributor. We have second and third generations.

One of our top grossing check in the U.S., her daughter is a graduate of USC, she just elected to go into the business and is now moving up to and be a credit team pretty soon. So, again, we think this is a group that we can attack, we have very low penetration and we think we have the right products and the right business opportunities to go after that. So, very strong segment that we hope to penetrate next year.

In terms of products, we will just continue, I am going to -- you can read these on your deck. I think probably one of the most interesting is the digestive line is right now we are really going to rationalize that line and bring it together, I think improve the products and really make it more of a line as opposed to right now, we have about four or five SKUs in there.

And we really want to -- again, if you look at what we are doing is we are trying to create programs as opposed to just SKUs. So, we have ShapeWorks, which is a weight loss program, we have Lou's signature line, which is really a heart health program, and this will really go into digestive health.

Brand, continue to go after Galaxy deal. We have several -- this is our second year in the Galaxy deal. As Michael said, this is really a global deal. We just had a Chairman's Club called the other day, and they are very excited in Australia because they just played a match down there in Sydney and Beckham was very prominent, and this is great for our distributors. So again, the value of this deal is not only in the U.S. business, but internationally, it has a -- not only broadcast internationally, but the Galaxy are going to use -- utilize Beckham to go do a lot of test matches around the world.

One of the other things we will be looking at in the U.S. is in order to penetrate the Latino market and support it, it's to a certain extent a cash and carry business, much like Mexico. So, you are looking at putting sales centers, service -- sort of big pickup centers around the U.S. So currently, we have pickup centers in our LA DC, in Dallas, in Phoenix, and in Memphis of our DC.

We are looking at some of the other large Latino markets, Northern California, probably work at Chicago and probably work in Miami and New York area. And as we do these, we think it will help support that DMO and help it grow. And it's a drag on P&L because we basically charge to pick up the sort of [at least] self liquidating. So, again it's a great way to increase distributor service, allow that cash and carry business to come in and support our fastest growing DMO.

Okay, Mexico, number two market in the world, pretty much neck and neck. I think we talked a lot about Mexico in the past earnings call. If you remember in January, we talked about Mexico going down. We had a sort of four point action plan to get Mexico back. That plan has basically been implemented. We feel very comfortable at our business in Mexico stabilize if you remember. Probably one of that plan was build additional infrastructure. That market has tripled over three years.

We basically got behind the market growth and didn't keep up with it, so we had to build more infrastructure. The good news is, if you look at the markets where we did build that infrastructure, our business is growing. So, it was a good idea, I think it was right analysis. And 40 -- if you look at where those centers are, the business is growing 47%.

Now, some of that is taking business away from the other larger DCs who we think were servicing the business. Where we have lost the business is in primarily in the federal district in Mexico City, where we talked about we had some compliance issues.

So, the second point of the Mexico plan was go out and improve compliance through two things. One is doing a field audit and getting our leadership audit their own club and more importantly through training, training on ethics and training on how to run a club. If you think about it, people were opening clubs at a tremendous rate, and they weren't learning the business, they weren't going to [Herbalife].

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So, part of this was really get them to go out and train -- retrain their downlines. What they did, what are they doing now, you can't do 12 things at once, is they stopped opening new clubs, and that was a conscious decision to stabilize existing business. And we figured that we lost about 10% of our clubs, it's not complaint clubs, people who didn't want to be in the business.

We went from 55 million, 56 million volume points, so of stabilized in the high 40 million, and we have been stable as reported last earnings call. And now, we think we have service centers in place, the infrastructure in place, the training has been done, there is compliance, we will continue to do the compliance audits, we are seeing a higher level of compliance, substantially higher in all those areas.

And now we think it's time for our distributors to go back and focus on opening additional clubs and doing it the right way. I think it's a good lesson learned in our distributor and corporate side of the Company in the sense that high growth is great, but stable growth is better, and I think what we have done now is stabilize the business and create the plateau for the next growth.

And we think we are very, very strong. We did the Mexico extravaganza, another record in terms of attendance and we think coming out of that September extravaganza, we have very strong momentum.

In October, we had volume points up sequentially 6% over September and IDTs, which is the starter kits and it's a good measurement of lot of the clubs, you are buying a starter kit, you are probably opening a club or you are at least recruiting a distributor, they are up 21% sequentially. So, again, we think we see early signs in the metrics of returning to growth in Mexico.

Where are we doing next year? Promotions, one of the big promotions that we launched is really sort of a ten promotion. What we want to do is get ten volume points for penetration per capita in each of the districts of Mexico, and I think as we reported the federal district was the highest penetrated at 20 volume points, on average across the country it's about six. We do about [600 million] volume points with the population of 110 million people. We want to get that up to ten.

We are doing a qualification based on incremental volume. So, again we are selling by distributorship by region. If we get up to that ten points, then we will reward that through money and recognition and promotional items. So again, we think we have the infrastructure to do that, we think we have got the training to do that, and now we are putting some financial money in promotion behind that -- behind those efforts. Everything in Mexico at this point is focused on opening new clubs and penetrating the regions where we have below six and ten penetration.

Product. We are going to launch Kickoff, which is the -- some of you here (inaudible). Okay. Kickoff which is our version of Liftoff for Mexico, so we will be launching that. It's a European formula and so we are launching that very -- next year and very excited. This is one of the products that the Mexican leadership has been asking for.

They think it will serve well in Nutrition Clubs. They go into the Nutrition Club as another type of energy drink and it is also a good takeaway product. As you know, (inaudible), they do the Formula 1 Shake and they do Aloe, and we think this could be incorporated as the fourth SKU and especially as a takeaway SKU in Nutrition Clubs.

Single serving Formula 1, again a product launch around the DMO. One of the big request is, can I buy single serving that -- it uses my second meal away from Nutrition Clubs? So, they don't necessarily come back and a lot of people don't come back twice a day, but for launch or maybe dinner, they want a second serving. They don't want to buy a big, they can -- it's too expensive.

So, we will be launching as the sachets, single serving to Formula 1 that the clubs can then sell as a takeaway item. We think that -- and then what we call sort of must carried H3O and the Kid's Shake. And again, we think the Kid's Shake in the clubs can be very -- because you have been at the clubs, and were there kids in the club in this morning? Young children?

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Unidentified Company Representative

Yes.

Greg Probert - Herbalife Limited - President and COO

And in Mexico, there are lots of kids in the clubs and we want them on the children's product. So again, we want to take that down in the Mexico. And then geographic expansion, basically what we talked about is keep data infrastructure build and roll our work out. So to Brazil, our number three number currently, Taiwan and Brazil, go back and forth every month. Yes, a little bit of an issue in Brazil. The reason, as we talked about, is Brazil is in a transition period.

They are moving from a high recruit country that -- if you look at retention rates, it's one of the lowest retention rates anywhere in the world. And what we want to do is work with leadership and get them into more of a retailing business and more of a retention business and including DMOs, and then we are doing that primarily through two areas.

One is focusing on DMOs that have high retailing and high retention such as central clubs, which will work there a lot better than [in-home] clubs. The Brazilians are not in favor too much of the in-home clubs and they like the central clubs.

I think you saw one this morning, what they call commercial club here in the U.S., and so that's starting to roll out. If you look at people, the leadership and organizations have moved over to that business, they are growing. I think they grew by 6% over the last year. So, that DMO is taking [currently]. The issue is more and more distributors have to, except that DMO and moving that DMO.

Other DMOs are working and it will continue to work. Traditional business is very strong. So, in order to support that, what we are doing is working on new product launches that are very specific to the market and on pricing issues. In Brazil, most of the direct selling is in outer care. I think it's ten times bigger than the direct selling business of nutrition.

And we had our NouriFusion line and we have our traditional lines, but what we did is that we recently launched we call the Soft Green line. And this is the line that is lower price, it's very competitive with some of our other direct selling companies. We launched initially -- this is a hand soap, we are doing body wash, we are doing the bath oil.

So, basically every day items, much lower price, produced locally, faster to market and we are launching three additional SKUs next week. We are down in -- [Mike commented] on the Brazil extravaganza, we have about 12,000 people. And we think this is a great way to penetrate the C and D classes in Brazil. So you will see us do a lot more of that, not only in Brazil, but around the world. And actually, right now, we are looking at taking this from Brazil into some of the other Eastern European markets, where again, our lower price product to compete with some of our competitors is very, very important.

Some of the other -- certain things we are doing in Brazil is, like I said, really focusing on DMOs. We did -- we did a price decrease in October on our outer care lines, and we didn't do on our nutrition part, we really did outer care to compete with some of the other major outer care companies in Brazil, and we will be reporting that next week.


We will probably report on the effect of that in our earnings calls, but early indications are good, that is having an effect -- positive effect, our ability to better penetrate and build our retail business. So, again, those are the things you will see us continue to do, local product development, DMO support and also supporting with price adjustments. And that -- well, it was really driven by the ability of the local currency and we could do that without taking a huge bottom line shift.

Okay, let's move over to EMEA. Again, EMEA has not had -- it's had about three years of slight decline as a region, it's a very complex region made up of 34 different discrete markets, some are going up. There is probably two biggest drags we have had on growth, Germany and Netherlands. So, we are starting to see those stabilize and bringing, get those out of the red.

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I think EMEA will return to growth. But there are a lot of bright spots, like I said. Italy, 12% up; Spain, 26% up; Portugal, 15% up. And probably one of the most encouraging thing is we are starting to see Russia grow. Russia is now 17% up. So, I think if we can get seven of the markets that have been declining at least back to being flat, as you are going to see EMEA return to growth, I think what we said in last earnings call is that we expect EMEA to be back to growth by the middle of next year.

Lot of that I think will depend on getting no -- new DMOs over to Europe. So again, our Nutrition Clubs and central clubs are starting to take up fast. Germany, there is a lot of focus on that, Netherlands, focused on that, bringing over the wellness -- evaluation that will start actually in France, moving that around the different markets.

We have a lot of successful DMOs, the big, big push in Europe to make sure all the markets are doing. And like I said earlier, the sampling and Internet DMO from the U.S. is being successfully implemented in both Spain and Italy to-date and we will move out to other markets. 

Pricing. We will do selective price increases in several countries next year. That's something that we regularly do to take our prices up to make sure that. As the market will allow us, we will do that. So, I think you will see some of that [selectively] throughout the year.

Product where Steve's group is working on H3O type of products and isotonic drink product, and also sample packs, we are launching those to support the sampling DMO. One of the others things we are doing in Europe is we are redoing our IBPs, our distributor starter kits, we are adjusting price, and more importantly, we are repackaging the contents of those to match the way the countries are doing business.

So, if you may remember Mexico, we changed the IBP (inaudible) Nutrition Club starter kit because it really matched the way we are doing the business. So, we will be rolling that out in Europe, and along with our better distributor toolkits in there in terms of support material like DVDs and product brochures.

And in terms of promotion, I think we talked about Eastern Europe. We just recently hired a Vice President of Central Europe. She covers Poland, Hungary, Czech-Slovakia Republics and the Balkan, (inaudible) states. And someone came from another direct selling company, basically our top competitor in those markets, we are able (inaudible) and work for us. And she will be developing the very aggressive Eastern European penetration, Central and Eastern European penetration plan and also working with us on maintaining growth in Russia, like I said up 17%.

If we go to South America, again, run be Rob Levy, who Michael introduced earlier; really, really strong bright -- I am going to break this apart for you in terms of South America and Southeast Asia because the top line is -- South America is our fastest growing region, which is on fire right now. Southeast Asia is a little bit behind that.

So, the way we characterize is it is South America is growing based on (inaudible) several years ago. Quarter of Rob's job over the past year and half has been to take a lot of those ideas and move them over to Southeast Asia. So that, he has taken a lot of leadership from South America, Venezuela, Argentina, from Chile and moved that over into India and Indonesia.

And we just had a big event in Malaysia a couple of weeks ago. And take those ideas and probably equally important is taking enthusiasm, the positive energy, and the fact that the business can grow. One of the toughest things as a distributor is when your business is flat, you think everyone's business is flat and you think you can't -- you can't make money, you can't find customers, you can't recruit.

So, all it helps is to bring distributors from another part of the world, maybe you have a fresh idea, have enthusiasm, have a new idea for you how to penetrate the market. And we expect that over -- a way that we will see those Southeast market start to grow like South America.

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What are we doing? One of the things that we are doing is we are going to test the customer initiative in Argentina. One other things that we really want to do is to increase visibility into and consumption to products, it takes some of those discount buyers, right. So, we think like in last quarter, we said about of the 1.7 million distributors, about 1 million of those we think are discount buyers.

They buy less than a \$100 per order, and then this year -- for the discount. They are coming now to business, they are not business builders, they are customers, they are discount purchasers. We want more visibility in that, we want them to be able to order directly from the Company.

We are going to take that infrastructure off the back of our distributors so they can focus on what they do really well, which is to bring new people into business, managing their customers, training on the products, those type of things. So, what we are going to is we are going to test this in a small pilot test in Argentina, the leadership in Argentina, that is very, very behind this, because they don't want to do.

You know what, if you can auto ship to my customer, you can collect the money, you can give me back my commission, they are fine with that, and we will charge some type of admin fee for doing that, but that's really -- we are not doing it for that, we are really doing it to have visibility and so we can do CRM, we can look at what people are buying, we can look the effective promotions on the customers.

And so, again, we are very into trying to bring visibility analytics metrics into the business. And I think it's -- this is going to be a very exciting product -- project and we anticipate that in the first half of next year.

Products, again, sample sizes, we do now over the world to support the sampling DMO, Formula 1 flavor extensions, again this is -- basic line extension and it's a selective market, sort of the must carry. So it will bring out, if we don't have Liftoff or NouriFusion, we will continue to roll those out in those products.

In terms of geographic expansion, like we talked about Ecuador, we will be opening next year, we believe a big market. Vietnam, we will open when the regulations, quite -- it maybe '09, but we will do a lot of the work on that.

And then also looking at country model conversions, one thing that we talked about in our past earnings calls is looking that, it's part of the OFG, it's looking at the way we run businesses, and we really have import models where we pay a third party to import, service our distributors and we have full subsidiaries. So, again, what we are doing is, do we have the right model in each market. We are putting the infrastructure investment in the high potential markets.

North Asia, so this is Japan and Korea. Great run in Korea; Japan is -- is a tough market as it is for all direct selling. The good news is it is the second largest direct selling market in the world. The bad news is it's shrinking. But we think we can steal market share. We don't have a lot of market share. We had market share at one point, we lost it. Our primary issue is we had a lot of, if you look at retailing in this, look at the distributor stratification, we have a lot of distributors are product users, but they are not building businesses.

You would expect to see the far right hand slide there, it's more people having bigger orders that are moving up to supervisors, you are not seeing that. So, lot of our focus is on recruiting distributors into the business. We need to bring in more distributors. And we are starting to see some -- actually some leverage on that.

We are starting to see actually some sequential increase in new supervisors in Japan for the first time in three or four years. So, some of the efforts that we are doing are starting to pay off. And Korea has been a good market for us, it is still a very strong market.

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In terms of what we are doing, leadership development, one of the things we have to do in Japan is develop new leadership. Our press team is our oldest, average press team in the world and we need to bring in, it's a lot of the folks that has been on building the [get] team and middle team. And [taking them not to] press team, we have an end step forward and it is very tough.

In a culture like Japan to get -- the mid managers to step up and become the top managers is a very tough team culture. So, we have been working on that for a couple of years. But what we are starting to see is we are starting to see people in that part of the marketing plan actually move up the marketing plan and take more and more control. And so, we are doing things like middle team retreats or future press team retreats and really focusing on the skills you need, the leadership skills you need and to move up the press team.

And Nutrition Clubs, one of the other big things we are doing in Japan is focusing on bringing the Nutrition Club concept there. We just took a lot of our Japan leadership down to Taiwan and introduced them to the central club concept that is working very, very well in Taiwan where people are trading the central club and people coming on the way to work. It's not a lot like the in-home club.

It tends to be actually people are working and so we think that idea worked very well in Japan because again you have to have heavy concentrations of people moving in and out of the city and if you can put up a club and have them to come in for half an hour or something on their way to work or doing a (inaudible) after work to have a shake and a tea, we think that's something that can work very well. So again, we are taking that Taiwan idea and to exposing it to our Japan leadership and so far they like it and they think it is something that that will work.

Our product, Tri -- you see Japan is also a country where -- and Korea where the local product is very, very important. So we are looking at a lot of local products. So, you will see things like the Active I-Drink which is a tonic, probably know it is very, very big in Japan. We have a triple health drink.

We are going to be bringing these out in larger sizes, drive down the cost for the consumer. We have a lighting (inaudible) is one of the biggest selling items in all of Asia. So, again, really looking was Steve's group at developing local products that fits either consumer pattern or DMOs of our distributors.

This is Korea, there is the Green Tea, product taking over (inaudible) actives out of Green Tea and putting it into a tap. So, again a very, very big seller and antioxidants are huge, all over the world but especially in Asia and Japan. Branding, like you have seen a lot of tape on the TORAY Pan Tennis Tournament of the single largest women's force in tennis, it's [right after] the Australian, so a lot of the women would come up and play in, and we have tremendous exposure, we have booster, we see thousands and thousands of customers and explosion to our brand. I think that's it for North Asia.

And finally Greater China. Remember, this is Taiwan, Hong Kong and Mainland China altogether. We don't break out the distributor patterns because there are two types of distributors obviously in China. We don't have supervisors, we have employees and we run employee retail model in Taiwan.

So, since we don't break those out, it's a sort of meaningless number to give you. What you will see is obviously very strong (inaudible) Taiwan, again driven to -- by traditional business, also by really strong penetration of those central clubs I was talking about, and a very strong new supervisor growth.

So that's -- in terms of China, continues to be a good opportunity for us. I think as we said in the last call, we have 90 retail locations open throughout China, where we have focused those in the one of the provinces that we are licensed in, but also into Northeast China, which is really the hot bed of direct selling in China. But we do have stores in every province now. In China, and we will continue to open those in March.

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As you know, we received our direct selling license in two cities, which was Nanjing and Suzhou. In June, we got our license in prior province of Jiangsu, which is where our headquarters or actually manufacturing plant is located. Just to give you a number, that province alone has 80 million people in it, it's almost the size of Mexico, we are licensed there.

We are currently in the process of being licensed in five additional provinces. We are not going to disclose those for competitive purposes, but we think that we will get notification probably or hopefully before Chinese New Year of next year. So probably in the next 90 days, we expect to hear. And with those five -- those six provinces, we will have about a 350 million people will be in our licensed province.

So, the licenses really do three things. One, it will (inaudible) good housekeeping field approval. It says that you are a legitimate company, we look at your marketing plan, we look at your business practices, we visit at your offices, we looked at your product, we looked at everything in your business and the government approves it.

So, they have looked at the way -- it's a long, long process and that's why it takes so long, but it's a good process, which I think what it tells you that companies that get license, approval from the government that they are doing everything the right way. And I think the other thing it does it really builds confidence in the company with our distributors, with our customers, with our employees.

They say if you license, then the government has looked at you, you are a legitimate direct selling company. And as you know, there is just not many companies that have been licensed in China yet. So I think, we think it is a competitive advantage to have an early license and we are very happy and our business is doing very well.

In terms of what we are going to continue to do, I already talked about that. We are in for five licenses now, we will go for another five next year. That will get us up to 11 provinces. Products continue to take out. Tri-Shield, which is one of our heart healthy products. PPP, which again will help increase the protein levels and tailor that in China. And then one of the things that we are really getting into is Cordyceps, it is a traditional Chinese medicine product.

And that is a huge category in China. We have stayed out of it before because we really want to license and get our toward a core product line in there, in weight loss and some of our target nutrition. And now what Steve sells in the local team, we are really looking at going into their traditional Chinese medicines that -- they have good science behind them that have -- Steve is adamant about this -- we are not going to launch it unless we have a great science behind it. So, this is something we are looking at that we hopeful will be able to launch and put our toe into that TCM, Traditional Chinese Medicine market.

Branding. We spent a lot of money in branding in China. We have done billboard advertising -- advertisements. So, those big electronic billboards you see sort of Times Square, we do this in all other major cities. We are trying to build awareness of the Company. Herbalife -- there is no one direct company --- selling companies aren't that well known in China.

And so, we are trying to build -- again, this is validating, the Company validating our brand, and validating that we are legitimate Company. It can afford to spend money and it can afford to build consumer awareness. And again, because we are a retail, employee-based model, it's very important to build consumer impressions and build awareness of your brand. We will be looking at sponsorships in China next year.

Think along the lines of TORAY Tennis Tournament or the Galaxy deal, we are looking at opportunities again to get our name exposed and associate with a healthy active lifestyle. So, we will be looking at sports sponsorship much as we have done in the U.S. And I think now we have some private sponsorship in over 35 markets around the world.

And then geographic expansion. As we continue to get license, we will continue to open up stores, we are focused on those areas. We are licensed and [over] where the business is very strong. We are in the process of putting together our '08 real estate expansion project and really looking at taking a fresh look after a couple of years being in the market and where do we really

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want to build stores, and then more importantly what type of stores you want to build. We did generally have two to three types of stores.

Now, we have flagship stores, it's really the statesman doors that really build the brand. They are huge, we have what we call sort of the many of the standard size stores and then we have also sky stores, which are really small pickup centers where there are not so much for training or whatever they really to pick up new product and we are looking at which one of those types of stores so we can either expand and also looking at cities where we are not, right. We don't have an office store in Shanghai. There is lots of major cities where we don't have stores. Again, we will continue to do that and expand that.

And so, that's my presentation. Thank you for your time. And I will turn it back over to Rich.

Richard Goudis - Herbalife Limited - CFO

Thank you, Greg. Over (inaudible), less than an hour away from finishing up. So, I appreciate you being patient, and we will try to conclude may be a little bit early. What we like to do in those closing hours, I would like to walk you through the financials, give you a little bit better of an insight so you can refine your models a little bit in the areas of top line growth, which you got a lot of content today so far from Michael, Greg and the doctors.

So more importantly, start to look at the margins, all right. So, one of the goals we have and one of Michael's primary goals is to have the best operating margin in this direct selling industry, and then talk a little bit about our capital structure and how – what we are doing and how we are optimizing our capital structure, taking all our great cash flow returns and trying to increase those returns to investors. And then, we will conclude with an open Q&A period with some closing remarks by Michael. So, brace yourself.

Let's start with the top line growth. You can see (inaudible) economic trends. A lot of the questions we have received over the last four or five months as the U.S. economy has slowed down with subprime loans issues, et cetera, et cetera and a lot of the other companies you may have invested in. You can see over this 10 year period from this chart at the left, the only year that we did not have growth was the year that the founder of the Company passed away.

And in this Company, being the founder, an emotional Company, that had an adverse effect on the Company. The Company was also put up for sale that year. And as Michael mentioned earlier, management and distributors, there is a state of lack maybe of confidence or uncertainty in the future of the Company. So, that was in that, you see the strong single or double digit growth and with the arrival of Michael on the management team, you can see the growth rate actually accelerated in '05, '06 and '07 is the range of estimates that are out there, (inaudible) model, the [disulphide] models.

This business model of direct selling converts very nicely down to -- into free cash flow. I think that's one of the quality aspects of this Company, an indicator in this industry as well, but the quality indicator of our Company. And you have seen that, the growth in cash flow has mirrored that strong growth over the recent years in the top line. So, (inaudible) but why?

Net sales growth over the last seven quarters on the left side of this chart, double digit growth, topping double digit growth; '06 was a story of very strong double and triple digit growth in Mexico; the latter half of '06 saw the double digit growth in our oldest market, the U.S.A., and the last five quarters, as Greg mentioned, we have been anniversarying 20% growth, or had 20% plus growth in the U.S., the last quarter anniversarying 25% plus growth and growing 20% on top of that in our oldest market.

On the right hand side, operating income expansion. Our goal, Michael's stated goals to the investment community is a 50 basis point improvement a year. Last year in '06 with a very heavy investment in China, I think we got about 30 basis points. This year, if you look at analysts models, we are tracking somewhere, maybe up 75 to 80 plus basis point. So, we should be able to recoup the 20 so basis points we didn't get last year, plus the 50 this year. So, as we look back over the last two years, we can see that we each have about a 100 basis points of operating margin improvement.

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Let's take a moment and walk through this slide, this really will help you better understand where the leverage is in our model and how we prioritize our initiative to try to improve and to get the very best out of our model. So, on the very far left, in the red is our net sales. That's what we physically report on a quarterly basis and annual.

On top of that is the distributor allowances. This is the 50% of every retail dollar payout to distributors. Part of that is cash as a true commission. Most of it is unrealized profit that they are making when they deposit and lock it up. And then on the top is handling and freight.

Let's focus first on this very large available component of the model. I mean this is one of the attractive aspects of our business that's one, we don't need a lot of capital investment in the business and the model is very variable, the real driver here is top line growth, focus on top line growth. 36% of our business is variable as it relates to payouts to our supervisors, who are eligible to receive royalty payouts and Mike will walk you through those three components.

21% approximately is our product cost, about 16% is what we would say overall from a (inaudible) standpoint is distributor facing. That's everything from some of the branding and promotion activities that Greg walked you through to the people that you may meet later on in our call center, in our warehouses to packing and shipping or anything distributor facing.

What we try to do is, we think of our business, when we budget our business, we think of long-term strategically, these are the types of areas most specifically distributor facing and the royalties, that essentially we want those to vary with sales. Royalties from the standpoint that means checks go up, increase the very incentive and engage distributor leadership.

And the distributor facing, we believe that that's one of the areas involved, it's very discretionary to us and we have a lot of controls over that, but that's (inaudible) that Greg and Michael use to stimulate the business. So, we want that to grow if you think of a long-term budgeting, annual budgeting, we want that to grow at the rate of sales.

It doesn't necessarily have to, but we believe that there is a very strong return on investment. And then, product cost is an area that this Company has not been -- supply chain is -- we would never walk around the hall and say supply chain is a center of excellence for Herbalife, yes. Yesterday, I think that started to change with the arrival of our new senior Vice President of Operation.

We will introduce you to Shankar that is sitting in the back row, later on and during lunch, got a tremendous global executive with experience at companies like Sandoz and Roche both in Germany and in Switzerland. As we think that's going to be the leadership that we need to better leverage 21% of our business. I think it's going to go in three steps if you think about it.

First, we want to better optimize the supply chain today. Many of you know that in 2000 and with prior, there is effectively a captive manufacturing organization that supported all of Herbalife. With the passing of Mark Hughes, that broke apart. Today we would probably tell you, we probably do too much business and it's too broad with people.

So, first that is we want to do more business with the best suppliers in the world and that's a process from a quality, from an R&D, from a manufacturing standpoint that come together to make that down selection if you look and we think there is value there, real value.

The second is we want to look at on a geographic basis. If you think about it, we source today. We are pretty well hedged, most -- all of our manufacturing in Europe supports all of our sales in Europe, but we made that decision to outsource to Europe when \$0.88 was probably a euro. Today, \$1.14 or so about a euro.

So, there might be opportunity to bring some of that production back, give more business to people here, still absorb the freight and duties going back the other way and still have landed savings. And I don't think collectively, we think the dollar is going to strengthen that quickly over the next say three to five years. And then lastly, we believe at the right time, we need to get a little more vertical in our manufacturing.

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We think from an R&D, protect our secrets, protect our science and you see that, especially as we start to do more clinical, to protect and ensure our quality, whether those of the new GMP that you may have read here in the U.S., but more importantly things like non-GMO and understanding the origin of the ingredients of our product. Controlling the quality of our product always in the manufacturing process will be a competitive advantage for us.

And then lastly, they should optimize that and to ensure, as Michael said earlier, the confidence that I am sure that we have the very best product. So, we think those are the three steps that you will see us journey on over the next three to five years when you think about our long terms strategic plan.

Now (inaudible) 18%. 12% of that is exactly fixed overhead. That's everything from our salaries, our bonuses from a management team to insurance, travel and entertainment, FAS123 R, stock option expense, et cetera. It's all contained on overhead fees. We believe that when we budget and we think long term, that's kind of a real GDP growth kind of element of our business. So, we can contain that to real GDP growth.

We think that's what we get some natural leverage in our business. And especially, if our growth rate goes from, let's say, high single digits to double digits, even more leveraged. Our tax rate 5%, our interest about 1% leaving a net profit of about 9%.

Talk about tax rate in a little bit because as you know, that has been area that we focus our tax planning to reflect the global structure of our business and the fact that 80% of our sales and profits are derived outside the U.S. gives us some unique opportunity from the planning standpoint that helps drive down an effective tax rate.

Let's take a look cost. We talked about -- I just talked about it a little bit, but over the last couple of years, '05 and '06, it was pretty flat. This year especially in the first half of the year, the benefit that we saw on top line growth from an FX standpoint, we saw a little bit of a hit because again, we sourced about a third of our business in Europe. It's been -- it improved in the third quarter.

Some people have asked, can we expect to see that as we look into the fourth quarter and I think that was effectively contained in our guidance, the answer is yes. As we look at what's out there in the financial community, say from the sell-side analyst, the range for next year is something between 20.1 and 20.8.

So, well, that's a 70 basis points range. We believe that that's probably reflective of where we think we can be, taking on the opportunities that I just mentioned about optimizing the supply chain and also some of the risks, so costs are going up. Resin product costs are going up, but we still think again, because we have not leveraged and not optimized this aspect of our business. We think there is probably more opportunity than risks, both in the near term and definitely in the long term.

SG&A improvement. This is an area where most of our leverage has come from over the last couple of years, improving and we kind of stratify this too again, because our China business -- our China business bills if you will, our sale employees and they run -- their costs run through SG&A. We try to show you the normalized line if you will, excluding China and also -- and as reported basis including China with competition in SG&A.

In both cases you see the leverage. You see more leverage obviously without China in the business, and you see that the range for next year, somewhere between 30 to 60 basis points is the estimate of where the Street thinks we will be showing, all right, but both -- showing some level of improvement from flat to 30 to 50 basis points improvement.

And I think again, if you run back to your model, some of the just thoughts about how we think about what's big, what's really variable, what's discretionary, what do we try to hold it at GDP level and then, I think that will give you a better sense of where we think the operating margin improvement can be.

I think over the next three to five years, more of our margin improvement will initially come from further SG&A. Leverage, Greg talked to you about that by looking at the business model, trying to convert some of those smaller markets to importer models,

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taking those very precious dollars and investing those into higher ROI type of investment, primarily Eastern Europe, Asia where we think we get a better return on invested dollars.

One of the things that creates a little bit of lumpiness and because we don't give a long-term quarterly guidance, we thought this chart might help you better understand some of the variable expenses that are lumpy to us, specifically to those very large distributor events. So, on the left hand side, was the layout for this year and the right hand side is the layout for 2008.

And effectively, you can consider that each of these events is somewhere between \$2.5 million to -- \$2.5 million or so, and you can see next year a couple of things. One, we have more people at the higher levels of the business, and more of the events are in more expensive locations. So, I think that is something that you should consider in planning both on the timing standpoint, but also from an absolute dollar, we expect to see (inaudible) probably more expensive because of where they are located.

Getting below the line now. One of the things that we embarked upon in 2004 was taking a look at our tax planning and did our tax planning really near our long-term strategic plans for our business and we saw an opportunity, and the opportunity to put into place. Effectively two plans that would help improve the effective tax rate over time.

And those of you who have been following the Company for sometime have to see it, depicted here in the graph. When I started with the Company in '04, I think the effective tax rate is close to 50% and we believe right now our guidance assumes a tax rate effectively in the low 30. I think most analysts have it somewhere between 31%, 33% is what's depicted here in the graph, and this year somewhere between 37.3% and 37.5%.

Need to take away from this is, it's sustainable. We have [short] opinions from our KPMG and PWC on our plans, and we believe that at the end of the day, we will have the lowest sustainable effective tax rate in the direct selling industry, again because of the global nature of our business.

To reiterate the business model direct selling, Michael talked about the strength, how old the industry was, the growth rate, et cetera. From an investment standpoint, one of the great attributes to this business is very investment fee, lack of need for lot of capital investment. You can see over the last couple of years, we have been very focused in improving our capital structure, paying down debt, taking that free cash and being very disciplined.

We have done three upgrades from S&P. We are investment grade with S&P and we hope to see the benefit of that as we enter into 2008. We are trying to get improved LIBOR margin spreads. But you can see here in the box is we have significantly improved our debt to EBITDA ratio, while at the same time embarking upon a very aggressive share buyback program over the last six months.

And then lastly again, our pretty strong cash flow on this page and you can look at and you can see the relationship here between net income and free cash. And one of the points on that effective tax rate, the majority is now, there's really no difference really from [that floating] cash, they are very closely linked. A lot of people ask that question repeatedly. Is it the real cash, effective tax rate and the answer is effectively, yes.

So, the improvement you are seeing on the P&L really translates improvement into a free cash standpoint flow, which just gives us again further dollars to invest back in our business and help accelerate returns to investors.

I take a moment to kind of give you a perspective how we think about managing the Street. When we went public in late 2004, one of the things that we heard over and over again is do not disappoint Wall Street. We are probably ultra conservative when we went public. The Street expectations were \$1.14, and we were delivering \$1.52 that year. A year later, we found ourselves doing a marketed secondary transaction. The consensus at that time was \$1.85, we delivered \$2.06.

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When we started 2007 a year ago, guiding for 2007 we got a \$2.40 to \$2.47. And even absorbing the top line changes in our forecast, the first week in January when we discussed about changes in our outlook for Mexico specifically, we have been able to consistently drive improvement to the bottom line of this business.

I know you get the sense of what's controllable in our business, the fiduciary control we have and oversight we have in our business and how prudent investment criteria and process is for controlling costs in this business. And today the guidance that's out there is \$2.62, \$2.64 for the Street for the consensus of \$2.65.

Looking forward to 2008, consistent with what we articulated a year ago, we are going to give less visibility in our guidance. So, you see a stepping down, not only giving top line and bottom line guidance, along with CapEx. Let me just address that.

Taking into consideration current business trends, both from a peer volume, pricing, currency, what we think for margin expansion et cetera, we believe that our outlook for EPS is going to be somewhere between \$3.17 and \$3.23 next year. Some of the key assumptions there is a top line growth rate of 7% to 10%.

So, once again, just like the past couple of years, that chart Michael showed early on, you see with high single digit growth, we can get strong double digit growth on the bottom line because of the unique nature of our business model, [operator] position and discipline in how we allocate those dollars and improving cost structure to drive what this guide sort of assume is 20% plus growth rate on the very bottom line.

You will notice next year our capital investment spikes up. It has topped up in '06, '07 and is spiking a little bit more in '08. I need to kind of take a moment to walk you through what those are. The facility you are in today was our '06 initiative. We spent about \$20 million of capital retrofitting this facility and a couple of buildings surrounding us and the R&D center, things – the investments that we thought were very important to our business to drive differentiation and growth in the future.

2008 where two major things are happening, one is we are moving downtown to – in LA to our corporate headquarters, which we believe would be a great branding experience for our distributors and our business in being associated with Herbalife and AEG company, but more importantly, is the big bang for our Oracle program.

Over the last couple of years what we have done is with great discipline, we rolled out Oracle through our general ledgers on a worldwide basis. Our supply chain and inventory planning is all Oracle on a global basis. Next year, we start to put the last piece of connectivity, a very big piece of connectivity, to make this truly an integrated ERP system.

We believe between now and March of '09, we will take the entire world up on Oracle. That would be a couple of things. One, from an information standpoint to [restore] visibility into our business, second from an integration standpoint, we will be able to share that information more rapidly and quickly on a global basis, so people around the world are seeing the same information real time, and then third is the (inaudible) to take the governor off and to grow the business faster.

We are today on a platform that has concurrent users of 450 people. So, it limits our growth as we go into new markets, as we see ebbs and flows of order patterns throughout the course of a month, it slows down -- you can go upstairs and see the volume. When Europe's on and we are on and Mexico's on, you see a degradation in our ability to take orders.

Then Europe dropped off, Mexico dropped off, our ability to handle orders picks up, so not only on a day-to-day basis, but more importantly kind of governing our growth on a new market basis. So, we believe that once we get through Oracle in '08 and '09 that we will be able to accelerate growth. And we think of it this way, AVON is in 140 plus countries, we are in 65. When Michael came inboard, I think we were in 52. So, we have done a good job over the last four years, but we think there is a lot more headroom.

With that, I would like to invite Greg and Michael up, and over the next say 15 minutes or 20 minutes, we will take your questions and try to end at about 12.45.

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QUESTIONS AND ANSWERS

Richard Goudis - *Herbalife Limited - CFO*

Do you want to moderate?

Greg Probert - *Herbalife Limited - President and COO*

Yes, sure I will moderate. All I will do is give all the questions to Rich and Greg. You guys awake? We will talk in front of you, pencils out. Okay, any questions? Good morning.

Unidentified Audience Member

Good morning, how are you doing?

Greg Probert - *Herbalife Limited - President and COO*

Good.

Unidentified Audience Member

In the context of 50 basis points of margin expansion a year and the fact that you guys were not optimizing the supply chain, how does that change with the global head of ops, and I know it is a question you probably have yet to explore, but what are you thinking in terms of how that goes back in the business maybe back to your customers in the form of not raising price back to your suppliers or back to the shareholder?

Richard Goudis - *Herbalife Limited - CFO*

I would think it can go back to the shareholder. Raising price is a tricky thing to do for us because of the way we set price on a global basis. Our prices are pretty competitive in some marketplaces and not so competitive in others. And so, the best way for us to fight prices is on a local basis and maintaining margin while we do it. That's the Brazilian product.

It's gone out locally in Brazil at a local price. It doesn't, it isn't fixed and this is where it gets confusing, on a worldwide volume point basis. It is fixed in a local market basis, which makes it easier for us to compete locally.

So, I would say with supply change management, [Shane Gold] who is here and listening to all this today, he is hearing some of his [MVOs] presented to you all, which you saw is a good way to do it, sort of my favorite thing to do is make promises on stage and then make everybody fulfill them, and so he is back there smiling right now, which is great.

But, I would say most of it is going to be returned to investors unless you guys see it any differently. I certainly don't because we try to run at pretty much at a constant price margin return to us across our product range and we have got that somewhat fixed at a certain number. I would love to see it get improved.

We improve it in certain categories, whether it's outer care, which is probably the easiest one to improve margin on with all the products we have, but I would say the answer to the question, it's most likely returned to shareholders.

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Unidentified Audience Member

And just a question specifically about Brazil, I don't know if you want to take it, but when I look at the customer stratification, the new customers, the customers where we are selling the product, there seems to be a relatively consistent mix between Brazil and other countries, and I would -- I don't know if that should lead one to believe that the retention therefore shouldn't be as off as it is.

Is there is some disconnect between the two, and the presumption is if you are reselling the product to a lot of customers, then the supervisors when they become supervisors don't have a consistent stream of customers to sell into.

Michael Johnson - Herbalife Limited - Chairman and CEO

Right. The stratification number is only distributors, it doesn't include supervisors. Retention is of supervisors, so people that have moved up to that level. And I think the simple answer is, yes, there is a retailing base, a discounting base. What we are not seeing is the business builders come in. Once they get to supervisor, a lot of them are coming in as supervisors, those that we call organic supervisors.

They sort of comes in as what we call success builder with 1000 volume points and then gets up to 25 times two to get to supervisor and then continues to slowly build the business, and we have too many people that come in at a higher level and don't stick with the business.

I think a lot of the focus is on bringing people in and giving them training and giving them DMOs and things that they can not only be success themselves, but they can replicate with their downlines. But I think, yes, there is -- on the distributor level, there is a good retail business there and that's why it's still the third biggest country in the world. What we want to do is build a larger sustainable distributor base that will then go out and more deeply penetrate the market.

Please just raise your hand and we will hand you a mike, so the people on the webcast can hear.

Unidentified Audience Member

Good afternoon. Where do we stand on the Web based retailing side of business launched about a year ago that felt like distributors push back on a little bit, where do we stand today?

Michael Johnson - Herbalife Limited - Chairman and CEO

I can take that. Two things, one, we are going to test it in Argentina as I said to try and address some of the concerns of distributors and it obviously makes no sense to go out and do a consumer initiative. And again, it's very clear to what we said, we would only sell directly to customers that are cash distributors. We would never go around and go directly to customers.

Other direct companies have tried that, they try to go to retail or sell directly, and it just doesn't work, you can't compete with your distributors. What we want to do to address some of the concerns is do that test launch I talked about in Argentina, smaller market and also where the leadership totally supports the idea, so there is no pushback.

If anything it will help their business, they see the value of it, and I think if we can test it in Argentinean, then show that it grows the business, it helps distributors leverage their time, it gives them ability to manage now their customer base in addition to the downline distributor base and show the benefits of that and that there is no downside, then I can think we can take those key learnings and move that project around the world.

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Unidentified Audience Member

Was the last test -- was the last test only in the U.S.?

Michael Johnson - Herbalife Limited - Chairman and CEO

Yes.

Unidentified Audience Member

And you motioned going -- and it is for you Greg, you mentioned going after colleges next year, I think it was in the [USCI], what's different about how you are going to approach it differently than what you do today and your other methods of recruiting?

Greg Probert - Herbalife Limited - President and COO

Well, I think a couple of things. Right now, it is only up to distributors and what we are trying to do is to expose college students to the products and to the brands. Right now, not a lot of our distributors, so one of the things we are doing is really simple things like getting on college webcasts, we are getting in college magazines, we are maybe hocking up with some other companies that go into colleges like book companies and scholastic and maybe doing some co-branding opportunities.

Doing movie nights, just sponsoring -- just doing a grass root sort of marketing what Red Bull did. Red Bull penetrated that market by really doing feet on the ground and getting into that college environment. So we are doing [most of the] activates to really expose and then -- with distributors, but also just exposing them to the brand and to the Company.

And if nothing else, even if they don't become distributors, I think be a part of our vision and Michael talk about it all the time is Herbalife for Life, and if you look at it coming from Disney, at Disney, we got people three times. We got on their children, we lost them as teenagers, we got them back as adults, we lost them when their kids become teenagers and we got them back as grandparents.

And so, I think with Herbalife, it is the same thing. Herbalife for Life, get people on a healthy active lifestyle, obesity is not an adult issue, it's an issue. Children are obese, teenagers are obese, adults are obese, healthy active lifestyle is something that we want to push down. And so, the kids line, we are going after children and with stay-at-home moms, and I think we can get to college, and again just fits into life stage and lifestyle segmentation.

Again please just raise your hand and we'll hand you a mike.

Unidentified Audience Member

Thank you. So, switching the conversation to a strategic picture, if we think about regulations now and the issues you face, with the industry having some attacks to its integrity, why not as leaders in the industry showing that the industry is so fragmented, be leaders in pushing more regulations, shouldn't that be something that could build a moat around the business for you?

Michael Johnson - Herbalife Limited - Chairman and CEO

That's a great question, number one, and two is we have been leaders in that. We were the probably standalone Company in our category to stand behind a regulation that was passed by the federal government on adverse events reporting. We have a

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large presence in Washington DC, which we are very proud of, we have a meeting with Tom Harkin tomorrow afternoon in my office.

We spend a lot time with government officials and I think what we want to do is not support over-regulation, but support sensible regulation in our industry. We are doing clinical now. We have six clinical in action, we have one that will be published, Steve, in the next two months and that's unique in our industry.

We are not just standing up and saying, oh, this is a great product because my cousin took it. We are standing up and saying, this is a great product because the scientific benefit and the nutritional benefits of this product are the following. I am very excited about this clinical that is going to come out.

Interestingly enough, it is so moving that it is going to open up to be somewhat of a target too because we are going to prove that through David Heber's platform of protein enhancement, and I probably should be careful not to go too far here, that our nutritional based program is a better weight management program than anything else and anything prescribed, anything OTC.

We are going to prove it is better, and that is going to be a stunning announcement, and we will make that sometime mid next year. Well, I think I probably just made it, and I am probably in trouble for that, where is Brett, but when this comes out, it is going to arm our distributors with a data bank that's beyond the testimonials. Testimonial is fabulous, but going beyond and deeper than that is security and confidence.

So, I don't want to be the one who is going to put a moat around this industry, but realizing the ministries of health, the FDA, big pharma and how they fell about industries like this, we are going to protect ourselves very well in the impenetrable in the years ahead.

Greg, Steve and I yesterday sat down and we formed a committee of three to talk about a product strategy two, four and six years down the road that looks at every single product we have, looks at clinical, looks at scientific substantiation and builds for us a wall, if you will, you can call it a moat, I will call it a wall to protect us into the future to give our distributors security and confidence that the business they are building today will be here ten, 20 and 30 years from today regardless of what regulations are thrown our way.

So, I am excited about that, that is one of the things you get these moments and go, okay, we are getting pressured here and there. Trouble is opportunity, that's one of my favorite quotes, and so there is trouble out in regulations, just an opportunity for us because we have the resources you saw today, we are building the science lab, the doctors, we have the resources to stand out and we will do that.

Unidentified Audience Member

I have a follow up question for some. So looking at the pie chart you showed that the industry being fragmented, you often mentioned your competitors being other direct sellers and dragged a few names and what would be [beauty] Oriflame or AVON, what would be the view if you took that by country and you looked at yourselves only as a nutrition company?

And I don't see why you wouldn't be able to form already a picture of -- show any specific countries that is in fact a barrier to entry and your other competitors aren't in that nutrition area?

Greg Probert - Herbalife Limited - President and COO

What we do, we look at it both ways, because we consider our competitors to be both direct sellers in terms of method of distribution and the only one selling products then define it from an end consumer stand point.

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And I think, as Michael said in his opening remarks, one of the things that we think differentiates us and gives us a unique selling proposition, not only are great products, but the education that comes with that as this business becomes more fragmented and Niteworks is an absolutely growing example of that.

Lou is now -- cannot talk to every customer around the world about what Niteworks does. You guys in five minutes I think got a pretty good understanding of the need for that product and how it works. Similar products have sat on retail shelves, but have failed because no one at that store level can actually [distribute] concept and it's too early and our distributors, their unique selling proposition is their ability to do a complicated sell, right.

So again, we think that having products that appeal to a broad consumer demographic and distributors that can explain those products and mentor like Michael said, if you are losing weight, you need a mentor -- you need someone to customize that program, you need someone to call you up, you need someone to tailor that program over six months. It is not the same program the first week as it is in weeks six and week 12.

So again, if you look at what David does in his clinic, it is a lot about people coming in and not only the products, it's about the support. You look at Nutrition Clubs, the value of Nutrition Clubs is not only the product. In fact, you come in, you have a sense of community, you have a group, you have recognition, so (inaudible) results is one thing. So, I think again it is hard to say we are either completely over as a consumer products Company or completely only a direct selling, we are both.

Unidentified Audience Member

Greg, two other questions, so if for example in Mexico you have achieved a certain market share in nutrition, you find that that gives you an advantage in that space that adds to your profitability there, so there is a certain critical point of share.

Greg Probert - Herbalife Limited - President and COO

Absolutely, and it gives us -- it is why some of the things we are doing in branding is to get awareness. It's not only the drive, [compulsion] is to drive, what you do in a traditional consumer business is to build impression, to build awareness of your Company, to build sort of awareness of your platform as opposed to nearly product awareness.

So, if you look at what we do, we packet both from a push business -- the marketing, another marketing we are doing is also the traditional pull marketing where we are getting people exposed to the product and to the brands so that when they are approached by a distributor, they go to find a distributor, they already have an awareness, an increasing top of mind awareness is something that we are starting to track, it is something that we will tap.

But, again, you have to (inaudible) you have to make sure you have enough distributors who already have a customer initiative where they have a place to go, because you don't want to build up demand if they can't find a distributor. So again, we have to do both those things in combination.

Unidentified Audience Member

Thanks. Greg, in your prepared comments I think you said something about China expecting here something here in the next 90 days. It's obviously taken a while, and by no means are you on a map, but can you maybe spend a little more detail with some of the signals you have received that give you the confidence to make a sale there?

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Greg Probert - Herbalife Limited - President and COO

Right. Well, I think the signals are it is a very long process and very careful, and to your point about supporting regulations, I think it is a good process, because what it does is, if you get through this process, you are validated as a very legitimate company, you are validated in products, you are validated in business, ethics, reputation, everything, and so we do support that.

It is a little aggravating and it takes so long to do it, because we are all anxious to grow our business faster, but in China, we have gone through the local approval process and it is really about a five step process that we are about three and a half steps through. So, the signals are we know where we are in that process, we follow up with that process on a weekly basis.

Our head of DA is in constant communication with MOFCOM, which is a government body and so again, we follow through that process, and it is really sort of a [step-gate] process and we know where we are in that process.

Now, sometimes you get to step four and you think step five is three weeks away and it is pretty managed, but given sort of traditional timing that what leads us to believe that we will get an answer, we will get through those last few steps in the next 90 days. Maybe you can and enlarge (inaudible).

Unidentified Audience Member

Thanks. I was wondering if you all had an update on any concerns you have heard from distributors or from the Chinese government, it sounds like probably not, about the sector report that came out about a week before -- the day before your reported earnings, I know that is a bit of a concern.

Greg Probert - Herbalife Limited - President and COO

Okay. So, two questions, one the Chinese government, they don't care. They get stuff from all over the world. What they care about is what happens in their country, and the SAIC, which is really sort of the enforcement body in China have looked at us, have looked at our marketing plan. I met with them last time I was there. Paul Noack who is running China for us in the interim, he and I were there a month ago or two months ago and we met with both MOFCOM and SAIC.

They know us as a company, they visit our stores, they audit our stores. I mean it's a very tough enforcement environment. So, someone writing a column in the U.S. about what's happening in China, they don't care, because they care about what they find, not what someone tells them they think what's going on.

From distributor, we -- actually we went out to our distributors proactively to our leadership and talked about they understand how our marketing plan in China is different. They are very -- some of them are frustrated because we don't let them go to China.

They want to go to China and open up and say, China is a no (inaudible) but there is a wall around China in our business, and if you are there, you are under the China marketing plan, and if you are outside, you are under the worldwide marketing plan, and we make a big distinction and our international leaders don't go there.

They are not allowed to go there and we have ruled against them going there. And so, the distributors understand the environment and I think honestly the last time I looked in the U.S., we got two calls about it in our call center, and I track it every day. So, it was not an issue.

Unidentified Audience Member

This is going to be our final question.

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Greg Probert - Herbalife Limited - President and COO

Yes, right.

Unidentified Audience Member

Question on the -- you talked about oversight and enforcement and spent some time on that slide. Can you sort of talk about how big the number of staff in that area is, and you talked about the seriousness of your enforcement activity, and if you could sort of provide us a little bit more color in terms of --?

Michael Johnson - Herbalife Limited - Chairman and CEO

I am not like Greg, I don't know the exact size of --

Unidentified Audience Member

I mean an approximate value of what you do.

Michael Johnson - Herbalife Limited - Chairman and CEO

In all our major -- it's really the corporate group that is in charge of compliance and ethics, what we call EBP, ethical business practices. We have a Senior Vice President, reports directly into Brett Chapman, our General Counsel. He has a staff of -- it is probably 20 or 30 approximately, they are actually based in this building.

So, that's a cooperate staff and they basically work with the local markets. And in a market like Mexico, we have a Senior Director of EBP there. So, he enforces and works on a local level with the clients, and so we have a centralized staff in each of our markets, who will either be -- have their own staff, they are a large county or be supported by the region.

We have another Vice President in Europe and in (inaudible) and EMEA. So, it is a fairly large staff and we have a lot of cases, small cases but -- and we investigate all cases. One of the big things that we talk about is creating a level playing field. The people really in ethics are our distributors because someone is acting unethically or doing whether [it's in] product claims or business claims, that's an unfair convention for the distributor sitting next to them trying to compete.

So, we have to have a level playing field in this business, and our distributors demand as much as we do. So, we work with our distributors and that was a -- Mexico is a great example. That hurt the business. When some of those practices crept in, they hurt the business. So, we went out and as we disclosed, we performed 1000 audits ourselves.

Our distributors went and audited every one of their Nutrition Clubs and they sent in audit forms, because they want to go and make sure their downlines were compliant. So, working together with the distributors, again that's another leveraging factor.

Greg Probert - Herbalife Limited - President and COO

So, when you figure the size of the staff, your internal paid staff and then you have a distributor staff just out there minding the store.

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Michael Johnson - Herbalife Limited - Chairman and CEO

Okay, I want to just give a few closing remarks here, and then I will turn it over to Rich for a few details about where we are going next and what is going to be done. But, starting, when you sit in a meeting like this, you hear new things yourself even as a CEO of the Company and it is enlightening to you. It is good though, that's a good thing, you can't know everything that is going on.

I am sure you guys know everything about what is going on, but I don't. So, it is very interesting to me, for years I have been pitching to you and to all Wall Street investors, analysts that we're a fixer upper, that this Company, when we came in, we found a lot of pieces that were skewed and we needed to put them back together.

An opportunity to recreate a company, that's a unique opportunity in a business person's life, that's a challenge that we excepted, it's a challenge that I think we are doing a fine job with. I am very confident about the future of this Company, but we go from a fix-her-up now to we are getting pretty good at these stuff, now we need to be the best at what we are doing, and that's what our staff is hearing every single day.

It's good to be okay, it's better to be good, it's great to be the best, and that's where we are heading this Company. We are bringing on board a higher grade of intellectual capital every single day in our Company. We are bringing on board more successful distributors than ever before in this Company. We have more distributors recruited and retained, we have more successful distributors than ever before, we have more top line growth than ever before, you will see it exhibited there.

When we went out and went public, we made promises and we fulfilled every one of those promises inside our Company from driving the top like growth which I mentioned before, expanding operating margin to accumulating more free cash flow in this Company, de-levering our business that contributed to help new business, we are reinvesting capital into high return on equity programs and investment programs which you heard about today, which is everything from an IT system to building out more offices, to investment in China, to making sure that we have the infrastructure to support the opportunity inside this Company.

So, I see a company that's going to continue to grow, I see opportunity that it will continue to grow, and you see them -- hopefully you have a very sophisticated resource in human management inside this Company. We have a Nobel price laureate up here, I have a business partner I have been working with for almost 20 years now, we have a very short and quick language with each other, it is like a marriage, but better. I hope my wife isn't listening in. We don't argue as much, but we have our points in difference and we have our points of opportunity.

So, this Company is something I am very proud of. It is a Company that I believe has a very strong future. It is an industry that has challenges, unique challenges and I think you have asked great questions about that moat, I prefer to see it as a fortress for us.

There is an opportunity for us to be a unique Company in this space, our science, our meticulous detail to investor returns, and that's what we are focused on in this Company, shareholder returns day in and day out because we are all shareholders too, and much of our income depends on the share price of this Company.

And so, we are perfectly aligned with you on EPS every single day in this Company. So with that said, thank you very much for attending, hopefully you have been enlightened to our culture, to our opportunity and then the future of Herbalife. Thank you.

Richard Goudis - Herbalife Limited - CFO

Thank you. Just before we break, I just want to go through a little housekeeping.

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Fourth-quarter operating income was \$85.7 million or 14.8% of sales on a reported basis. However, excluding the onetime tax benefit reflected in gross profit and the realignment expenses reflected in SG&A, operating income as a percent of sales improved 57 basis points to 15.1% of sales. This improvement reflects the leverage we have in this business coupled with our prioritization of investments to maximize our returns.

Fourth-quarter interest expense was \$3.4 million versus \$2.7 million in 2006. The increase of \$700,000 primarily reflects the higher net debt balance as we utilized our revolver to repurchase stock. On a reported basis our fourth-quarter effective tax rate was 34.6%; however, adjusting for nonrecurring items as described in our press release yesterday, the fourth-quarter effective tax rate was 34.3% or 60 basis points below the normalized fourth-quarter 2006 rate. Our effective tax rate has steadily declined over the past three years and we anticipate further improvement in 2008.

Net income on a reported basis was \$53.8 million in the quarter compared to \$41.7 million in the fourth quarter of 2006. On a normalized basis net income was \$55.1 million reflecting an increase of 24% compared to the normalized net income in 2006. And fourth-quarter reported diluted EPS was \$0.77 as compared to \$0.56 in the fourth quarter of 2006. On a normalized basis fourth-quarter diluted earnings per share increased 33.2% to \$0.79.

Now let's turn to the balance sheet. We ended 2007 with \$187.4 million in cash and \$357.4 million in outstanding debt. We were successful in reducing inventory \$17 million throughout the year. And in terms of efficiency, our days on hand improved 21 days to 113 days and, more importantly, our inventory turnover improved 50 basis points to 3.22 compared to the fourth quarter of 2006. CapEx was \$17 million in the fourth quarter which reflects our ongoing investments in our infrastructure.

Now let's turn to guidance. We're providing first-quarter guidance for the first time and we're raising our full-year 2008 net sales growth and EPS guidance. We expect top-line growth in the first quarter to be in a range of 12% to 14% and diluted EPS to be in the range of \$0.77 to \$0.79, reflecting an increase of 26 to 30% over 2007. And based on current business trends, as Michael and Greg mentioned earlier on the call, we are raising our outlook for 2008.

We now expect top-line growth to be in a range of 9% to 11% and full-year diluted EPS to be in a range of \$3.25 to \$3.30 reflecting an increase of 20% to 22% over 2007. Please note that these estimates exclude our costs expected to be incurred related to our realignment for growth initiative and accretion resulting from any further share repurchases.

While Michael and Greg described the positive business trends with you today, we remain hesitant to provide higher 2008 guidance this early in the year as we still remember the punishment we took in the market when we had to reguide our sales growth estimates in Mexico in 2007, January.

As in the past, we remain cautious in our expectations for our 2008 guidance and, as we have done in the past, we will revisit our guidance each quarter based on the most recent business trends. That concludes our prepared remarks, now we'll open up the call for your questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Simeon Gutman.

Simeon Gutman - Goldman Sachs - Analyst

Just want to walk through the chronology of what happened in Mexico. Because I know when you reported the third quarter in early November you were thinking something in the low single-digit range. And if October was a slower building month, I

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guess the assumption was November and December were going to be better. And it sounds like they were but not as strong. I want to make sure I have that down correct. And then if they weren't as strong, what were anything specific you can point to, anything geographic or is it just a simple business just taking a little longer to get going?

Michael Johnson - Herbalife Ltd. - Chairman, CEO

I think it's more just a lag, Simeon. October we comped negative, but both in November and December we comped positive. So just like we talked on the last earnings call where we fell a little bit short in September, we also fell short in October but we saw very positive momentum building in November and December. And as Greg mentioned, I think we were up sequentially 4.2% from Q3 to Q4 where previous year I think we were down sequentially Q3 to Q4.

As Michael mentioned, we've built a strong foundation. We have some really significant promotions that are kicking in in the second quarter. So we think we've built a strong foundation, we've cleaned up the ethical issues from a year ago and strengthened our training programs. And now with this incentive program, that will kick off in the second quarter. That really creates a stimulus for people to start recruiting and building more clubs and therefore building revenue.

Simeon Gutman - Goldman Sachs - Analyst

And the Club of Clubs promotion definitely sounds like a terrific recruiting tool and I know the Nutrition Club hits on all the three R's, but it sounds like doubling the number of Nutrition Clubs, how does that play into the retention part? And then are you also measuring some type of productivity from the clubs as opposed to just the pure sake of opening them?

Greg Probert - Herbalife Ltd. - President, COO

This is Greg, Simeon. I think those are great questions. We're looking not only opening clubs, but making sure that the clubs opened are solid and based on a strong foundation. If you remember, one of the reasons that our retention is down in Mexico is that we were cleaning out some of the clubs that were non-compliant and we did that through our audits and through our EBP.

And we think now that those clubs are gone we have a very stable base upon which to grow. And we want to make sure that we incentivize our distributors to open clubs and I think a key learning of both management and our distributor leadership was that those clubs have to be open the right way, in the right locations and we now have the infrastructure to support that.

As I said in my prepared comments, in the areas where we've opened the new distribution centers our sales are increasing, they're decreasing in Mexico City where most of the noncompliant clubs were. So I think we've done all the right things and I think this promotion will be the stimulus to get our distributors back to opening new clubs.

Simeon Gutman - Goldman Sachs - Analyst

Okay. And then on the branding side of things, in '07 I'd argue that you've only started to lay the groundwork for some of the higher profile things, and then in early '08 here with AYSO and then last year with Galaxy. Is there anything at a high-level that you've seen in anything shifting, any key distributors really taking to some of the sponsorships and exploiting it? Anything in activation, is there anything momentum wise that is a regional that you're already benefiting from it?

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Michael Lasser - *Lehman Brothers - Analyst*

It's Michael. Yes, we've had distributors -- actually the AYSO program that we did is something that we've had on our mind for a while, but a distributor actually beat us to the punch on this with -- in Florida we had a distributor down there who sponsored the local AYSO program and he sponsored it in a large way and we watched and saw what he did down there.

And if he can become the blueprint for distributors throughout the United States and throughout the world to get involved with other teams, not only soccer but others sports teams and get him to sponsor with Herbalife and get it on the jerseys -- it's a relatively small investment. They can buy the uniforms, they can take the product (technical difficulty) tents to set up. We're working with local management everywhere so we've got tents, banners, sampling size.

In the Philippines the Subic Bay triathlon was sponsored by a distributor down there. We have distributors which is a huge deal so you've got a ton of leads down there. We just came off the promotion of the tour of California where distributors managed all of the booths there, and the distributors who were at the closing event in Pasadena in pouring rain on Sunday walked away with somewhere around 1,500 leads out of that event. That is a significant day for them for two to three hours worth of work to have 1,500 leads and generate customers, retail customers, potential new distributors.

So these are the kinds of things that are taking place. We have, as I said -- there are too many to mention. There's a bicycle racing team being sponsored by one of our distributors. There are local sports teams throughout Europe. We have triathletes who are sponsored not only by the Company but by individuals. We have a gentleman who's going to climb Mount Kilimanjaro who's got cerebral palsy who is being sponsored by a distributor and taking our products who will be climbing Kilimanjaro at the end of this summer.

These are branding, creating great awareness, working with distributors on a local basis and having distributors actually activated. And as soon as these stories get out -- and that is why these meetings are so good and I'm sorry to be so longwinded here -- but these meetings are so good because the distributors come; they're proud of their stories, they share their photographs, they share their results. And that entices and enlightens in other distributors' minds to say, hey, I can do this too. So that's where the success starts to build.

Greg Probert - *Herbalife Ltd. - President, COO*

Let me just add a little color to the AYSO. As Michael said, something we have been eyeing now for over a year and finally are able to conclude the deal. But if you remember, one of the things we talked about over the past year was really going after the stay-at-home moms. We launched a children's line which is a great product line to go after that segment. And now, we have access to -- our distributors have access to well over one million soccer moms and soccer dads, and it is really a great example of grass-roots distributor activation.

So again, I think in terms of access to our brand and access to our products, it is a watershed agreement in terms of the U.S. and just great to have the children's line to go with that.

Simeon Gutman - *Goldman Sachs - Analyst*

I just have two more; I will ask them together. The first maybe for Greg. On the Eastern European markets, what is the strategy and how is that evolving? And then second for Rich, is there any free cash flow usage assumed in your '08 guidance?

Greg Probert - *Herbalife Ltd. - President, COO*

I will do the Eastern Europe. I think the results as we reported in Russia were up 15%, which was I think encouraging. We have always felt there is a lot of untapped potential in that market. As we announced last quarter, we just hired a new vice president

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to run Central and Eastern Europe for us who came from one of our major competitors in that region. So I am going to do a tour of that region with Wynne Roberts who runs EMEA for us in April, to really go and visit Poland and Russia and a few other countries that really formulate, I think, a more aggressive plan for getting deeper penetration in those markets.

Because as you know, a lot of our competitors have tremendous double-digit growth throughout Central/Eastern Europe, Russia, CIS. So I think it is certainly on our radar and like I said, I will be going there in a couple weeks to work with our European management team on a more aggressive plan to penetrate those markets.

Rich Goudis - Herbalife Ltd. - CFO

Then Simeon, obviously, we remain conservative in our guidance. So what our expectations are is no further share repurchases. We will use our excess free cash to pay down the debt. So again, if we were to potentially go back in the market, that would only provide more accretion above our current guidance.

Simeon Gutman - Goldman Sachs - Analyst

Right, but it still doesn't even assume you complete the authorization in that number, correct?

Rich Goudis - Herbalife Ltd. - CFO

That is correct. I think we have about \$65 million outstanding. And again, our guidance is typically very conservative, and the conservative thing to do is pay down debt.

Simeon Gutman - Goldman Sachs - Analyst

Okay, thanks.

Operator

Olivia Tong, Merrill Lynch.

Olivia Tong - Merrill Lynch - Analyst

Good morning. Just one quick one first. Can you explain what the correction was in the royalty overrides?

Rich Goudis - Herbalife Ltd. - CFO

Yes, it was a year-to-date catch-up in Mexico.

Olivia Tong - Merrill Lynch - Analyst

Can you provide a little further detail; why the need for a catch-up?

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Rich Goudis - Herbalife Ltd. - CFO

I don't know the specific reason, other than I think it was just a calculation error that was made throughout the year. So it was just a cumulative catch-up.

Olivia Tong - Merrill Lynch - Analyst

Okay. Sales clearly beat your own expectations. Relative to your own expectations, are there particular regions where you saw much more sales upside than others?

Greg Probert - Herbalife Ltd. - President, COO

Can you just repeat the question, please?

Olivia Tong - Merrill Lynch - Analyst

Sure. Sales obviously beat your own internal expectations. So I'm just wondering were there any particular regions where you saw results that were well above expectations, or was it more -- just a little bit more in each region.

Greg Probert - Herbalife Ltd. - President, COO

No, I think net-net, the only market in local currency terms where we thought we fell a little short was Mexico, as Michael and Greg mentioned. And then where the upside really came from was currency. Currency was 620 basis points of benefit in the quarter. It was our largest contribution. We had some upside in the South America region. And a little bit in China, it was a little bit stronger, but net-net I think it was really currency that you saw come through.

Olivia Tong - Merrill Lynch - Analyst

Got it. Thanks a lot.

Operator

Karen Howland, Lehman Brothers.

Karen Howland - Lehman Brothers - Analyst

Thanks. Curious about your sales forecast. I know you had indicated that it was up about 20% in January. I recognize the desire to be conservative, but that 12% to 14% for the first quarter seems particularly low if January is up 20%, unless of course you are seeing something in the February month that would leave you to think that it is going to decrease that much.

Rich Goudis - Herbalife Ltd. - CFO

No, there is nothing that we are seeing that is negative. I think it is just you are seeing this management team being cautious, number one. Again, in January we saw tremendous currency benefit. Our guidance for you is more cautious. Now, the dollar fell again to -- I think the euro is \$1.50 today. That is clearly a little bit different than what is contained in our guidance.

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Karen Howland - *Lehman Brothers - Analyst*

How much was currency in January of that 20%?

Rich Goudis - *Herbalife Ltd. - CFO*

We didn't disclose that.

Karen Howland - *Lehman Brothers - Analyst*

Okay. Then I was wondering, I know you have been working to decrease the overall tax rate. I was wondering if you have any assumptions baked in for that for 2008.

Rich Goudis - *Herbalife Ltd. - CFO*

I think last year, we kind of suggested that it would be in the low 30s. So I think most analysts are about 32%, Karen. I would probably say that anything below 32%, you would probably see potentially further increase in our guidance.

Karen Howland - *Lehman Brothers - Analyst*

Okay, great. Thank you very much.

Operator

(OPERATOR INSTRUCTIONS)

Michael Lasser - *Lehman Brothers - Analyst*

Okay. It looks like we have reached the point where the questions have been answered, and the quarter is done and it's time to get back to work here. So I'm going to conclude it with a few comments. First of all, I want to thank everybody for being on the call and thank you for your support of our company. We are very proud of Herbalife.

We know we head into 2008 with tremendous momentum, which you have already seen, challenges and opportunities. Our health and nutrition and biz opportunity platform puts us in a very unique place. We have an opportunity for people to add real income to their lives, either supplemental or full-time. We are taking the global health issue head-on which is obesity, heart health, two areas that we think are very, very important.

As I watch and listen to all of the candidates who are running for office, I hear about all of the different healthcare platforms, but I don't hear enough about health. I hear a lot about disease, and I'm very proud of Herbalife in the fact that we are taking on an issue straight on. Strong top-line growth, enhanced profitability, accelerating new sales leaders' trends.

Getting Mexico turned around, built basically on a strong foundation. Our Spanish-speaking South American business has incredible momentum. Brazil gaining traction behind its transition to be a more balanced mix of the (inaudible). Our U.S. marketplace, which many people told us when we went public was going to be just kind of a forgotten market to us. It's resilient and it is growing, and despite of economic softness.

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We are seeing turnarounds in parts of Europe, and we have a tremendous eye on Eastern Europe for expansion. Greg will be going on a trip there very soon. We are building our IT platform which will offer geographic expansion and acceleration in 2009. That is a big, big deal for us.

And our strength in Asia, which I will be visiting -- I will be doing five cities in the next two weeks in Asia -- is beyond and behind the growth in Taiwan and China.

Herbalife, as you know, is a momentum-driven business and some distributor financial statistics for you to consider as you think about us is it took us 25 years to get to 25 Chairmen's Club members. In the past three years, we have added 10 additional members for a total of 35. It took us 21 years to get to \$1 billion in sales. In the past six years, we've doubled that to over \$2 billion in net sales.

We have a geographically-balanced business which is experiencing strong growth. We have a business model that enables operating margin expansion when investments are made into high ROI projects. And it is a business that generates tremendous free cash. Over the past three years, we have experienced EPS growth in excess of 20% per year, and we continue to manage our capital structure to provide increased returns to shareholders.

So, as I said in the beginning, I want to thank you for your support. We are excited about the Herbalife of 2008, and as we say in here, it is the year to dare to be great. Thank you.

Operator

Ladies and gentlemen, this does conclude today's presentation. You may now disconnect.

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