

FINAL TRANSCRIPT

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

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

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CORPORATE PARTICIPANTS

Michael Johnson

HERBALIFE LTD - CEO, Chairman

Rich Goudis

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CONFERENCE CALL PARTICIPANTS

Simeon Gutman

Goldman Sachs - Analyst

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- 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.

[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%.

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.

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

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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.

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.

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.

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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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*

The biggest event in our company's history.

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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.

Michael Johnson - HERBALIFE LTD - CEO, Chairman

They're recruiters.

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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