

FINAL TRANSCRIPT

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HLF - Q4 2006 HERBALIFE LTD Earnings Conference Call

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PRESENTATION

Operator

Good morning, and thank you, for joining the fourth quarter 2006 earnings conference call for Herbalife Limited. On the call today is Michael O. Johnson, the Company's CEO, Greg Probert, the Company's President and COO, and Richard Goudis, the CFO.

I would now like to turn the call over to Brett Chapman, the Company's General Counsel to read the Company's safe harbor language.

Brett Chapman - Herbalife Ltd. - General Counsel

Before we begin, as a reminder, during this conference call comments may be made which include some forward-looking statements. These statements involve risk and uncertainty, and as you know, actual results may differ materially from those discussed or anticipated. We encourage you to read through yesterday's earnings release of our SEC filings for a complete discussion of risks associated with these forward-looking statements and our business.

In addition, during this call certain financial performance measures may be discussed [inaudible] comparable measures containing our financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles, referred to by the SEC as non-GAAP financial measures. We believe these non-GAAP financial measures assist management and investors in evaluating and comparing period to period results of operations in a more meaningful and consistent manner. Please refer to the Investor Relations section of our web site, herbalife.com, to find our fourth quarter press release containing a reconciliation of these measures.

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I will now turn the call over to Michael.

Michael O. Johnson - Herbalife Ltd. - CEO

Thank, Brett. Good morning, everybody, hope you're having a great day. I am going to get into our 2006 accomplishments but before I do that, I just want to make a quick comment with regards to Whitney proposal. And as we disclosed publicly a special committee consisting solely of independent directors from our board has been formed. This committee, together with its financial and legal advisors are evaluating the proposal, and I think you all know, other than that that's about as much as we can say about this. It can't be dragged into questions on it. So, we have -- Brett gave you all of that great legal warm-up. He will give you more if we asking a lot of questions.

Let's talk about 2006. Some of the information we shared with you on January 5th and then after I get into some of those accomplishments, Greg will give you an update on our regional business trends including rent developments in Mexico, which I'm sure you're anxious to hear, and Rich will follow with a financial update and our revised 2007 guidance.

In January we announced that 2006 was another remarkable and record setting year for our Company. Our distributors accomplished their goal of exceeding 3 billion in retail sales. Which is really a fantastic accomplishment and a new record for our Company. The fourth quarter marked the 12th straight quarter double digit sales growth and our 20th consecutive quarter of positive net sales growth.

Many of our distributors and employees are on this call. I just want to take a moment to say, Hey, thank you, all of you, and congratulation for a terrific year.

As many of you know, much of the successes we've experienced over over the past few years has been fueled by exceptional growth in Mexico. We are extremely proud of what our distributors have accomplished in our number one market. Mexico's volume tripled between 2004 and 2006. There are also many success stories outside of Mexico that keep us excited about our future growth potential. 26, or almost 1/2 of our markets had record years in 2006 including four of our top five markets. We believe this is one of our great strengths at Herbalife, the fact that we operate across a broad geographic portfolio of 64 markets. El Salvador is our 64th market that we announced earlier this month. Welcome, El Salvador.

Outside of Mexico we have grown more than 10% annually for the past 3 years and continue to see this positive momentum in many markets, including the United States, Italy, Taiwan, Thailand, and Argentina. The primary catalyst for growth has been the expansion and adoption of successful Daily Methods of Operations known as DMOs. Such as Customer Clubs, which includes Nutrition Clubs, The Total Plan, the Wellness Evaluation, product sampling, and of course the traditional use ware talk method. Over the past year we fostered this growth by aligning our products with these DMOs. We have also increased investments through promotions, events and business tools that support our distributors and help them grow their businesses.

Let me quickly summarize a few of our exciting 2006 accomplishments. Net sales of 1.9 billion, the highest in the Company's 27 year history. Our distributors recruited and developed 197,000 new distributors in 2006. More than 500 per day. This is a 25% increase over 2005. Last month retention of our supervisors increased to 42.5% versus 41.5% in January of 2006. And 20 of our markets had record retention years. We added 129 new members of our elite President's Team this is up 15% versus 2005. Our total Pres team has increased to 988 members at the end of 2006. And we'll celebrate our 1,000th Pres team member at our President Summit, right here in Los Angeles next month.

We've also added 3 new distributorships to our Chairman's Club, which now has 30 members. And we've added 3 new Chairman's Club members per year since 2003. This is very inspiring and motivating for our future distributor leaders. I know every Pres team member is thinking about Chairman's Club.

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This time last year we communicated that 2006 would be a heavy investment year for the Company. Incremental spend on a variety of initiatives that we expect to drive future top line growth. Even in light of the increased investments, we were able to generate 30 basis points of operating margin improvement versus 2005, inconsistent with our guidance, we expect to improve our margins by at least 50 basis points in 2007. And, finally, as a result of strong top line results in operating expansion, we grew EPS by 36% versus 2005.

At Herbalife these are exciting times. We just wrapped up another remarkable year, posting our highest net sales growth rate in 9 years. We have a lot of wonderful things going on in our company, and as I've said many times before, we are just getting started, and here's why.

Global mega trends such as obesity and rising health care costs have created compelling growth opportunities for us. We believe our 27 year history of changing people's lives with high quality nutrition and weight management products positions us perfectly to capitalize on these trends.

In July we are launching two great new products in the U.S. First, a revamp and an upgraded children's line, consisting of a protein shake and a chewable, multivitamin. This children's line will be a fantastic opportunity for our distributors to expand their consumer base and penetrate the large US stay-at-home mom demographic.

And secondly, we are launching a new product to support our fitness oriented distributors and their customers. This product will compliment our existing line up of products, and together they will offer a pre, during and post workout line backed by Herbalife Science and our wonderful team of medical professionals and fitness experts. Obviously, I'm really excited about creating a fitness program for our distributors and their customers because it's a natural compliment to our existing brand imaging, which is a campaign of associating Herbalife with a healthy, active lifestyle. It's also an opportunity to further diversify our distributor base to include fitness enthusiasts and personal trainers. And I know many of my friends out there think, well, he's done it again, he's just created a product to make him ride his bike up the hill faster.

Let me finish by saying I continue to remain excited about our future. We have an incredible amount of momentum coming out of 2006 and we believe this foundation will create a very successful year in 2007.

Now let me do my favorite thing in this call, which is to turn it over to Greg, who will provide a few of our regional business trends, and give you further insight into Mexico.

Greg Probert - Herbalife Ltd. - President, COO

Thank you, Michael. I also want to join Michael in congratulating all our distributors and employees on another remarkable year.

Let's jump right into an update on our regional business trends. In the interest of time I will just touch upon recent developments in three of our key markets, Mexico the U.S. and China. We will field your questions on our other markets during the Q&A session.

In January we outlined the major factors that we believe contributed to the slowdown in Mexico during the last few months of 2006, mainly infrastructure, training and compliance. As Michael just mentioned, we have experienced great success in markets outside of Mexico. It is well known that Mexico has been the single largest contributor to our top line growth over the past two years. On a volume basis, the market tripled in size between 2004 and 2006. Growing at a 84% [kegger] during this period. The main driver of Mexico's success has been a highly unified distributor leadership group and the adoption of the innovative Nutrition Club DMO, which has enabled our distributors to increase penetration and need lower social economic segments of the Mexican market.

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Mexico began its rapid expansion in late 2004. And at that time we estimated that there were approximately 6,000 Club operators in the market. And just two short years later we believe that count has accelerated to more than 34,000 operators. This equates to almost 40 new Club operators per day since 2004. An incredible pace of growth.

The Nutrition Club DMO became increasingly accepted by local distributor leadership, primarily because it is a low cost, easily replicated business method, with a strategic focus on long term customers and a healthy balance between the three Rs, retailing recruiting and retention. However with the tremendous growth in our distributor base and rapid expansion of the club since 2004 we began to experience growing pains in the second half of 2006.

First we began to out strip the infrastructure. Wait times began to grow significantly at our pick up centers, leading the frustration among our distributors. We also did not have adequate access points for distributors to pick up their products. In Mexico while over 80% of the orders are walk in, we only had sales centers in metro areas representing 30% of the Company's population.

Secondly, as the pace of new distributors entering the business accelerated over the past few years, many of our new distributors did not receive adequate training on Company policies, our products or Nutrition Club procedures. Which led to lower distributor productivity and increased club turnover. As a result of this lack of training and development some distributors began to deviate from the Company's rules. We believe the combination of these three issues, inadequate infrastructure and access points, lack of thorough training and compliance violations, which are somewhat interrelated, led to the sales decline during the last two months of 2006.

It is important for investors to understand this is a highly emotional business, built on momentum within the distributor organization. Distributors are fueled by confidence, confidence in the safety and efficacy of our products, confidence in our marketing plan, and confidence that the Company's management team is maintaining a level playing field for all of our independent distributors. By leveling the playing field, we mean it is the Company's job to ensure that no distributor has an unfair competitive advantage over another, thereby fostering an overall environment for success. In late 2006 we became aware that the playing field was not level for all our distributors in Mexico. This distracted our distributor leadership and caused confusion within our distributors organization. Which in turn led to slower growth in Nutrition Clubs, as well as overall uncertainty in the market.

In January we launched a special task force to implement a comprehensive action plan for Mexico, we believe that we have made good progress today but remain cautiously optimistic because there is still much work to be done. Let me walk you through some of the highlights of that action plan and our accomplishments to date.

Beginning within infrastructure. As we mentioned on our last months call, we opened three new sales centers in late December in [Hermiceo], Monterey and Villa Hermosa. In January we opened a center in Chihuahua and relocated and expanded our locations in Leone and Tijuana. Next month we plan to open centers [Wahacka] and [Tuctapec]. And in April we plan to open two additional centers in [Puebla] and Vera Cruz add a fourth center in Mexico City and expand our [Kansas] Street location in Mexico City. We also plan to open additional centers over the course of the year that will nearly double our population coverage.

We have also developed strategies to improve distributor training and compliance. The Nutrition Club DMOs are a relatively new business method from the Company's perspective. Given that we embrace the concept and started making investments to expand this DMO in mid 2004. As we began validating the complaints surrounding certain clubs last August, it became apparent to us that due to the unique nature of this business method we need to monitor club practices more closely and to take a more feet on the street approach versus our traditional over sight and EBP or ethical business practice methods.

Since January when we last spoke to you, we have completed approximately 1500 additional field audits and have seen a decrease in the rate of noncompliance violations. This decrease is attributable to our enforcement actions gaining traction in the marketplace. Also, we believe these 1500 audits reflect a more representative sample of clubs, being that they were selected on a much more random basis and across 12 Mexican cities. We are encouraged by these initial results which demonstrates the

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majority of our distributors want to be compliant and run legitimate businesses. Most of the violations that we noted were due to lack of training and inadequate access points, not to deliberate and willful neglect of Herbalife policies.

In order to further address these issues, we have also developed a comprehensive training plan with our Mexican distributor leadership to improve the customer experience with Nutrition Club customers, reduce club turnover and raise the confidence of legitimate distributors to expect a level playing field. We added intense training sessions to our [TAB] team retreat held in Mexico last week, which was attended by more than 1,300 of our top distributorships. Each TAB team member who attended the training session received a certificate acknowledging their attendance at the event, and they also signed a code of honor. Whereby, they committed to train their down line clubs, actively monitor compliance with the Company's rules and inform the Company of noncompliant clubs. Our TAB team also unanimously agreed that failure to comply with these provisions should result in fines, suspensions, or terminations for up lying distributors. This demonstrates the leadership understand the importance of integrity, which is at the core of everything we strive to do as a company.

Over the next several months, we will increase our investment in building Mexico's EBP group. We now have an EBP staff of 32 people including 25 field auditors. We expect to have over 3,000 random corporate audits completed by the end of April. In addition, consistent with the code of honor, signed by our distributor leaders last week at the TAB team retreat, we expect an additional 30,000 distributor self-audits will be completed by the end March. Which would cover substantially all of the existing Clubs.

We anticipate the total cost of these infrastructure training compliance initiatives to range between 1 and \$2 million in 2007 consisting of about 500,000 in OpEx and 500,000 to 1.5 million in CapEx. As a result of the confidence our Mexican leadership has recently gained and our ability to move quickly and address these issues, we finished January better than expected with 52 million volume points, up 24 on a year-over-year basis and up 18% versus December.

It's important to remember that January marks the end of our annual supervisor requalification period. Therefore, a portion of the increase in January was attributable to additional volume resulting from this requalification. As of today Mexico is pacing to reach between 45 million and 47 million volume points for February which is in line with our expectations of the single digit growth in the first quarter. Excluding January's requalification volume and the fact that February is a shorter month, we believe the Mexico business has flattened.

Although we have had a positive start to the year we expect sales to be choppy over the next 6 months as distributors focus much of their efforts on bringing their existing clubs into compliance. As our training initiatives take hold, and the playing field levels for all distributors, we expect to see renewed growth in club opening and distributor productivity in the later half of 2007.

Since we are only in the beginning stages of this action plan, we remain cautiously optimistic about Mexico's performance in 2007. Therefore, we reiterate our guidance for a flat volume year in Mexico for 2007. We will continue to invest in initiatives that will improve the overall customer service experience for our distributors, improve their access to our products and give them the best opportunity for success.

Now let's move to our U.S. market where we finished up 25% in the fourth quarter and a volume base is 18% for the full year. The Spanish speaking segment of our U.S. business accounted for approximately 45% of our volume in 2006 and grew by 45% during the year. The expansion of Nutrition Clubs continues to fuel growth among our Latino distributors along with the appeal of a compelling business opportunities that transcends language and educational barriers. Our long-term success within the Spanish speaking segment will be predicated on our ability to train new Nutrition Club operators on the Company's history, product line, policies, procedures and ethics. We are working closely with our distributor leadership to develop training plans and our increasing EBP oversight, which we believe will foster the proper development and expansion in the Nutrition DMO in the U.S.

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In our non-Latin distributor segment, the wellness advisor and product sampling DMOs continue to drive the business of some of our top U.S. distributors. As Michael mentioned earlier, in July we plan to launch our expanded children's line and a new fitness product in the U.S., which we believe will present new retailing and recruiting opportunities for our distributors.

Additional initiatives planned for 2007 in the U.S. are the commitments of our college campus business opportunity program which we believe has significant long-term growth potential. The enhancement and expansion of our line of sample packs to support the sampling DMO, and the development of Latino product brochures, specifically tailored to appeal to the taste and the culture of our Spanish speaking distributors and customers. In January our volume in the U.S. was stronger than expected, up 25% year over year, reflecting the positive momentum carried from 2006 and the positive outlook that our distributors have for expansion of their businesses in 2007.

Now let's turn to China. We continue to execute our strategy as we await approval of our direct selling license. As we mentioned on last month's investor call, we have received local and provincial approval and are now awaiting approval from the central government. However, timing and visibility still remain uncertain. We are extremely pleased, however, with the accomplishment, in what we consider our first year in China. We generate approximately 32 million in sales up from 5 million in 2005 and only 1 million in 2004. And we essentially broke even at the EBIT line. We also increased our supervisor base by 6,000, bringing our total to 7,700 supervisors. We also opened 28 stores in 14 provinces, bringing the total to 42 stores in 21 provinces by the end of 2006. By the end of 2007 we expect to have approximately 100 stores operating across 30 provinces. As we have reiterated many times in the past, China is a great long-term opportunity for us, but is a 2008 and beyond business story for Herbalife.

That concludes my review of our key business trends. As Michael mentioned earlier, we are experiencing great success across many of our 64 markets, 26 of which had record years in 2006. Now our distributors have done an outstanding job committing themselves to this business, our mission for nutrition and sharing best practices and ideas across geographic borders. We believe all of these factors have been key contributors to our successes and will be for the foreseeable future.

I will turn it over to Rich for the financial update.

Richard Goudis - Herbalife Ltd. - CFO

Thanks, Greg. Let me briefly walk you through the financial results that were contained in yesterday's press release, and our 10-K file this morning and then we'll open up the call for questions.

Net sales of [\$487.4] million in the fourth quarter were up 19.2% versus the fourth quarter '05. [inaudible] continued strong volume and supervisor growth in our top markets. FX had a 2.8% favorable impact during the quarter, and on a full year basis net sales increased 20.3% to 1.9 billion. Gross profit in the fourth quarter was 388.2 million or 79.7% of sales. On a year-to-date basis gross profit margins remained essentially flat at 79.8% compared to 2005. For both the quarter and full year modest costs, product costs, freight and duty increases were offset by price increases made throughout 2006 in several of our European, Asian and South American markets.

Royalty expense for the fourth quarter was 173.9 million or 35.7% of sales compared to 35.4% in the fourth quarter last year. The slight increase in royalty expense as a percentage of sales was in line with our expectations as our active world team promotion was very successful. Year-to-date royalty expense increased to 675.2 million or 35.8% of sales, a slight increase from 35.7% in 2005 when you exclude the 4 million noncash royalty adjustment in the third quarter of last year.

On a reported basis SG&A as a percent of sales remained flat at 31% during the fourth quarter. However, excluding the \$7.5 million in employee related costs associated with our realignment for growth initiative, our SG&A margins actually improved 156 basis points to 29.4% of sales. On a year-to-date basis, after adjusting for the realignment and cost that I just mentioned, SG&A expenses as a percentage of net sales improved 41 basis points to 30%, in line with our previously announced guidance. This leverage was primarily the result of better than expected top line growth, and was achieved while we invested significantly

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behind strategic initiatives such as the expansion of our retail presence and infrastructure in China, the development of consumer platform and our regionalization of our business. Additionally, our SG&A as a percent of sales improved during the year as we incurred about 9.2 million in incremental expenses in 2006 related to the adoption of FAS 123-R.

On a reported basis, fourth quarter operating income was 63.3 million or 13% of sales, however, excluding the 7.5 million of realignment costs incurred in the fourth quarter, operating income as a percent of sales improved 126 basis points to 14.5% of sales. Year-to-date operating margins improved 30 basis points to 14.0% versus 13.7% in '05 when you exclude the '06 realignment costs and the 4 million noncash royalty in '05. Fourth quarter interest expense decreased 3.6 million to 2.7 million versus '05. The decline was primarily attributable to lower average debt balance of 89 million and a 98 basis point improvement in the weighted average interest rate during the fourth quarter of '06, it was 6.86% versus 7.84%.

On a reported basis full year interest expense declined 4.4 million to 39.5 million. However, excluding the debt recap charges in both '05 and '06 interest expense declined 13.1 million to 16.6 million in '06. On a reported basis our fourth quarter effective tax rate was 31.2%. However, excluding the 2.2 million tax benefit from the fourth quarter accrual adjustment, the fourth quarter effective rate was 34.9% or 410 basis points below the low end of our guidance range. This resulted from a downward revision to our normalized full year effective tax rate to 38% which excludes approximately 6.4 million in tax benefits realized during the year. The lower than expected normalized rate was due to the earlier than expected benefits of '04 and '05 tax strategies, coupled with higher profits from international markets.

Therefore on an adjusted basis, our full year tax rate improved 250 basis points to 38% in '06 versus the 40.5% in '05. And as we've previously communicated, we expect this rate to improve a point or more annually over the next several years. Net income on a reported basis was 41.7 million in the quarter compared to 30.0 million in the fourth quarter of '05. Year-to-date net income was 53.7% -- increased 53.7% to 143.1 million.

On a reported basis, fourth quarter diluted earnings per share was \$0.56 versus \$0.41 in 2005. However, on a normalized basis, which excludes the realignment cost and the 2.2 million tax benefit, fourth quarter diluted earning per share increased 44.9% to \$0.59. So in summary, our fourth quarter net sales were up 19.2%. And our adjusted EPS growth rate was 44.9%. And for the full year, net sales increased 20.3% and our EPS -- our adjusted EPS was up 35.5%.

Now let's turn to the balance sheet. We ended 2006 with 154.3 million in cash. And 179.5 million in term debt. Our earning cash balance was abnormally high because the fourth quarter, and we were [valued] in strategic alternatives for the best use of our cash, and therefore we made the minimum 500,000 payment to our senior credit facility. CapEx was 17.8 million in the quarter, reflects the continuing investment in our infrastructure. Primarily related to the creation of a new regional office in Los Angeles which opened last October. Enhancements to our online distributor business tools and additional investments in China.

Now turning to the revised guidance. As a result of stronger sales in January, lower expected G&A costs, we are raising our first quarter and full year 2007 EPS projections. We now expect EPS in the first quarter to be in the range of \$0.52 to \$0.57, and between \$2.43 to \$2.50 for the full year. Please note that these estimates exclude costs expected to be incurred related to our realignment for growth initiative, and any potential FIN 48 adjustments. At this time we are not making any changes to our top line guidance, which reiterate at 6 to 10% both for the quarter and for the full year.

That concludes our recap for the financials and our guidance. We will now open up the call for your questions.

QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS] This is from Michael Lasser with Lehman Brothers.

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Michael Lasser - *Lehman Brothers - Analyst*

Hi, guys. A couple quick questions. Historically, Michael, you [inaudible] 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 in a bid 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 distributor, going to a lot of our stores. We have 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

That is a great question. It's one 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, the point that's more important in 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 in 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 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 seem to be down [inaudible] 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 have 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. Are you bringing it in the U.S. is that going elsewhere?

Michael O. Johnson - Herbalife Ltd. - CEO

Well, 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. 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 [inaudible] the market. So we think they are back in Taiwan now and rebuilding and recruiting again. That is one thing. I think we're starting to see some Nutrition Clubs penetrate

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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 along 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 from Mexico and then a couple in the U.S. and China. Greg, could explain to us again why is it that the better January does not trust late 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 wasn't 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 the 52 million volume points is the requalification volume. So, one of our distributors requalified in 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 lead 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.

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 point that you guys had in 2006?

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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. How 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 the 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?

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.

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

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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 from 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 waiting 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.

Javier Escalante - Morgan Stanley - Analyst

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

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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 [Atura]?

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 Atura 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. [inaudible] is one of the type of Customer Clubs we have. And we think the base in Brazil with the large population a social economic 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.

Javier Escalante - Morgan Stanley - Analyst

Thank you very much, guys.

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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 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 is 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 marketeers standpoint so we still feel happy with that.

Greg Probert - Herbalife Ltd. - President, COO

Non-Hispanic or non-anglo?

Richard Goudis - Herbalife Ltd. - CFO

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

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?

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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

So, you're [saying] 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.

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.

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 when it is fair or not? Or they will be looking into

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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.

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?

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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 save 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 led 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?

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.

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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.

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.

Operator

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

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