

FINAL TRANSCRIPT

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HLF - Q1 2008 HERBALIFE LTD Earnings Conference Call

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Michael Johnson

Herbalife - CEO

Des Walsh

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Rich Goudis

Herbalife - CFO

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the first-quarter 2008 earnings conference call for Herbalife. On the call today is Michael Johnson, the Company's Chairman and CEO; Rich Goudis, the Company's CFO; Dr. Steve Henig, the Company's Chief Scientific Officer; Des Walsh, Executive Vice President; and Brett Chapman, the Company's General Counsel. I would now like to turn the call over to Brett Chapman to read the Company's Safe Harbor language.

Brett Chapman - *Herbalife - Gen. Counsel, Secretary*

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

In addition, during this call certain financial performance measures may be discussed that differ from comparable measures contained in our financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles, referred to by the 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.

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Please refer to the Investor Relations section of our website, Herbalife.com, to find our first-quarter press release containing a reconciliation of these measures. I'll now turn the call over to Michael.

Michael Johnson - Herbalife - CEO

Thanks, Brett. Good morning and welcome, everyone. This has been an interesting week, as you all know, but I am incredibly pleased to report another record quarter of results. In our first quarter we achieved net sales of \$604 million reflecting an increase of 19% over the first quarter last year. With this top-line performance we've now had 17 consecutive quarters of double-digit sales growth.

I think you know this, but 80% of our sales are international. Excluding a currency benefit of 710 basis points we had double-digit sales growth in the quarter of 12%. Our net income was a record \$62.4 million in the quarter, an increase of 36% driven by strong sales growth, expansion in operating margins and a lower effective tax rate.

We generated \$63 million in cash from operating activities, an increase of 36%. We reported diluted EPS of \$0.93, reflecting an EPS growth rate of 52%. Our operating margins expanded 53 basis points. Our balance sheet improved as we paid down \$30 million on our credit facility. Our leverage is now less than 1 times anticipated 2008 EBITDA. Financially our company is frankly -- it's just never been stronger.

The fuel behind this tremendous performance is the hard work and the teamwork of our distributors and employees. Our distributors' adoption of DMOs that promotes daily consumption of our products continues to transform the Company, creating a much longer foundation for our future, the evolution of the nutrition club model into commercial and central clubs, expansion of this DMO from Mexico into the U.S., Taiwan, Russia and Brazil just to name a few, continues to demonstrate the strength of this wonderful business opportunity.

Our recruiting is up. New sales leaders in the first quarter increased 10% compared to last year. Without China new supervisors grew 6%. And we see double-digit growth at all levels of the marketing plan. All of this demonstrates continued momentum in our wonderful business.

Our relationship with the distributor leadership has never been stronger; it's never been better. During the quarter our management team had numerous opportunities to work and interact with our distributors. Let me provide you with some of these highlights.

As we mentioned on our last call in February, we hosted two extravaganza events in South America -- in Buenos Aires, Argentina and Caracas, Venezuela. We touched and interacted with over 20,000 distributors. In March we connected with 20,000 more distributors as part of our Asia tour through several cities including Hong Kong, Taipei, Tokyo, Shanghai and Seoul both to meet our distributors and to participate in the Los Angeles Galaxy Exhibition Games.

Our Asian travels culminated in Singapore where we held our annual Herbalife Honors and Mark Hughes bonus event award. We had a full day session with our Founders Circle and Chairman's Club where we discussed ways to take Herbalife to the next level and to reach our goal of \$5 billion in retail sales.

On Sunday evening in Singapore we had the pleasure of awarding a record \$34 million in the Mark Hughes bonus; the largest check was a record breaking \$2 million. The top seven checks exceeded \$1 million each, some investors attended this event. For those who were not there, let me say this was one incredible evening.

As part of the curriculum we asked distributors to share their big ideas; these are ideas that are helping fuel growth in the distributor business in many parts of the world. By showcasing our distributors' success and showcasing their financial rewards we can cross pollinate their ideas globally. Let me give you a sense of some of these wonderful ideas.

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Commercial and central clubs -- club owners from South America, Taiwan and the United States shared their stories of how they've accumulated in a culture-rated Mexican nutritional club model to best meet the needs of their community.

The secrets of success in South America -- the distributor leadership of those fast growing region shared insights on how their unified approach to the business has been a catalyst for sales success.

The weight loss challenge -- this emerging DMO where distributors recruit people looking to lose weight and organize a challenge where the whole group works with an Herbalife distributor on customized program to meet their weight loss goals.

The Internet -- this session included ideas how to use the Internet for training, to develop an online community and to build more cohesion with an organization and to improve distributor productivity with our product called BizWorks.

Brand activation -- this was a presentation on how to leverage Herbalife's brand building investment in each distributors' local community and local business. Examples included the AYSO activation, distributor led sponsorships including triathlons in the Philippines and soccer club sponsorships in Portugal and there were many, many other examples.

We have seen ideas like this drive our business, create growth in the future, and we know that sharing these ideas works. For example, and as many of you well know, we started the first nutrition club concept at a distributor leadership event like this in 2004. We now have an estimated 40,000 clubs across 40 countries.

We are proud of our first quarter. Not only did we set records again, we carried positive momentum from 2007 and we have enhanced it further through the many efforts I've just mentioned. Our business, it's never been stronger. More distributors than never, more sales leaders than ever and our financial performance has never been stronger.

As you read our financial guidance contained in Wednesday's press release you can see that I look forward to another record-setting year in 2008. Before we go into our business highlights there are two items I'd like to address.

Last week Spain's ministry of health issued an alert about consumption of our products. No specific product or ingredient is named in that alert. In Spain the Company sells 48 products including products for skin and hair care such as facial creams, shampoo and soap. The Company is in an ongoing discussion with the Ministry and we've provided the final section of our dossier on April 23rd, the agreed-upon date.

As we have noted in previous filings, from time to time we receive inquiries like this one and we fully cooperate with authorities around the world. No products have ever been pulled, no ingredients have ever been cited that have been of any danger to anyone. We are currently working with the Spanish Ministry of Health and we will continue to work with them to clear this matter.

The second item is much more personal. It was announced this week in our earnings release on April 30th that I accepted Greg Probert's resignation. Given the Company's unwavering commitment to the highest standards of business ethics, the Company had no other choice but to accept Greg's resignation.

Today however is a new chapter in Herbalife and I am very pleased to introduce Des Walsh in his new capacity as Executive Vice President of Herbalife. Des and I began his career and my career together at Disney in the successful expansion of the video business. And since he joined the Company four years ago he's been crucial and central in developing our unique relationship with our distributors as well as spreading ideas for growth around the world.

Des and I traveled globally together; he is on almost every trip I have ever taken in this company. Our distributors are the key to our success and Des is known and respected worldwide for his distributor relationships and his leadership.

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Des has served as Senior Vice President of the Worldwide Sales since he joined the Company. In addition to his current responsibilities for sales strategy, business development, corporate events, call center and distributor services and worldwide promotions the Company's five regional managers will now report to Des as will additional key functions in support of Herbalife's independent distributors such as corporate marketing services and alliances. That's a big plate, but this man is up to the challenge.

Des has extensive international business experience gained during his 20-year career in sales, marketing and executive management. You'll hear it in his accent; his worldliness is unprecedented, he carries two passports and he's a tremendous executive. Now I'd like to turn the call over to my new partner, Des, who will give you insights into our business highlights and update you on our regional markets. Des, welcome.

Des Walsh - Herbalife - EVP

Thank you, Michael, for that warm introduction. Before I start with my prepared remarks I'd just like to congratulate our distributors and employees for the records they set during the quarter and, most importantly, for their unity and teamwork which have created tremendous excitement and positive momentum in our business.

Let me share some insights now on business trends in key markets including the U.S., Mexico, Brazil and China. The U.S. market remains our largest markets and grew 14% versus first quarter 2007 and grew 8% sequentially from fourth quarter 2007 -- this was in line with our expectations.

The Latino portion of our distributor base continues to be a catalyst for growth. In the first quarter 2008 Latino volume points represented 62% of the total for the market, up 24% from first quarter 2007. Looking forward we see continued penetration opportunities for this market as the top 25 metro areas in the U.S. are up 33%, growing at a faster rate than the total Latino market.

As expected, sales were down 6% in our non-Latino group. The decline in this part of the business reflects a slowdown in the Internet sampling DMO as well as distributors making a transition to a daily consumption model via central and commercial clubs which, as we know, is a strong retail method that leads to enduring growth.

And like the Latino market, we see continued penetration opportunities as the top 25 metro areas are up 6% demonstrating continued growth despite the softness across the full U.S. non-Latino market. In fact, among the top 25 markets in the U.S. volume is up 26% growing at a higher pace than the total market which is up 11%.

Focusing on deeper penetration across the U.S. market continues to be a priority. If the U.S. market could attain the penetration of Los Angeles our U.S. business would exceed \$1 billion.

In the quarter there were over 9,000 new supervisors across the region and for the U.S. new supervisor growth was 1%. And as we mentioned in our call in February, the retention rate for the U.S. gained 30 basis points which is a very healthy indicator as we head through 2008.

For the rest of the year key initiatives for the U.S. include activation of the AYSO sponsorship and opening of sales centers in Chicago, New York and Northern California. And as part of the bifurcation of the U.S. business, we're developing plans to support the separate needs of our Latino and non-Latino distributor audiences.

We recently named [Eddie Heinrich] to head the non-Latino business in the U.S. Eddie is an 18-year Herbalife veteran who has a track record of growth as the region head for the Southeast Asia markets and with the South America markets prior to that. Key initiatives for the non-Latino segment include the college sampling initiative which launched in April and an African-American initiative that will start in second quarter 2008.

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Across the whole U.S. there has been a lot of distributor energy behind a series of 12 leadership development weekends that took place in April. More than 8,000 distributors received inspiration and training on many topics including central and commercial club DMO as well as the emerging weight loss challenge DMO. Looking forward we believe that the U.S. market will continue to grow in the double-digit range, but at a slightly decelerated pace as they comp against the 20 plus percent growth they've had over the previous six quarters.

Now on to Mexico. Mexico's net sales were essentially flat versus first quarter 2007 with sequential improvement from fourth quarter 2007. Looking at volume month by month, Mexico showed volume gains in both January and February with softness in March. One reason for the softness was the Easter holiday falling in March in 2008 versus April in 2007. Without this change we would have had positive year-over-year comps for the quarter.

More importantly, I'd like to highlight the new supervisor trend. Mexico posted a 6% increase in new supervisors this quarter. This is the first growth in the new supervisor metric since fourth quarter 2006 and this is an important metric to demonstrate that the market can be headed back towards growth. In the second and third quarters we'll be working against tougher comps in the new supervisor metric.

The Club of Clubs challenge is slated to begin in the second quarter and we see this as an important promotion to accelerate growth in both the new supervisor metric and net sales in the back half of 2008.

Now on to Brazil. Brazil had net sales growth of 7% for the quarter. Looking at volume points, the market was down 2%. This is a strong improvement compared to trends through 2007. And in 2008 monthly trends showed continued improvement in February and March versus prior year as this market continues to convert to a daily consumptional model.

Among those distributors who have been using the nutrition club DMO for more than a year sales were up 21%. This growth is very encouraging and leads us to believe that the concept has been acculturated and distributors have figured out how to replicate the model.

More importantly, volume from distributors who have adopted the nutrition club DMO now represent 23% of total volume in the Brazil market. We remain encouraged that our distributors are having success with nutrition clubs and we are optimistic that this market will return to volume growth in the back half of 2008 behind this strong model.

China. The China market had net sales growth of 112% in the quarter. The market continues on the run rate we projected during the fourth-quarter conference call of \$100 plus million in net sales for 2008 which would indicate a 33% growth rate.

We do not yet have updates on the five direct selling licenses in review with the Chinese government, but let me reiterate that we are optimistic that we will receive those licenses. We continue to work with the central government for their approval. Once received the addition of these five licenses will expand the reach of our direct selling audience from 85 million to 350 million people.

We have continued to develop our retail based operations with 88 stores across 29 provinces in China. Since the end of 2007 we have closed two stores as part of our real estate strategy and plan to be back to 90 stores by second quarter 2008.

The objective behind our real estate strategy in China is to operate in the best locations for our sales representatives and sales employees, optimize retail investment and meet government needs regarding retail visibility and representation for product returns. Now I'll turn over to Rich for an update on the financials.

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Rich Goudis - Herbalife - CFO

Thanks, Des. Let me briefly walk you through the first-quarter financial results that were contained in yesterday's press release and also provide financial guidance for the second quarter of '08 and revised guidance for the full year of 2008, then we'll open up the call for your questions.

Net sales of \$604.4 million in the first quarter were up 19% versus the first quarter of 2007 reflecting strong volume across many of our markets coupled with 10.4% growth in new sales leaders. FX had a 710 basis point favorable impact during the quarter reflecting the global nature of our business.

On a reported basis gross profit in the first quarter was \$486.8 million or 80.5% of net sales. This is an increase of 165 basis points compared to the first quarter of '07. The difference was primarily the result of foreign currency fluctuations coupled with country mix.

We've received several questions regarding the impact of higher commodity costs on our business, so I'd like to address this point proactively. While we are seeing cost increases on many commodities, on items such as soy, dairy products, resin and transportation, our hope is to continue to mitigate those costs going forward by implementing price increases in select markets, coupled with the pursuit of cost savings initiatives.

We do anticipate a 60 basis point degradation in cost of goods over the balance of the year from where we performed in the first quarter, again, primarily due to commodity cost pressures. Royalty expense in the first quarter was \$212.7 million or 35.2% of sales, reflecting an improvement of 28 basis points compared to last year. Normalized for China sales employee expense which, as you know, is recorded in SG&A, the royalty rate was essentially flat at 35.8% of sales.

On a reported basis, first-quarter SG&A was \$184.4 million or 30.5% of sales. Again, normalizing for the China sales expense, SG&A expense would have been \$173.5 million or 28.7%, an increase of about 12 basis points versus last year. The increase primarily reflects investments in distributor events and promotions coupled with a higher cost as a result of the weaker U.S. dollar.

First-quarter operating income was \$89.7 million or 14.8% of sales on a reported basis. When adjusting for certain items in the first quarter of '07 the increase was 53 basis points. First-quarter interest expense was \$3.8 million versus \$2.2 million in the first quarter of '07. The increase primarily reflects higher average net debt balance as we utilize our revolver to repurchase stock and invest in the business.

The weighted average interest rate on our debt was 4.07% as we exited the first quarter versus 6.82% in the first quarter of '07. On a reported basis our first-quarter effective tax rate was 27.4% primarily due to country mix reflecting the global entity structuring and planning of Herbalife. Net income on a reported basis was \$62.4 million in the order an increase of 36.4% compared to the adjusted first-quarter 2007 adjusted net income. First-quarter diluted earnings per share was \$0.93 compared to \$0.61 on an adjusted basis in the first quarter of '07 reflecting an increase of 52.1%.

Now let's turn to the balance sheet. We ended the first quarter with \$191 million in cash and \$337 million in outstanding debt. We were successful in reducing inventory by about \$2 million since December and, in terms of efficiency, our days on hand improved 12 days to 108 from December and our inventory turnover was 3.36% versus 2.91% in the first quarter a year ago.

In the quarter we invested \$25 million in capital expenditures primarily in support of our -- to improve customer service and significant investment in our Oracle ERP system. As a brief update on our Oracle rollout, the team completed a successful first-quarter milestone as planned and (technical difficulty) the plan was on time and on budget. We are providing second-quarter guidance for the first time and we are raising our full-year 2008 net sales growth and EPS rejections.

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For the first quarter - (see press release) we expect top-line growth rate to be in the range of 15 to 17% and diluted EPS to be in the range of \$0.89 to \$0.92 which reflects an effective tax rate in the range of 29.5% to 30.5%. Based on current business trends we are also raising our outlook for 2008, as Michael suggested. We now expect top-line growth to be in the range of 13 to 15%, up from 9 to 11% which we initially guided in February and full-year diluted EPS to be in the range of \$3.52 to \$3.57, an increase from the \$3.25 to \$3.30 which we also guided in February, which reflects an effective tax rate of 30.5% to 31.5% for the full year.

Please note that these estimates that we just provided exclude costs that we expect to incur throughout 2008 associated with our realignment for growth initiatives and also accretion resulting from any future share repurchases. This concludes our prepared remarks. We'll now open up the call for your questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Chris Ferrara.

Chris Ferrara - Merrill Lynch - Analyst

Can you talk about the gross margin expansion in the quarter, Rich? I know you're saying it's FX driven, country mix, but that doesn't seem to be new this quarter unless I'm missing something. So I guess like what was the incremental factor that happened in the quarter relative to the last couple that we've seen?

Rich Goudis - Herbalife - CFO

Chris, I think the material part, again, was FX because the dollar continued to weaken throughout the course of the quarter. And obviously you saw in the net sales -- 710 basis point improvement, our contribution from that year-over-year. So I think it's become a little bit more meaningful.

But additionally, we've been taking price increase in select markets. I'll give you the extreme. Venezuela, which is on our top 10 markets, we increased prices 20% in January. So we believe our pricing is very elastic, but we're very sensitive to price increases and we work with our distributor leadership to implement those when at the appropriate times, so that's also been a little bit of a tailwind to us here.

Chris Ferrara - Merrill Lynch - Analyst

Got it. Can you give a little bit more color on the new distributor growth rate, specially in Mexico? I think you said that you are facing tougher new distributor rate comps as the next couple of quarters move in. But when you talk about -- I guess the nature of the new distributors, are these people that have been in the business before and are coming back into it now that have left the business? Do you have any color into that to help us get a better idea of what it is going to mean for sales growth going forward?

Rich Goudis - Herbalife - CFO

Sure. I think you're specific to Mexico. Let me just reiterate, the new supervisor growth rate in Mexico in the first quarter was up 6%, and we had not seen an increase in that market given the transition that market went through and the stabilizing initiatives that went in last year. We hadn't seen an increase since the fourth quarter of '06. I think what Des was articulating

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was that as Mexico stabilized throughout the course of '07, as we progress now through '08, the new supervisor growth rate becomes a more difficult comp.

But I think most importantly for us and I think the positive of this is that new supervisor growth is a leading indicator for us. And again, without the Easter holiday having flipped between April and March, we think we would have probably been positive in the first quarter, and I think the leading indicator and the signaling I guess of the investment community is we're looking for very positive things in Mexico as we progress throughout the course of the year from a true volume and, obviously, net sales growth.

So these are the new supervisors. We don't know necessarily if they were in the business or not before, but these are new people who have come into the business. Primarily, these people are club operators and you know the stickiness and the retention rate of these clubs, which is a very healthy thing for our business with a real focus and balance on retailing, retention and recruiting.

Chris Ferrara - *Merrill Lynch - Analyst*

Got it. Thanks, guys.

Operator

Simeon Gutman.

Simeon Gutman - *Goldman Sachs - Analyst*

First, Michael, how do you weigh the reputational benefits from the whole resignation versus the effects that I think Greg had on the business? Then related to that, will all of his responsibilities be accounted for by Des? Is he assuming all of it? Are you considering at all looking at any internal or other external people to enhance the bench strength from here?

Michael Johnson - *Herbalife - CEO*

Well, Greg had a far-flung role in this company as you know, and the one area that is not going to be in Des's responsibility is the supply chain management, and Rich and I are sitting to work with that. We have hired an excellent new head of supply chain management recently, and that group is working very hard along with the IT group to implement a new program in a new place there. We are looking at a lot of options there.

Rich and the gentleman he has brought in named [John DeSimone] and I and Shankar who is the head of the supply chain are going to sit early next week and discuss exactly how we're going to handle that right now. It's status quo, it's working fine, there are no issues there, but that's just one area that would be too much to put on Des' plate with all of the other responsibilities that he has.

On the reputation side, you all know that Greg and I worked a long time together. There's no way to express the disappointment that both he and I feel about all this. I wish things were different, but they weren't. None of us knew about this issue and it's terribly unfortunate for everyone in here, but I have to run this company on the high road.

We set a vision mission and values statement for this company five years ago and many of the people who are us sitting with me here helped author that. It's something we believe in very strongly. I don't know what the reputational benefits are. I only know how to operate the way I operate. And what we have put in place is a philosophy and a practice that integrity rules the day in this company.

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We have constituencies here, employees, distributors and investors who are all equally important to us and it's impossible to make a decision in an ethics or integrity situation with anyone if you do make it with everyone. So you have to be consistent and you have to play the game with the rules the way that you've set them out and Greg understood that.

Greg and I had a long talk about this last week and he made a mistake and he feels terrible about it, but we have to take the actions and deal with the consequences. But we are very, very fortunate to have bench strength in this company. That is a huge accolade to both Greg's team building and what has taken place inside the Company.

Because Des, whether you know it or not, whether anyone on this call knows it, Des has been with us a long time. I purchased the Company when I worked at Disney, but Des came along with the deal. And what we found in there was this incredible executive and he's been with us ever since.

And I think, Simeon, you have relationships with distributors in this company and I invite all of you to go on an inquiry about that because when you query Des' credentials and his relationship with our distributors you're going to find a gold platinum rating all across the board. There will be exceptions because we're not universally loved, but what you'll find is great performance, great acceptance and the amount of the emails that I've had in the last couple of days in support of Des have been tremendous. They've been heartwarming and tremendous.

We'll go on, we'll get beyond this. This company is bigger than any individual, it's bigger than anyone. So we have a great opportunity to help people change their lives, a great business opportunity. We're getting bashed around a little bit by some outsiders right now; I'm not worried about that. We have a record quarter; we have great momentum in this company. Our financial fundamentals have never been stronger. Our reputation is going to continue to take us to a higher level.

And I frankly -- as sad as the events were last week we're in a new situation, the new situation has given me energy. So I've got a lot of energy coming out of this and I'm incredibly excited for Des. Not the circumstances in which it came, but we've always had our eye on Des as someone who's going to move up in this organization, he just moved up a little quicker than we expected. But he's ready and I'm excited.

Simeon Gutman - *Goldman Sachs - Analyst*

And on the topic of distributors, has -- I guess the entire Chairman's Club has come together via conference call I guess given some of the short notice. I'm just curious what the reaction is. And I imagine given the emotional nature of this business the energy level is high, but any observations you can offer?

Michael Johnson - *Herbalife - CEO*

Tremendous support from the Chairman's Club. We've heard from almost every single one of them on email. We'll be doing a conference call with them next week. We were going to do a call today that we usually do if there's a situation that we believe that needs dealing with and stuff, but the responses so overwhelming that we're staying with our regularly scheduled call which is next Tuesday.

And just so you know, we have a monthly conference call with our Chairman's Club that is at minimum three hours, they can go on. There are a lot of ideas that transfer, but Des runs those calls and he has for four years. He runs the Chairman's Club calls, he always has.

I worked with him very closely on those calls, but he runs our Chairman's Club meetings, he runs our Chairman's Club calls, he sets the agendas, he does the promotions, he works with the Chairman's Club, he works every event management with them, he's got that underneath him. So his contact with the Chairman's Club is more consistent and more frequent than any executive in this company.

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Simeon Gutman - *Goldman Sachs - Analyst*

Okay. And then operationally, can you give us an update on the direct to consumer platform that was being pioneered in the South America region? And then second of all, on the Internet sampling DMO, is that a controlled slowdown or is that something you just had expected and what's happening in that arena?

Michael Johnson - *Herbalife - CEO*

Let's start with the Internet. We will be rolling that out in Argentina late this fall, probably October is what we're shooting at right now. We have overwhelming support from the Argentinean President's Team distributors there to roll this out. We will test it.

What we do, Simeon, is when new ideas come across -- we're testing something in Russia right now that I don't want to say too much about, but it's kind of exciting for us. We're testing different things in different marketplaces and we pick markets where we think we can isolate the opportunity to have a fair test and then come back to the distributors and explain our results to them and see if they endorse or do not endorse the strategy forward.

As you know, two years ago or three years ago we implemented a 12-month requalification for non-royalty enjoying distributors and this has been a tremendous opportunity for us to keep customers into our company, not distributors building businesses, but customers. And so we've seen a retention rate of our supervisors go up quite a bit by this.

We're testing another idea that's based off that in Russia. Again, I'm not going to say too much about it because, first of all, I don't want to tip my hat to any of my competitors. And secondly, until this test finds its way through we won't be conclusive in what we're going to do.

So we're doing the same thing in Argentina with the direct to customer program. We've had a lot of different ideas on how this should work and how to make sure there's no channel conflict with distributors and it has distributor support. So once we test that and see then we'll come back to the leaders of the Company and say here, here's what it looks like and that's the way we operate. Simeon, I'm sorry. I forgot the other side of your question.

Simeon Gutman - *Goldman Sachs - Analyst*

The Internet sampling and the slowdown there, whether it's controlled or expected and what's just going on in there?

Michael Johnson - *Herbalife - CEO*

I'm going to let Des address that.

Des Walsh - *Herbalife - EVP*

So, thanks. So effectively what we're doing there is that we're sitting down with our Internet people and we're looking at ways whereby we can enhance that growth. In any situation where you've got sustained continued growth in an area eventually sometimes you literally level off and we see this leveling off. But our goal is to sit down with these people, we have them coming in with this in the next week or so and we're going to be sitting down with them to work out solutions for restoring growth there again.

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Simeon Gutman - *Goldman Sachs - Analyst*

Okay. And then last, for Rich, priorities as far as debt pay down, share repurchase. And I think heading into the year maybe there was a balance or maybe even a thought that that was probably the right way to go. But as much as you can update us on with the shares down here, what are your thoughts?

Rich Goudis - *Herbalife - CFO*

First, let's just -- the facts are we have \$65 million remaining in our current \$450 million authorization. We had a Board meeting yesterday and I will tell you it's a topic of discussion that Michael keeps alive with the Board as we look forward and especially with the free cash that we anticipate kicking off this year, even after a significant investment year.

We were in a blackout period over the last month or so and, as you know, in February/March -- I think we shared this with investors -- it's kind of a peak cash outflow month as we pay employee bonus, distributor bonus, quarterly dividend, quarterly tax payment. So I think we've gotten through that liquidity issue for those couple months. And you saw where we paid down \$30 million in debt, even on top of all of those payouts. So our open period opens on Monday morning and I think we'll update you accordingly on the second-quarter conference call in August.

Simeon Gutman - *Goldman Sachs - Analyst*

Okay, thanks.

Operator

Tim Ramey.

Tim Ramey - *D.A. Davidson - Analyst*

Good morning, congratulations. We were talking about the margin leverage from FX and is that related to the fact that a lot of your cost of goods is dollar-denominated, that you're selling around the world, or can you just expand a little on how that works to the margin as well as translation benefit?

Rich Goudis - *Herbalife - CFO*

Sure. Tim, nearly 70% of our volume worldwide is actually manufactured in the U.S. Europe is pretty self-contained where the majority of their volume is actually locally produced, so producing euro, selling for the most part in euro. The rest of the world is primarily, and without China where we have local production, the rest of the world we produce in dollars and sell in local currencies. And over the last couple months obviously the dollar has weakened against most of those currencies. So we saw a significant benefit in our gross profit in the first quarter.

Tim Ramey - *D.A. Davidson - Analyst*

And Rich, could you update us on what your currency hedge position is?

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Rich Goudis - Herbalife - CFO

We typically -- let's start with our philosophy of hedging. We typically look out a year and we try to protect at least 50 to 70% of our net income or anticipated net income exposure. We use different tools or vehicles and it would probably be safe to assume that those hedges and those forwards, what have you, went into place during March. So effectively any weakness from the dollar from that point on you probably are not going to see.

Tim Ramey - D.A. Davidson - Analyst

Okay. And Michael, not to beat a dead horse on a share repurchase, but the Board has been remarkably prescient on the stock, rejecting a \$40 bid last year for the stock and buying the stock very well in the fourth quarter of last year for the Company. If it was a topic of discussion was it not a topic of action just because you had the \$65 million or can you give us some more detail on that?

Michael Johnson - Herbalife - CEO

What we did is we discussed it in the audit committee very carefully and when we got to the general Board discussion we decided to pick it up after the \$60 million. So we're going to continue the discussion with them. And just as one note, it was \$38 that the bid was put in at, not \$40. And I agree with you, they have handled themselves very well, our Board has, through all of this.

Tim Ramey - D.A. Davidson - Analyst

Thank you.

Operator

Scott VanWinkle.

Scott VanWinkle - Canaccord Adams - Analyst

Thanks, congratulations. Michael, you mentioned how Probert's responsibilities are being assigned. What about the responsibilities -- or I should give this directly to Des. What about Des' responsibilities prior to taking on the incremental role?

Michael Johnson - Herbalife - CEO

As I said, Des has got a full plate right now. I'm going to let him address that. We have spoken -- we foresaw this issue very early, not early but just over the weekend. Des and I have spent a lot of time together and discussed this through the beginning of the week, and we are reorganizing, he's reorganizing his group and taking some responsibilities and moving around.

Fortunately he inherits -- and I should let Des speak to this -- a very capable group of executives who -- and Greg's style was to put very high-quality people in and let them run. So there wasn't a lot of day-to-day oversight on these people. So there wasn't hours and hours spent every single day dealing with Wynn Roberts so dealing with Bill Ron or Anita in Mexico.

So what is -- the styles are a little bit different. I actually think Des will probably be a little more consistent with the communication. I don't mean that in a negative way in any way, but he'll probably be a little more up close and personal with them. So Des, I'm going to drop that in your lap.

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Des Walsh - Herbalife - EVP

Sure, Michael. Scott, here's the situation. Scott, we've actually had an initiative in the Company for quite some time whereby individuals identify their successors. So we actually have a succession plan in place for all key positions. And so in this instance, although obviously the change was unexpected and sudden, rest assured that I'm already having discussions with people who I had identified as potential successors and we're going to have a very smooth transition.

Scott VanWinkle - Canaccord Adams - Analyst

Great, thanks. And on the Easter shift, talking about certainly the Hispanic side of the business, and I certainly understand that nutrition clubs will be negatively impacted by Easter falling into the month of March. But I wonder about the rest of business that's not Easter -- sorry, that's not a daily consumption type of model where you have kind of a repeat, maybe a monthly reorder type of business. I wonder is there any impact on that side of the business from an Easter shift and what do we see coming into April when we have a favorable comparison?

Rich Goudis - Herbalife - CFO

If you're specifically talking about Mexico, as you know, the majority of the Mexican business has converted over the last few years to the club model. So we would probably say somewhere near 70 to 75% of the business is club oriented at this point in time. So we're looking at April trends and I would say that obviously our guidance reflects and the move up in guidance reflects the positive trends we're seeing.

Scott VanWinkle - Canaccord Adams - Analyst

I was thinking more specifically to the U.S. where I guess almost 40% is non-Hispanic. Did you see the same type of impact in March in that business?

Rich Goudis - Herbalife - CFO

No, I think Des had a good comment there we talked about really the penetration opportunity. We're going through a major conversion in that non-Latino business. And I think the indicator that it's starting to work is by looking at the top metro markets. I think Des indicated that that market for the non-Latino was actually up 6% where the rest of the market or the overall non-Latino was down. So we're still seeing the beginning of success, much like we are seeing in Brazil, that as these folks convert their business model they're able to post very strong numbers.

Scott VanWinkle - Canaccord Adams - Analyst

And Rich, on your tax rate guidance, is that a cash tax rate or just an accrual just from the standpoint of getting an idea of free cash flows?

Rich Goudis - Herbalife - CFO

No, use it as a cash tax rate, Scott.

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Scott VanWinkle - *Canaccord Adams - Analyst*

Thank you.

Operator

Karen Howland.

Karen Howland - *Lehman Brothers - Analyst*

I was wondering if you could give an update. I know you now have the direct selling license in the Jiangsu province. I was wondering if you could talk at all about how trends in that market of China have compared to the rest of the Chinese market where you just have the retailing.

Rich Goudis - *Herbalife - CFO*

Karen, for obvious competitive reasons we have not articulated any particular region's velocity or growth rate. It might be something we consider as we get more broadly distributed with direct selling licenses across many of the markets, but it's something for competitive reasons we choose not to share.

Karen Howland - *Lehman Brothers - Analyst*

Is it reasonable to think that it's accelerating faster or you just don't want to comment at all?

Rich Goudis - *Herbalife - CFO*

I think it's reasonable to assume it's growing at a very strong clip. Obviously the direct licenses -- or the direct selling licenses allow the sales employees to sell away from a fixed location, which you could imagine gives them potentially more upside.

Karen Howland - *Lehman Brothers - Analyst*

Great, thank you. Also, I was wondering if you talk a little bit about the growth that you saw in South America. I know there are several markets, Peru, Bolivia, that are relatively new markets and presumably are seeing a significant ramp up. I was wondering if you could talk at all -- how much of that growth was in fact new markets compared to existing markets seeing continual growth?

Rich Goudis - *Herbalife - CFO*

Let me start with the first, there were no new markets open in South America so it's all organic in that regard. I think obviously we've had very strong growth in Venezuela, Bolivia, both triple digits, but I think the underlying, what's really helped us is that Brazil continues to improve, probably a little bit faster than we had articulated over the last six months. And I'll give you just one fact point.

If you look at the growth rate, and I think Des spoke to this, but in volume point terms we were down 2% in the first quarter. But that's a significant improvement where in the fourth quarter we were down 16% and in the third quarter last year we were down 18%. So we've gone in just the last three reporting periods from down 18%, down 16% and down 2%.

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So clearly there's a strong momentum building in Brazil and I think it's really reflecting the conversion to clubs where I think that group was up 20 odd, 21% in the quarter. So I think it's a really well-balanced story throughout South America.

Karen Howland - *Lehman Brothers - Analyst*

And then the SG&A growth that you saw this quarter, I know a lot of that was based on extravaganzas that you had in place. Do you expect it to continue to grow at a similar rate throughout the year or do you think the first quarter was a little bit higher than your normal run rate?

Rich Goudis - *Herbalife - CFO*

Well, I think the FX impact, which is about one-third of the dollar growth rate, will continue. The lumpy part is event related and we did invest significantly in the first quarter in events. So that was a little bit lumpy. And for you, you can check with Erin if you'd like, to maybe better dial in your model as for the lumpiness and timing of events. And then the last third was -- some of it was timing but some of it was also increases as it relates to just overall inflation, etc.

Karen Howland - *Lehman Brothers - Analyst*

Great, thanks for that additional color. I wanted to say congrats to Des for his new responsibility. Unfortunately it had to happen this way, but I'm sure you're the right person for the job.

Des Walsh - *Herbalife - EVP*

That's very kind, thank you.

Operator

Rommel Dionisio.

Rommel Dionisio - *Wedbush Morgan - Analyst*

Good morning. A couple months ago you guys had talked about the plan to maybe move some of the production from Europe to the U.S. given some of the currency moves. That's I guess offset by increased freight costs given where oil prices are. But can you just talk about where you are with that plan and if you're still thinking about going forward with that in the second half of this year?

Rich Goudis - *Herbalife - CFO*

Sure, and Michael indicated earlier, we have a new Senior Vice President of Global Operations. And he is leading a team right now that is looking at a global strategy for our -- not only product sourcing, but also distribution, transportation, warehousing -- looks like only the landed cost. So that project is anticipated to conclude in June.

Concurrent with that we are looking at different initiatives that will help us accelerate reducing our landed cost. So I think more to follow, but I think directionally we're looking to get more -- potentially more vertical in our supply chain, control costs better, also control quality in our intellectual property. I think we haven't changed from that message in the last year or so.

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Rommel Dionisio - *Wedbush Morgan - Analyst*

Rich, assuming you come to some decision in June, would that be an '08 event or more '09?

Rich Goudis - *Herbalife - CFO*

Potentially. We're very opportunistic. We have a very strong balance sheet with cash available to invest. So we'll look at it very opportunistically, Rommel.

Rommel Dionisio - *Wedbush Morgan - Analyst*

Congrats on the quarter. Thanks.

Operator

Doug Lane.

Doug Lane - *Jefferies & Co. - Analyst*

Rich, to follow up on the previous question, just from where you sit today, do you expect SG&A to be higher or lower as a percent of sales this year?

Rich Goudis - *Herbalife - CFO*

Probably as a percentage of sales at about last year, maybe a little bit of improvement. Over the last couple years the majority of our leverage and improved leverage in the business has come out of SG&A. I think that we're on that trend with the exclusion that the strong FX benefit we're seeing at the top line is mitigating some of that leverage in the SG&A line at this point in time. That coupled with continued strong growth, triple digit growth in China.

Michael Johnson - *Herbalife - CEO*

Doug, it's Michael. I'm, as you know, the big pusher on the margin door. Both top line and bottom line are sacrosanct with me, volume and margin. I think our SG&A still needs some work. We will continue to push very, very hard on that door.

Doug Lane - *Jefferies & Co. - Analyst*

Right, I understand the pressure points. I just --

Michael Johnson - *Herbalife - CEO*

Rich is good, he's always cautious. I'm going to be a little more bullish on that.

Doug Lane - *Jefferies & Co. - Analyst*

Fair enough. And what do you look for for interest expense this year, Rich?

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Rich Goudis - Herbalife - CFO

Doug, I think you can use the 4%, 4.5% and assume some kind of an -- as far as an effective rate given where LIBOR is, etc. And I think you can -- depending on how your model is working. If you're assuming that we're paying down debt, obviously you can take down our net debt balance accordingly or you assume -- I don't know what your model is assuming as far as buy back or what have you. Use 410 to 425 as an effective rate and I think you're going to be close.

Doug Lane - Jefferies & Co. - Analyst

Okay. Michael, on previous calls you had talked about formulating a more detailed strategy for Eastern Europe and Russia, and I wondered, A, where does that stand and, B, does Greg's departure impact that timetable?

Michael Johnson - Herbalife - CEO

Greg's departure does not impact that. That's firmly in Wynn Roberts' camp there. And we have, as you may have heard earlier, we are testing something in Russia right now and, again, I'm not going to say what that is; I'll just tell you we're running a test on something. Our Eastern European numbers are picking up. Where Russia is up 64% right now, Poland is up 55%. So we're seeing some aggressive growth in those areas. We've got an excellent new general manager that we put into the -- she's based out of Poland for Eastern Europe. Very, very excited about having her on board. And so Doug, nothing has changed there.

Doug Lane - Jefferies & Co. - Analyst

Okay, good. And then lastly --

Michael Johnson - Herbalife - CEO

Other than the growth.

Doug Lane - Jefferies & Co. - Analyst

Right. And then lastly, Rich, can you update us on the Oracle conversion and, in that context, what you look forward for capital expenditures in 2009?

Rich Goudis - Herbalife - CFO

Let's just walk through -- it's our major CapEx investment this year, let's say maybe even half of our capital expense that's in our guidance is Oracle. We have major milestones coming up. Right now the U.S., Peru, Canada are all on Oracle. In Mexico we roll out -- Mexico and Central America rolls out at the end of June. So by the end of June 50% of the business is on Oracle.

In September Oracle rolls out into South America. In November it rolls out into Asia with the exception of China. And then we kind of take a hiatus, get through year-end, get through our distributor recall. And then in March of '09 we roll out to the Oracle platform into our EMEA market. So I think the acuteness of spending really from here is over the next 12 months and I would think it tapers off significantly after March/April of '09.

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Doug Lane - *Jefferies & Co. - Analyst*

Okay. So full year '09 should be meaningfully less than full year '08?

Rich Goudis - *Herbalife - CFO*

Exactly.

Doug Lane - *Jefferies & Co. - Analyst*

Okay. Thank you.

Rich Goudis - *Herbalife - CFO*

You're welcome.

Operator

Chris Ferrara.

Chris Ferrara - *Merrill Lynch - Analyst*

Thanks for the follow-up. Can you guys talk a little bit about what kind of penetration assumptions that you're using for the U.S. to get to continued double-digit growth? I guess you said -- I would understand if you used L.A.'s penetration level that it's going to be a pretty big number, but how are you thinking about both the Latino and the traditional demographics?

Rich Goudis - *Herbalife - CFO*

We talk volume points per capita and that's kind of our benchmark and we talk it internally and we actually talk it with our distributors. So I don't want to disclose to you what we believe is what the opportunity is. Suffice it to say that the data we did share with you where we look at our top 25 metro markets, I think that's indicative that in both cases, both the Latino and the non-Latino respectively, the growth in our top 25 metro (technical difficulty) markets is stronger than the growth nationwide.

So suffice it to say that we think not only is there ongoing penetration opportunity in those top 25, but more importantly probably even more penetration opportunity outside of the top 25. And that's why initiatives like AYSO are significantly important to us because it's such broad reaching and it gets us into so many and small markets. And from that I'll pass it over to Des if there's any other color on that matter.

Des Walsh - *Herbalife - EVP*

So, Chris, as you know, this is a business based on confidence and excitement. So within our non-Latino group our key focus now is on the metro markets that are up 6%. And what we do essentially is that we highlight the activities, the DMOs, the things that our distributors are doing in those market so that those distributors in those parts of the country which are down at the moment, that they can look at those markets and say, wow, you know something, it's not an overall U.S. situation. It's not an overall non-Latino situation.

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There are areas and markets within the non-Latino community where there's gross growth and if we get them then we encourage them to adopt then that same philosophy and derive their confidence from that. So that's why that's essentially what we do around the world. It's been a consistent formula and obviously we're supplementing that then with some of these new emerging ideas that are creating such excitement. And specifically the adoption of commercial nutrition clubs with our non-Latino distributors and then this other new emerging idea that we're very excited about called the Weight Loss Challenge.

Chris Ferrara - Merrill Lynch - Analyst

Got it. And then can I just ask again about the South American region? I mean, given that for the quarter I guess it contributed about 55% of your local currency top-line growth and obviously three big standout markets you called out in the release -- Venezuela, Bolivia and Peru. Can you give a little context around how big those markets are and how much of the growth of the region those three contributed?

Rich Goudis - Herbalife - CFO

Sure. Of those markets the only market of those that's in our overall company top 10 is Venezuela. I think from that standpoint I think Venezuela's net sales were just about \$25 million. Actually -- and Brazil. Brazil was about \$36 million. So those are the two driving markets from a volume standpoint. But again Bolivia, Bolivia was up triple digits. Obviously from a small base, but up triple digits. And Peru which we opened a year ago was up also triple digits. Again less than half the size of let's say a Venezuela market, but still very good balance.

If I look at Argentina, Bolivia, Chile, Colombia and Peru, let's say they are all less than \$12 million, but they're all -- it's a horse race and I think our leadership does a great job of distributing a lot of the great DMOs down there so there's tremendous balance and it's very strong unified leadership. I think that's what's really the success story in South America.

Chris Ferrara - Merrill Lynch - Analyst

I'm sorry if you've said this before, but what's the DMO that's prevalent in those high-growth markets?

Des Walsh - Herbalife - EVP

Chris, this is Des; let me respond to that. The wonderful thing about what's happening in South America is that it's based on all DMOs, there is no one single DMO that's driving the growth. In fact, for those of you who were in Singapore, we actually had a training session which we referred to as the secret of South America. And we had four of our distributor leaders all from different markets represent the pillars upon which the growth in South America is based.

And one of those pillars was the (technical difficulty) respect for all DMOs and what they trained on was the fact that everything works as long as the distributors are working. And so that's the key message of South America, that message everything works and secondly that unity is the key to success. And it was really interesting because we actually had a very successful Herbalife family foundation auction where we raised I think 600 --.

Michael Johnson - Herbalife - CEO

I was going to -- I'm going to steal this story from Des because actually Des and I were standing next to each other when we kind of conjured this idea up. And at the Herbalife Family Foundation we decided to auction off what we call the four tenors. There are four President's Team members in Latin America and now they're Chairman's Club members, two of them are Chairman's Club members -- two or three. Two are Chairman's Club members and they got together and basically said we have to unify the Latin American team.

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So we set up a calendar, we set up a program and we look at actual results and we embrace all business methods. And so there was an auction of these four people going around -- that they would come to your market and work with your leadership, these are four distributors, and what did we get for that? We got a lot of money for that. It was the largest auction item of the night. I think it surpassed actually something with me, so that was an egotistical downfall.

But I was very proud to see our distributors get so excited about that, generate the charity, but also generate to building their business. So it's very exciting what's taking place there.

Chris Ferrara - *Merrill Lynch - Analyst*

Just a quick follow-up to those comments. What's the direct selling market like in those high-growth countries? Is this a live vibrant large market and are you just relatively new entrants to it? And how much did your marketing activity play a role in that enormous growth that you saw near term?

Des Walsh - *Herbalife - EVP*

Chris, there's no one single factor, it's all building blocks. I think you start obviously with the tremendous distributor leadership that we have in that region which is just extraordinary. Then you add the unity that they have, you add the broad based DMOs. And then you throw in things like the addition of the Galaxy because, as you know, soccer is a huge issue in that part of the world. So the visibility, the confidence in the name Herbalife. So all of those things played a factor.

Those markets are strong markets for direct selling. But I think in the vast majority of them, with the exception of Brazil, we probably are top of the group in that. But overall I think it's just a combination of all those factors that have led to the extraordinary growth.

Chris Ferrara - *Merrill Lynch - Analyst*

Thank you very much.

Operator

Karen Howland.

Karen Howland - *Lehman Brothers - Analyst*

Just one more follow-up question just so we wouldn't be surprised in the second quarter. I know the second quarter of last year North America was exceptionally strong as far as growth, up 30% or so. Second-quarter growth in North America, is it reasonable to assume that it will be lower than that 13.5% growth that we're seeing in the first quarter?

Rich Goudis - *Herbalife - CFO*

I don't know if I would say it's reasonable to assume that. I think our guidance reflects a double-digit let's say midteens'ish type of year for North America and specifically the U.S. We don't want to get into one quarter at a time.

Karen Howland - *Lehman Brothers - Analyst*

Okay, great. Thanks.

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Michael Johnson - *Herbalife - CEO*

Are we through with questions?

Operator

Yes, there are no further questions.

Michael Johnson - *Herbalife - CEO*

All right. Well listen, I want to just thank everybody for being on this call. Obviously this has been an emotional week for the leadership of this company and for this company itself. But there's an old [Mark Q] saying that the more interesting the situation the bigger the problem the bigger the opportunity for a bigger check in this company.

And our distributors are incredibly resilient to change. They are opportunistic. They are unbelievably positive. They have already come together -- just on this call -- I've got my email in front of me. I've gotten four more Chairman's Club members, incredible support emails towards Des, towards the Company, the confidence that they have in what's going on.

We have incredible top-line growth. You know my two fanaticisms in this company are volume and margin. Our top-line growth is unprecedented, our profitability is unprecedented. Our financial strength by accelerating new leader sales trends, global business with a currency tailwind that's happening in our company, this is a tremendously good business model in spite of any outside skepticism.

We continue to drive margin expansion. It's a model that generates tremendous free cash flow which allows us to optimize our capital allocation. This company will continue with strength, we will continue with momentum, we will continue with courage. We're helping people lose weight, live healthier more active lives and the world is an opportunistic market for us right now.

So I'm confident about our future, I'm excited about the prospects of Herbalife today, tomorrow and deeply into the future. We have a dedicated team here of great bench strength and I just want to thank you guys for your support. I think our value right now in the marketplace is unprecedented. So thank you all very much. We continue to work for you, for your shareholders, for our distributors and employees with great enthusiasm. Thanks.

Operator

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

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