

**Herbalife International of America, Inc**

**Moderator: Brett Chapman**  
**May 3, 2011**  
**8:00 a.m. PT**

Operator: Good morning, and thank you for joining the first quarter 2011 earnings conference call for Herbalife Ltd. On the call today is Michael Johnson, the company's Chairman and CEO; the company's President, Des Walsh; John DeSimone, the company's CFO; and Brett Chapman, the company's General Counsel. I would now like to turn the call over to Brett Chapman to read the company's Safe Harbor language.

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

In addition, during this call, certain financial performance measures may be discussed that differ from comparable measures contained in our financial statements prepared in accordance with U.S. generally accepted accounting principles, referred to by the Securities and Exchange Commission as non-GAAP financial measures. We believe these non-GAAP financial measures assist management and investors in evaluating and 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](http://herbalife.com), to find our press release for this quarter, which contains a reconciliation of these measures.

Additionally, when management makes reference to volume during this conference call, they are referring to volume points. I'll now turn the call over to Michael.

Michael Johnson: Thanks, Brett. Good morning, everyone, and welcome to our first quarter earnings call. You know this has been a tremendous quarter, we achieved the three highest volume months in the company history, and as you read in yesterday's press release, we had a strong quarter across every geographic region of our business.

Let me start this call by recapping some of our key performance statistics included in our release. Record volume points of 902.2 million, up almost 22 percent over 2010. Record net sales of 795 million, a 29 percent increase over the prior year. Record earnings per share of \$1.41 on a reported basis, and adjusted earnings of \$1.43. Double-digit year-over-year increases in volume points in all six of our regions, a 21 percent increase in active average sales leaders over the prior year. Free cash flow after dividends and capital expenditures was approximately \$64 million for the quarter.

Our shareholders approved a two for one stock split, and our board declared a post split of 20 cents per share quarterly dividend. And we are also pleased to announce that Carole Black and Michael Levitt joined our board of directors. Carole is the former President and Chief Executive Officer of Lifetime Entertainment Services, a multimedia brand for women, which includes many Lifetime networks. She has served as director of Time Warner Cable, Inc. since July 2006.

Michael is the Chairman and Chief Executive Officer of Stone Tower Capital, LLC, which he founded in 2001 as an alternative investment management firm. Carole's and Michael's experiences as chief executive officer adds depth of knowledge to our board.

The reason for our success in this quarter and every quarter is very clear, it's our products and our distributors. Our distributors are highly engaged and confident in the company. They are building sustainable businesses with long-term customers using the products every day. They're holding more

meetings than ever before, bringing more new people into the business, and retaining them at a higher rate than ever. Let me remind you of our 2010 retention rate of 48.9 percent, which is up from 27 percent in 2002, and which we believe is the highest in our industry.

In March, 1,500 highly engaged and confident distributors, our most active leaders from around the world, attended our 2011 Herbalife honors and (Markue's) bonus award event here in Las Angeles. In addition to participating in training and leadership meetings, they experienced the inaugural tours of the new Herbalife innovation and manufacturing facility, it's a very exciting introduction of our new sports line, Herbalife 24; presentations from our Herbalife nutrition institute top doctors and scientists; our taste of the future preview of the latest in product and technology, including our social media site, Herbalife (change).

Our Herbalife Family Foundation, (Galla), raised nearly a million dollars for our worldwide cost of Herbalife program. And on the (Markue's) bonus award evening, we awarded \$41.3 million in bonuses, and recognized the recipient of this year's Herbalife Family Foundation humanitarian of the year award.

Now let me give you more details on a few of the key initiatives and projects we previewed with our top distributors at honors.

First, let's talk about the product. During honors, the tours of our Lake Forrest manufacturing facility were a resounding success. We've raised the bar in the supplement industry by demonstrating this so clearly in our (HIM) tours, we're giving our distributors tremendous confidence and pride in our scientific substantiation ingredients and manufacturing processes. The tour were such a hit that in addition to holding a regular schedule of tours in Lake Forrest, we're modifying our manufacturing facility in (Suzo), China, in order to hold tours there. And we're also creating virtual tours online.

At honors, our distributors were also very excited about the upcoming launch of our revolutionary new sports product line, Herbalife 24. Herbalife 24 is designed to meet the high-end nutritional needs for the 24-hour athlete, such

as those on our Herbalife sponsor teams around the world. One hundred percent of the product lots will be tested by an independent lab, and every canister will carry the (BSCG) symbol, so professional athletes can be confident there are no banned substances.

The product packaging will also have QR codes, quick response codes. Which when scanned by an enabled phone or device will link to a video explanation of the product science and benefits. While all of our products excite us, this new line of (seven) new products is truly revolutionary, and we believe Herbalife 24 will redefine sports nutrition. Athletes are athletes, 24 seven, and while you be hearing much more about Herbalife 24 in the months to come, we already have more than 300 athletes ranging from weekend warriors to elite professional athletes who have been beta testing the products. A response from them, as well as from our sponsor team, has been tremendous.

We're introducing Herbalife 24 in the U.S. starting later this month, and we'll feature and sample Herbalife 24 at U.S.-based events, including this month's tour of California and the Indianapolis 500. And stay tuned for more announcements coming real soon.

In the area of product development and scientific leadership, we are very pleased to announce yesterday the addition of a very talented and experienced individual to lead our outer nutrition product area, Dr. (Paulo Giakamoni), who has joined us as Vice President of our Worldwide Outer Nutrition. Dr. (Giakamoni) spent 13 years with Estee Lauder, where we most recently served as executive director of research, overseeing scientific research and communications for the Clinique line, and playing a leading role in the development of multiple products, including new technologies to the marketplace, and spearheading concept formulations.

Prior to Estee Lauder, Dr. (Giakamoni) was with L'Oreal for 13 years, first in basic research, and then in product development. He has a PhD in biochemistry, a Master's degree in physics, holds several patents, and has over 100 scientific studies published in the areas of biochemistry, cellular biology, photo biology and skin aging.

You know continuous improvement is the name of the game for us in every area. And as we mentioned earlier at honors, we had training from our leaders on the business methods creating success. Des will be – going to tell you a lot more about that.

And we also acquired a social media site call (Ichange) that will support business building online. The (Ichange) system makes it easy for our distributors to offer nutrition information to a large number of customers, both within the new Herbalife (Ichange) site, and across other forms of social media, such as Facebook and Twitter.

Customers get access to free coaching from distributors, and access to nutritional tracking tools to help them achieve their goals, available at anytime and anywhere through their mobile device or a computer. It's a powerful set of tools to help our distributors develop these types of relationships online, and leverage their own social online networks.

And Herbalife and (Ichange) are a perfect strategic fit, Herbalife is the original social network, our distributors have been helping people personalize their nutrition programs since 1980.

Starting next week, we will have about 500 early adopter distributors in nine countries, beginning to work with our customers on Herbalife (Ichange). We plan to open up access to all distributors in the early adopter markets, and begin the first group of non-English pilots in July. We are also constantly working to expand the branded image of Herbalife around the world, often through the sponsorship of athletic events, teams or athletes. Together with our distributors, we sponsor more than 200 teams, athletes and events worldwide. And our distributors are taking an increasingly active role in their local market sponsorships and community service activities.

Our products are more relevant for today's consumers than at any time in our 31-year history. And the unique design of distributor compensation system provides a financial remuneration that rewards hard work and success. Our distributors continue the globalization of daily consumption business methods that are enabling more distributors to be successful with Herbalife than ever

before in our history. Our retention levels have never been higher, and more distributors are achieving new levels within our marketing plan than ever before. Our brand and image, they're gaining strength, and the strategic initiatives being launched lead us to believe that the momentum in our business will continue.

We're just getting started. In fact, several of us are heading to Bangkok tomorrow to present at our Asia Pacific extravaganza, where we expect more than 25,000 people, our largest regional event ever.

Now let me turn it over to Des for some specific market updates.

Des Walsh: Thank you, Michael.

The momentum we are seeing in our business is driven by two key forces, our distributors' commitment to expanding daily consumption business methods around the world, which helps create a long-term stable customer base, and the continuing commitment of our distributors to Herbalife's mission for nutrition.

We continue to see the expansion in daily consumption business methods as a primary driver for our distributors' businesses and Herbalife's growth. We believe the momentum behind this evolution will continue to accelerate, as more distributors in more markets have success acculturating daily consumption business methods to their markets.

As we enter 2011, we began to discuss where distributor leadership, the idea of what we call TLC, and how working to implement this concept throughout their organizations can help drive sustained growth and success. Let me give you a brief overview of the TLC concept.

T is for trainings, constantly reinforcing the systematic and continuous training as the means of helping every distributor further their understanding of the basic tenants of the Herbalife business opportunity and products.

L is for locations, wherever the distributors are conducting their businesses, whether nutrition clubs, offices, lifestyle centers or on the Internet, we are

seeing that there is a special dynamic where distributors create a sense of community, and where product and business opportunity, training and testimonials can be shared.

C is for consistency of meetings. Meetings are one of the driving forces behind our growth, and are part of the core philosophy of Herbalife. Community, or the social element of our business, is critical to maintaining engaged, knowledgeable distributors.

Our metrics have long illustrated to us that distributors engaged in consistent meetings, city by city, are much more likely to be retained and grow profitable businesses. In the first quarter of 2011, we were very pleased to see that the engagement that we have been discussing for the past several quarters has continued to translate into growth in local currency net sales, which were fairly evenly split between established and emerging markets.

The established markets category, which includes several of our oldest markets, for example, the U.S. and most of Western Europe, accounted for 49 percent of our local net sales, and increased 17 percent for the year. Volume in the established markets increased 14 percent for the year, as compared to the prior year period.

The emerging markets accounted for the remaining 51 percent of our local currency sales, and grew 33 percent for the year. Volume in the emerging markets increased 29 percent for the year, compared to the prior year period.

We remain very pleased with how balanced our growth is between the two groups, and are excited about the scale of the opportunities that we see to grow both wider and deeper simultaneously.

Now let me provide regional highlights and color on some key regions. The North American region had another strong quarter, posting 10 percent growth compared to the prior year period in both local currency net sales and volume points. New distributors increased five percent in the quarter. One of the measurements that we used to gauge distributor engagement, average active sales leaders increased 15 percent in the North American region, compared to last year's first quarter results.

For the quarter, U.S. net sales grew 11 percent, and volume points increased 11 percent versus the same quarter last year. Compared to the prior year period, new distributors in the U.S. increased five percent, and average active sales leaders increased 15 percent.

The growth in the U.S. continues to be driven by the expansion of daily consumption business methods. The engagement level of our U.S. leadership remains very high, with record attendance at meetings in cities around the country.

Moving on to Mexico, local currency net sales for the quarter increased 37 percent, and volume points increased 32 percent compared to the prior year period. For the first quarter, new distributors increased 38 percent compared to the prior year. We are very pleased to see average active sales leaders increase 23 percent for the quarter, compared to first quarter 2010.

We believe that Mexico is back to 2006 levels, and we believe that the distributor leadership together with improved product access are key factors in this success.

The Asia Pacific region continues to be a growth driver for the company. During the first quarter, local currency net sales increased 36 percent, and volume points grew 31 percent compared to the prior year period. For the quarter, new distributors increased 36 percent versus the prior year.

We believe the growth within the region continues to be driven by the expansion of daily consumption business methods, and the high degree of distributor engagement. Average active sales leaders increased 27 percent in the quarter.

For the past several quarters, we've been discussing our excitement about the growth we are beginning to see in India. Well, India was again a highlight in the first quarter, posting volume point growth of approximately 154 percent compared to the prior year. The Herbalife business is taking root in multiple states throughout India, and we are working diligently to ensure that our infrastructure continues to be capable of supporting this level of growth.



Local currency net sales in the South and Central America region increased 28 percent, and volume points in the region were up 24 percent in the quarter. Average active sales leaders in the region increased 14 percent over last year's first quarter. New distributors increased 10 percent for the quarter, compared to the prior year period. Regionally, we believe that our distributor leadership continues to see the benefits that daily consumption business methods can bring to their markets.

Within the South and Central American region, we need to mention the strength we are seeing in Brazil. Brazil experienced volume point growth of approximately 28 percent in the first quarter, as nutrition clubs as well as our traditional business methods experienced growth. In Brazil, we are regionalizing our sales support team so they can be closer to their distributors, and provide improved aid to distributors in their markets around the country. We are taking our business down to a more localized level using a city by city approach. We are very excited about the opportunity we believe exists in Brazil, and our distributors in this market are just beginning to scratch the surface of the real market opportunity.

Turning to EMEA, this is a region we are seeing the growth of daily consumption business models with distributors focused on the creation of long-term customers. During the first quarter, local currency net sales increased 18 percent, and volume points in the region grew 15 percent compared to the prior year. New distributors for the first quarter increased 19 percent over the prior year period, average active sales leaders in the region improved over the course of the year, and were 12 percent up in the quarter as compared to the first quarter 2010.

We are pleased to see the U.K. continue to gain traction with the weight loss challenge concept, and the Nordic countries are seeing growth with distributor offices which they call lifestyle centers.

Within EMEA, Russia continues to raise the bar on performance, and is now a top 10 country for us. While we do not usually talk about country-specific results, Russia deserves to be highlighted. Compared to the first quarter 2010,

this quarter's volume points were up approximately 75 percent, with an almost 50 percent increase in new distributors. New sales leaders in the market increased more than 100 percent with a greater than 40 percent increase in average active sales leaders.

As we have told you on previous calls, Russia is the market where we initially tested the marketing plan changes that we rolled out globally in October 2009. Russia is the market with the 12-month sales leader qualification in place the longest. And we continue to be very pleased with the changes we are seeing in the business as a result.

We continue to believe that Russia has the potential to be a significant market for us. The longer qualification process has been a game changer in Russia, and we believe that the success we see in this market could be a leading indicator as to what we may experience in other markets as the 12-month qualification takes root around the world.

Given the degree of sales growth, coupled with the logistical challenges of accessing product in a country as vast as Russia, we are expanding our number of sales centers throughout Russia this year, and adding the necessary infrastructure to support the anticipated growth.

Now let's turn to China, where our local currency net sales increased 36 percent, and volume points increased 28 percent in the first quarter compared to the prior year period. We believe our sales leaders in China are making progress at (cultivating) the concept of daily consumption. We are seeing clubs open in locations more like those that have been successful and duplicable in other markets. While we are very pleased with the progress of the business in China, we remain cautious about expecting too much too soon from this market. We are focused there on building a sustainable business on a solid foundation of long-term customers.

As we have been discussing with you for the past several quarters, we believe there is an ongoing transformation within our business. The daily consumption model that has taken hold in some of our largest markets, and continues to expand into more of our existing markets every day, a fascinating

aspect of the growth in daily consumption is the various forms it is taking on around the world. Nutrition clubs are just one iteration of daily consumption business methods that Herbalife distributors are successfully leveraging around the world.

While we talk about the localization of daily consumption across the globe, it is important to understand that we believe we are in the early stages of its growth in most of our markets.

In closing, let me take this opportunity to thank our distributor leadership for a great start to what we believe is going to be an excellent year. Now let me pass the call over to John to review the financials.

John DeSimone: Thank you, Des.

Our financial results for the first quarter are reflective of the broad strength in the business as discussed by Des and Michael. Yesterday, we reported net sales of \$795.1 million, an increase of 28.5 percent, compared to the \$618.6 million reported in the first quarter of 2010. This reported growth of 28.5 percent was comprised of local currency net sales increase of 24.7 percent, plus a 380-basis-point benefit from foreign currency.

Since Des has already discussed our local currency net sales and volume growth in great detail, I'll move on to margins. For the quarter, on a reported basis, gross margin was 220 basis points better than Q1 of last year. However, last year's results were significantly impacted by the implementation of hyper inflationary accounting in Venezuela.

On a normalized basis, excluding this one-time prior year item, gross margin was comparable to Q1 2010, improving by 18 basis points.

On a side note, the company's new manufacturing facility in Lake Forrest, California was a little behind schedule in ramping up production in Q1, and was very slightly dilutive in the quarter. However, in April, volume more than doubled and represented approximately 20 percent of worldwide inner nutrition production for the month.

Moving on to SG&A, as a percentage of sales on a reported basis, SG&A improved by 269 basis points, of which approximately two-thirds of the improvement resulted from last year's one-time charge relating to Venezuela.

On a normalized basis, SG&A improved by 85 basis points. This variance was primarily a result of operating leverage from sales growth. There was no material impact from foreign currency transactions and hedge gains and losses as a – approximately \$2 million of losses recorded this quarter compared to about \$1 million in losses compared to the same quarter last year. Operating margin on a normalized basis improved by approximately 130 basis points. This improvement was primarily a result of the previously discussed changes in gross profit and SG&A. Additionally, currency had a positive 20-basis-point benefit to operating profit.

Turning to earnings per share, the company reported EPS of \$1.41 for the quarter, and adjusted EPS of \$1.43. The difference between the two items relate to a one-time write-off of unamortized debt financing costs resulting from the company's prior credit facility that was replaced in Q1 of this year. The adjusted earnings of \$1.43 was 45 cents higher than adjusted 2010 Q1 results, and 22 cents better than the high end of our guidance range provided in February.

The majority up side from both comparisons was the result of stronger than expected sales growth in many markets. Additionally, a slightly better effective tax rate benefited the quarter by two cents, in comparison to both the prior year and to guidance previously provided.

With respect to cash flow, during the quarter, the company generated cash flow from operations of \$107.5 million, an increase of 23 percent versus the comparable quarter in 2010. We paid \$14.8 million in dividends, and invested \$28.3 million in capital expenditures. Additionally as announced on March 9th, we replaced our prior credit facility with a new one that provides 75 percent more capacity. This new facility wasn't announced until the end of the open trading window, and as a result of this material information not being public, we were prevented from repurchasing shares during the first quarter.

I'd now like to discuss our guidance for 2011, both Q2 and full year. Our guidance figures are based on exchange rates as of the end of Q1, consistent with prior practice. Since the end of the quarter, the dollar has weakened a bit, but keep in mind that 62 percent of this year's euro exposure is hedged at \$1.35, and so we don't get the full benefit of the strength of the euro this year. For the second quarter, which is our most difficult comp for the year, we expect volume point growth of 10 to 12 percent, and net sales to increase by 19 to 21 percent, compared to the strong results reported in last year's second quarter.

EPS on a presplit basis is expected to be between \$1.42 and \$1.48, and on a post split basis, EPS is expected to be between 71 cents and 74 cents. For the full year, we are increasing our expectations across the board. We expect volume growth of 12 to 14 percent compared to our previous guidance of eight to 10 percent. And net sales are expected to grow 18 to 20 percent, compared to the previous guidance of 13 to 15 percent.

In terms of EPS, we are raising our – the high end of our guidance on a presplit basis by 38 cents. We now expect full year presplit EPS to be in the range of \$5.54 to \$5.78. On a post split basis, our full-year guidance range is \$2.77 to \$2.89 per share.

Before ending the prepared remarks, I'll comment briefly on the pending stock split. As announced yesterday, the shareholders approved a two-for-one stock split. This decision demonstrates our confidence in the company's future. It also improves the liquidity of the stock, and makes the stock more accessible for distributors and consumers. The record date of the split will be May 10th, and the company's board of directors also approved a post stock split quarterly dividend of 20 cents a share to be paid on June 7th.

That ends the prepared remarks. We'll now open up the call for your questions.

Operator: At this time, if you would like to ask a question, please press star followed by the number one on your telephone keypad. Again, for any questions, please press star one.

Our first question comes from the line of (John Sanmargo) with Janney Montgomery Scott.

(John Sanmargo): Thanks. Good morning, and congratulations.

Male: Thanks, (John).

(John Sanmargo): Just a couple of quick housekeeping questions to start off with. What repurchasing expectations are currently in your EPS guidance for the year?

Male: So we're expecting – so when we – when we announced the share buyback a year ago, we contemplated \$200 million a year, and we have that 200 million in our guidance for the rest of this year.

(John Sanmargo): OK, thanks. And then on – for SG&A, 30.8 percent was obviously down a great deal despite the – despite the absolute dollar growth. Is there something structural that requires you to keep that – the growth in that spend level in line with your revenue growth? Or might you be able to sustain some leverage benefit at – given the current top line growth rates?

John DeSimone: So there is leverage in our business, we do – but we do have to spend both in front and behind of – behind growth. And our expectations – and I think we said this before, is to have a 20 percent – long-term 20 percent contribution margin on incremental sales growth, and that's what we're managing to.

(John Sanmargo): OK. How do we think about inflation and the relative value that your meal replacement shake has for consumers, versus maybe a more standard meal in emerging markets? And then you know maybe as part of that, if – have you taken your prices up on formula one, and do you have sense what's happening to the average club price point of a meal replacement?

Des Walsh: Yes, hi, (John), this is Des, let me answer that. So philosophically what we always want to do is ensure that our pricing remains consistent, or a little bit less than inflation, and that way we're always in a position to ensure that our products are competitive in the marketplace. In relation to the clubs, obviously what the clubs have done is given us the ability to reach a much

broader segment of the population to whom purchasing products on a monthly basis might not have been affordable in the past.

And where we have modest price increases, those are passed on in the clubs for the most part, but again, the philosophy is always to keep price increases generally at or slightly below inflation. That means we believe we will always continue to be price competitive in the marketplace.

(John Sanmargo): Got it. And so if I – if I – Des, if I seek three percent-ish pricing coming through – coming through your income statement, is that a – is that a decent proxy to think about maybe what the you know Indian consumer who's visiting his local nutrition club is facing in terms of Herbalife specific price increases?

John DeSimone: So, (John), this is John, I'll take that one. Our price increases are market specific, it's not a worldwide price increase when we take it. So it's based on inflation in a given marketplace. So if you see a piece of it coming through the P&L, it may be relating to one country, it may be relating to 10 countries.

(John Sanmargo): Sure, so then I guess same question, but you know worldwide, maybe take away the Indian comment I threw in there. I mean worldwide, are the – is the 35 or – percent or so of your volume going through clubs, is that you think two to three percent more expensive than it was a year ago today?

Des Walsh: You know it's difficult to say, (John), because what will happen is that individual distributors and individual countries will make a decision whether to pass on that price increase. So it's difficult to say across the board. In general terms, I would say it broadly follows, but it isn't necessarily automatic or immediate.

(John Sanmargo): That's fair enough, thank you. And then just one last one, and I'll stop monopolizing. If you could just comment, it seems like your body posture around seeking distribution – a distribution partner in India may be stalled from the – from three months ago last you spoke publicly. I was wondering if there's any updates towards trying to emulate the – all the success you've had in Mexico.

Des Walsh: Yes, no, (John), it continues exactly on track, it's a test in progress. It begins this month, and then just as we did in Mexico, what will happen is we're testing into a limited number of their locations initially assessing the impact, and then we'll make a decision then to expand it.

(John Sanmargo): Great, well thank you so much for your time, again, congratulations on a great quarter.

Des Walsh: Thank you.

John DeSimone: Thank you, (John).

Operator: Your next question comes from the line of (Doug Lane) with Jefferies and Company.

(Doug Lane): Yes, hi, good morning, everybody. Can you just talk about now that May is here, this is the launch for Herbalife 24. So can you give us an update on what the strategy is for Herbalife 4, and how you're going to integrate the distributor force into that strategy.

Michael Johnson: Hi, (Doug), you got me off my seat, it's Michael. You figured out how to get me on this call. Herbalife 24 is going through a soft launch until October. We are launching five products through the summer, and we'll be launching all seven products starting October 1st, we're doing it around a couple events that we're pretty excited about, which is the tour of California, we'll be doing a lot of sampling with distributors on the course. We will also do it to the Indianapolis 500 where we have basically a vendor-sponsored event taking place there with a lot of distributors coming. We have a wonderful spokesperson for us named (Townsend) Bell. We are going to make a pretty good size announcement here in probably the next three or four weeks about an event in the middle of the summer, and we'll be featuring possibly a few television ads this summer, but we'll see if we sign that event for sure, which will take place, as I said, in July and August.

The other thing is we have a lot of distributors, we have about 300 distributors and athletes who are on a beta test program for us right now, and we'll be – we are going to continue to monitor them. We're working with our young Dr.



(John Hise) and Dr. (Luige Graten) on monitoring and working with these athletes. We've gotten resounding positive input and testimonials from them so far. We've got a couple real wonderful products in this line that we're really excited about, and then we have a worldwide rollout that'll go – that'll take place throughout the world over the next year, we'll be launching it in Europe in October also – no, when did we launch in Europe, Des?

Des Walsh: Yes, at the event in September.

Michael Johnson: At the event in September, excuse me, in Barcelona. And we are also putting this in all of our teams throughout the world. We've worked with a nutritionist and the doctors and every team that we sponsor, and we got a resounding positive from all of them, and so we're bringing that product to their trading training and their training rooms right now. So we're very excited about this product.

(Doug Lane): And when do you envision it, Michael, in you know two, three years down the road here, and integrating it into your existing infrastructure?

Michael Johnson: Our – in manufacturing infrastructure?

(Doug Lane): And distributor network,

Michael Johnson: Well it'll be in – it'll be completely in our distributor network over the next year.

(Doug Lane): Oh, OK. As a – as a separate line, I guess, is it ...

Michael Johnson: Yes, it's called Herbalife 24, and it's for the 24-hour athlete, you heard some of the verbiage from me just a little while ago. And ...

(Doug Lane): Right.

Michael Johnson: ... that is – and that's – basically it's a line that is built for a high-end athlete, but that – there's going to be four or five products in that line that are going to have incredible off take, we believe, in everyday use. We're already hearing people incorporate it into their daily lives. We think this is a new opportunity for distributors and distributor recruiting, we think there's a lot of opportunity

in building into the you know personal trainer environment, as well as the high school athletes to build into a tremendous opportunity for coaches and teams there, parents of players. We – we're just real excited about what we see coming down the road here.

You know we're also manufacturing one of the products right now, we're running it in our facility down here in Lake Forrest.

(Doug Lane): OK, thanks.

Operator: Our next question comes from the line of (Chris Ferrero) with Bank of America.

(Chris Ferrero): Hey, thanks, guys. So just looking at the incremental guidance change for Q2 through Q4, right, the implied after you strip out the Q1 beat of your own expectations, right. I guess it looks like the incremental margin you're assuming on you know the incremental sales is a little lower than what we typically expect on a run rate, I think you guys normally talk about a contribution margin of 20 percent. So is the math right, is that right, and are there incremental investments you guys are contemplating as part of this guidance as you move through the rest of this year?

John DeSimone: Yes, well – (Chris), this is John. The 20 percent contribution is the longer-term contribution, and we exceeded that in the first quarter, and we actually exceeded that last year also. So when you – there is a little bit of incremental investment expected in the back half of this year to compensate for these two waves of growth we've seen, right, the second quarter last year, and of course the first quarter of this year. So when you look at the two-year contribution of incremental sales from '09 to '10, and then from '10 to '11, we're going to exceed that 20 percent.

(Chris Ferrero): Got it, thanks. And then I guess on a totally separate note, right, I mean if you look at your average active leaders, right, and even new distributors, right, and you look – I guess it's particularly in Latin America, but across the company, I think this quarter you saw somewhat of an inflection up, I mean even Europe, right. And I know the story has been you know for a while that retention's good moving to a daily consumption model, we're not so worried about you

know new distributors or recruitment, or active leaders. Not that you're not worried about it, but it's not the best indicator right now.

We seem to have an inflection in active leaders and distributors. Can you talk a little bit about that? I mean is there something specific going on, or am I just off base on this?

Des Walsh: Sure. So, (Chris), we've got a number of things going on. First of all, I mean it's all tied back to the – to the gradual transition to daily consumption, the focus of creating long-term customers. And then also what you're seeing I think is the impact of the – of the new supervisor qualification. So anytime you've got a situation now whereby every distributor is a potential future supervisor, that actually changes the dynamic a little. So we've got more engagement, we're got more distributors who are on that path to distribute, to become a supervisor, and we think those are very healthy trends.

You saw the beginning of that program in Russia a number of years ago, and now what we're seeing is the gradual enhanced adoption of it in other regions. And I think that's one of the things that is driving what you're seeing in South and Central America, coupled with obviously the increasing adoption of daily consumption.

(Chris Ferrero): Got it, thanks. And I guess two other quick ones, and one of them is what are your share creep expectations? I mean obviously you're buying back some stock, but what are your thoughts as far as how much as your share count's going to go up just as far as equity issuance goes with respect to management compensation, stuff like that?

Male: Well the two are disconnected, right? Our buyback is independent of the equity compensation. I know some companies have a strategy where they want to buy back enough stock to compensate for equity grants. You know since 2007, our buyback has exceeded our equity grants by more than five times. You know I suspect that'll continue, it'll be a little less than that, because as the stock goes up, the – you know some of the grants become in the money, and it helps share base creep up a little, but you'll still see a net reduction this year for the rest of this year. You know I don't want to give out

any specifics, because it all depends on the timing of when you buy back stock, because it's an averaging method, right. And so you're only going to get – whatever we buy back for the rest of this year, we're only going to get half the benefit for this year. But you'll still see a net reduction for the rest of this year.

(Chris Ferrero): Right, now that makes sense. And then, I'm sorry if you said this, but are you – have you guys taken incremental pricing this year? I mean are you guys – are you guys planning to? And I guess what have you taken already that would still need to anniversary it? Is anything – is it anything meaningful?

Male: It's not meaningful, we've taken just a really small number of countries that we've taken small price increases, and only a small number of countries where they planned. So with the exception of Venezuela where it's hyper inflationary where you might have some meaningful price increases, it's very de minimis.

(Chris Ferrero): Got it, thanks a lot, guys.

Operator: Our next question comes from the line of (Scott Benwickle) with Canaccord Genuity.

(Scott Benwickle): Hi, thank you. I want to follow up on the active sales leader question. Should we – should we think about the new compensation plan and the 12-month program for becoming a supervisor? Did that have a timing impact where in this first quarter, normally requalification period, we see a big step up in the growth rate of average active sales leaders, or is it independent of some timing issue of when you launched that program?

Des Walsh: Yes, (Scott), I don't think there's any connection between the two, (Scott). What we have is we have registered a gradual adoption you know of the 5k program around the world. Obviously Russia is the most advanced, we have other markets that adopted very early, primarily say Italy. But I don't think there's any timing between a quarter issue or anything like that, it's simply basically our – many of our leaders, as you know, they will take a cautious approach, they will watch how others adopt something, and then when they

believe that it's beneficial to their teams, then they will embrace it also, and what's what we're gradually seeing happen now around the world.

(Scott Benwickle): And, Des, a couple of years ago, you sat at analyst day and you talked about how we're going to see a deceleration in new sales leaders, as you roll out nutrition clubs across all of your markets. I think that was about two years ago. Are we seeing the reverse of that here where you know we're seeing that traction, or is it a two-year lag? Is there anything else I can kind of correlate – I mean this is a fairly significant acceleration across most of our markets this quarter.

Des Walsh: Yes, so I think two things are driving it, (Scott). First of all you know any time when you transition to daily consumption, you obviously have a shift in focus of the business. The focus now is on creating long-term customers. But obviously as you'll know from sitting through various presentations, the hold basis of the circle of success is that those long-term customers drive customer retention, that drives distributor retention, which then in terms drives distributor recruiting.

So in some markets, you're seeing that circle of success come to fruition, and more supervisors result from that. The other thing obviously with the 5k is that there's a lag there, because now you've got distributors accomplishing the level of supervisor over a period between three and 12 months. And then the third thing that's happening in some markets, (Scott), is that the fact that the business is generating such tremendous results for our distributors creates a sense of momentum in that marketplace, and that's actually attracting people because of the tremendous stories of success, that's partially what's behind the growth that we're seeing in India and so on.

So really you've got those three factors in place that are driving. But for us, the key factor is still average active sales leaders, because that's the measure of how engaged our sales leaders are, and we believe obviously that's a – that's a very important driver as we look to the future.

(Scott Benwickle): Great, thanks. And then so I could hear Michael talk again, on the sports nutrition line, it sounds like you're talking about a whole new wave of

distributors. Do you see it more as a new opportunity for a new class of distributor, a new age group, a new focus? Or is it just as much incremental to existing distributors? And then I'd love to hear you talk about skin care, obviously something's coming down the road, I would think in the next year, with the recent hire and the opportunity there. And (inaudible) the same way.

Michael Johnson: So you're going to get me to talk twice in one call? The thing you mentioned on Herbalife 24, (Scott), and good morning, (Scott), it's good to hear your voice. It's holistic, it's the whole run. We see current distributors obviously who are testing this product in their organizations, who are attracting new customers – or not attracting customers you know but attracting potential of new customers, and thinking about building out their business to attract trainers, to attract people in the athletic field to work with you know young athletes as well as you know old athletes like me.

And we think that there's a – frankly a lift that's going to come, but I don't expect it right away, because it's – as Des said, it always takes time for people to blend in a new product to their business. And as this happens, we have a lot of young distributors coming to us, we see this in different parts of the U.S. right now, and all across the world, but especially in the U.S. where we're rolling out Herbalife 24 to these 300 beta testing distributors. They are attracting a group – a younger group who are not only looking for an economic opportunity, but are looking for a product that suits their age group, and looks at their specific needs in the marketplace.

A lot of trainers out there, there's a big article this – a couple of days ago about personal trainers and how it's a rapid growth industry in the U.S. These folks are limited by the number of hours in the day that they can do business if there's – you know they can only train eight, nine people a day, and that's a very busy, hefty day for them. But to add a nutrition aspect to that business is a big deal, and we think that there is a real opportunity for them to do it. We're going to see a lot of (hybrids), we're going to see people attracting and adopting this product to their business.

On the skincare line, we're very excited about Dr. (Paulo Giakamoni) joining us. He brings a wealth of knowledge and experience to the company. We are

– frankly have just relaunched and are just in the process of relaunching some hair care lines that we have right now, paraben free lines, we're going to – juicing up the aloe side of our product, we're very excited about that. And we're also repackaging some of our line, but I think you could look at 2012 as being a year for us that's going to have a lot of focus on skin care, skin nutrition, inner nutrition and outer nutrition, blending for the proper skin balance you know targeted areas that we're going to focus on, and I don't want to mention those right now. But there's a big market in many targeted areas in skin care, and it's not color.

It'll be more local focused products that'll be targeted into that marketplace. Dr. (Jakomoni) brings a global expertise to us, he's not only multilingual, he's an Italian born and educated, he's worked in the U.S. for many years, operated in Europe, Asia. We're very excited about this hire, and who he is, and what he brings to the table.

(Scott Benwickle): Thank you. And then, Des, your comments about you know caution not to expect too much out of China, there's been some recent strong trends among direct sellers in China. And if I just look at things like your average active sales leaders, and your revenue growth you know I get pretty optimistic. Is there something that – else I should think about?

Des Walsh: No, (Scott), I – just that we've been consistently cautious about China since we opened five years ago, we continue to be cautious today. It's driven by a number of factors, first obviously you know China's a challenging environment, you know that we have a marketing plan that is vastly different there from the rest of the world. We don't have the ability to have our international leaders engaged in China. So all of these factors are factors which combine just to have us be cautious about China.

We're pleased to see the transition to daily consumption, we believe that's very positive and healthy for the market. But, again, it's a market about which you'll continue to hear us be cautious you know in the future also.

(Scott Benwickle): Thank you much.

- Operator: Again, for any questions, please press star followed by the number one on your telephone keypad. Our next question comes from the line of (Brett Jordan) with Avondale Partners.
- (Annan): Hi, this is (Annan) in for (Brett). Just quick question, turning back to the Lake Forrest facility. What are your expectations for margin benefits as you ramp up production this year?
- Male: So we haven't specifically said what our expectations are for this year, we do expect it to be accretive the rest of this year. We have given a long-term – what we think are long-term opportunities for margin reduction, but that's a three to five-year goal. So for this – right now it's a little dilutive in Q1, not materially dilutive, but a little dilutive, and we expect that to turn around and be a little positive for the – for the rest of the year.
- (Annan): All right, perfect. Thanks.
- Male: Think that's it.
- Michael Johnson: If there's no further questions, this is Michael again for the fourth time on the call today. I just want to say thank you, thank you not only to our investors who are enjoying the benefits and the fruits of the hard work of the distributors and the employees of this company who have come together to really take Herbalife to a new place. But as I constantly say to the distributors and to our team here, while the news is good and heady, we're just getting started. We see a lot of ramp way in front of us, we think the momentum is really just beginning. We're very proud of Herbalife where it is today, our science, our product, our brand, our image, all are taking us to a new level. And we're scratching the surface here, and we're looking forward to talking to you again next quarter. Thanks a lot, you guys.
- Operator: Ladies and gentlemen, this does conclude today's conference call. Thank you all for participating, and you may now disconnect.

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