

# FINAL TRANSCRIPT

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## HLF - Q2 2007 HERBALIFE LTD Earnings Conference Call

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

## CORPORATE PARTICIPANTS

**Brett Chapman**

*Herbalife Ltd. - General Counsel*

**Michael O. Johnson**

*Herbalife Ltd. - CEO*

**Greg Probert**

*Herbalife Ltd. - COO*

**Rich Goudis**

*Herbalife Ltd. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Chris Ferrara**

*Merrill Lynch - Analyst*

**Simeon Goodman**

*Goldman Sachs - Analyst*

**Michael Lasser**

*Lehman Brothers - Analyst*

**Rommel Dionisio**

*Wedbush - Analyst*

**Andy Speller**

*A.G. Edwards - Analyst*

## PRESENTATION

**Operator**

Good morning and thank you for joining the second quarter 2007 earnings conference call for Herbalife Ltd. On the call today is Michael O. Johnson, the Company's Chairman and CEO; Greg Probert, the Company's President and COO; and Rich Goudis, the CFO. I would now like to turn the call over to Brett Chapman, the Company's General Counsel, to read the Company's Safe Harbor language.

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**Brett Chapman - Herbalife Ltd. - General Counsel**

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 sales and results may differ materially from those discussed and 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 sections of our website, Herbalife.com, to find the first quarter press release containing the reconciliation of these measures. I will now turn the call over to Michael.

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

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

I feel like I'm in a much better legal environment because of you each and every day. Good morning everyone. Welcome to our second quarter earnings call. The quarter was a record breaker, and we had a very exciting month of July as well. And as you know, many of you who are with us, Greg and I are just back from three major distributor events, our North American, our Asian and our European extravaganzas.

We began in Dallas on the weekend of July 13, and then to Singapore the next weekend. And then on to Cologne, Germany the following one. It has been a busy month. We met with our distributor leadership and presented to more than 40,000 distributors. Together our distributors and us continue to be excited, incredibly excited as a matter of fact, about the future of Herbalife.

In addition to our extravaganzas in July, three weeks ago soccer legend David Beckham and his teammates put on our new Herbalife L.A. Galaxy jersey for the first time. And the entire world part saw our name Herbalife front and center.

Let me give you if you facts. Every person on this planet, at least anyone who has access to some form of media, has seen an Herbalife branded jersey. We are still receiving publicity tracking reports, but we know we had over 900 million media impressions in the two-week period around the L.A. Galaxy, David Beckham news conference, and the Galaxy's first game with David Beckham. The Herbalife brand has never been more visible.

Adidas produced more than 600,000 Galaxy jerseys in its initial run. And every one of those is a mobile Herbalife billboard. All of this will create more opportunity for our most important clients, our distributors.

The most consistent form of marketing used by Herbalife is use, wear and talk. Use the products, wear the Herbalife name, and talk to people. In addition to David Beckham we have 600,000 people walking around with Look Who's Wearing Herbalife Now.

The objective of these initiatives is to make our brand more familiar to consumers. This supports our distributors as they engage prospective distributors and new customers in conversations about our world-class products and our very rewarding business opportunity. Our 1.6 million distributors around the world can build on this tremendous brand awareness. And our message to them in the last few weeks has been, we are in a new game, and for us this is a paradigm shift.

We now have the benefit of people asking, who is Herbalife? Our distributors are excited and motivated to capitalize on this opportunity. As you can tell, it has been a very exciting and obviously a very busy month of July for us. It has also been a great second quarter.

Before I turn the call over to Greg and Rich, let me share some of our highlights with you. Over the past several months our Company has made the transition from trading on takeover expectations to trading on fundamentals. In April the Special Committee of our Board rejected the \$38 offer from J.H. Whitney, which led to the dislocation of shares from risk guards to fundamental investors. In May our number one shareholder Whitney distributed its entire HLS holdings. And again our shares were looking for new homes. In all we believe nearly 30 million shares changed hands during the quarter, finding new, more stable owners. To our new shareholders, welcome. And to those investors who increased their positions, thank you. And thank you for your trust.

In June we were added to the Russell 1000 Index. Our debt rating was upgraded by the S&P to investment-grade. During the quarter we set numerous financial records. New record net sales of \$530 million, an increase of 14%. All of our regions posted positive net sales growth. Two regions were up as a result of currency fluctuations. It was our 11th consecutive quarter of sequential growth, and the 22nd consecutive quarter of year-over-year positive sales growth, with double-digit sales growth over the past 14 quarters.

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

Our operating profit margin expanded 75 basis points. We repurchased 3.5 million shares, which created \$0.01 of accretion in the quarter. We set records for new net income and EPS, which both increased 31% compared to the second quarter of 2006. In addition, we announced a quarterly cash dividend of \$0.20 per share, maintaining the dividend yield of approximately 2%.

Our financial results were driven by the strong underlying performance of our independent distributors. For the quarter the number of Herbalife distributors increased 19% to 1.6 million. The number of new supervisors increased 5%, and the number of total supervisors grew through 19%. Our elite President's Team membership grew 12% to 1,031 distributor leaders. We added one new member to our prestigious Chairman's Club, bringing the total of this group to 31.

And even more exciting and more gratifying is that we have the prospect of two to three additional Chairman's Club members in the very near future. Growth at these levels shows the vibrancy in our distributor ranks, and that there is definitely room at the top.

As we have seen at our recent extravaganza, and we can see from our financial results, our distributors are working together better than ever. Successful ideas are traveling. Our distributors are sharing their great ideas and business methods around the world. And our worldwide marketing plan is helping our distributors build larger and more sustainable businesses. Our distributors, supported by management, are working together to increase recruiting, retailing and retention in order to drive sales, profits and shareholder value.

Recently we received an expanded direct selling license in China, and opened our 65th market, Zambia. Today I want to share with you the key message presented at the extravaganzas that we reinforce with our distributors. That message is very simple. It is confidence. Confidence in our products, our business opportunities, our brand and our image.

Our product. We believe that confidence in our product is paramount. We continue to focus on our commitment to providing products based on science that support our mission, which is to provide the best nutrition and weight management products in the world. In order to further substantiate the product claims that our distributors use in their testimonials, we are funding seven clinical studies at different universities. Three are complete, but not yet published, and four are underway.

Yesterday we announced an agreement with the University of Mississippi to evaluate the composition of botanical ingredients for use in our products. We have also added four new members to our nutrition advisory board, bringing the total to 20. Our nutrition advisory board is comprised of leading experts in the field of nutrition and health, who assist and educate our distributors about our product, the principles of nutrition, and the benefits of leading a healthy, active lifestyle.

At Herbalife our distributors interact with our customers one-on-one. This personal consultive selling is our competitive and differentiated advantage. They provide access to our products and bring value-added -- added value in the form of personal testimonials, product education, and coaching that gives results.

Improved energy, health, fitness and appearance. Obesity, as you well know, has reached record levels around the world. Weight management is an important part of good health. We work closely with our nutrition and scientific advisory boards to study the latest advances, trends and fads in the world of weight management. We believe that the combination of our best in class products, coupled with our consultive person to person approach to weight management, makes our weight management program the best in the world.

We are, however, much more than a weight loss company. Many people begin Herbalife with weight loss. But we know that good nutrition is for a lifetime. One of our new themes is Herbalife for Life. Getting the customer in through weight management is a great start, having them stay with us for good nutrition for life is a sustainable business plan that we plan to continue to pursue.

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

In July we launched our new product, H3O, in the U.S. market. H3O is the next generation of hydration. With electrolytes for rapid hydration, a unique brand of carbs for sustained energy, and a powerful antioxidant to neutralize free radicals that cause fatigue and swelling. We call it energize, hydrate and protect.

We also launched our new Herbalife kids line in the U.S. Nutrition kids need with a taste that they love. The line includes three flavors of shakes, as well as multi vitamins, which together provide protein, fiber, and 100% of the daily value -- of vitamins children need every day. These products are free from artificial flavors, colors or sweeteners.

Our product development strategy is designed to support our distributors' daily methods of operations, which we call DMOs, and the three Rs, the recruiting, the retailing and the retention of distributors. Our kids line and H3O are good examples of that alignment.

Our new kids line is sold in various packaging and delivery forms to help support several DMOs. Our single serve packages, it helps with our Internet lead sampling DMO. Our delicious shakes help with the Nutrition Club DMO. The products' nutritional content helps with our Wellness Coach DMO in all of our business DMOs. This productline allows us to extend to a market of over 5 million stay at home moms in the U.S. This is a key business and growth opportunity for all distributors, and another way to start Herbalife for life.

Our H3O line supports all of the three Rs. Retailing, the product offers a three in one benefit. In the fast-growing segment of thirst quenching beverages it opens a new segment of sellers, such as personal trainers and fitness enthusiasts. Recruiting, the product is a great door opener, with great sampling opportunities at a competitive price point. Retention, H3O's great taste and benefits drive retention of long-term customers.

In the quarter we continued our international rollout of Liftoff, Neurofusion, Niteworks in our skincare Activator line. In fact, Niteworks is now our number two selling product in China this quarter.

Confidence in our business opportunity. For 27 years the opportunity of Herbalife has been an industry leader. The global nature of our marketing plan and our commission payout has provided thousands of distributors the opportunity to improve their way of life, whether they work part-time or full-time. We continue to support our distributors through increased investments in training, technology, and most importantly, as you have already heard today, we encourage the global sharing of best practices across distributorships, markets and regions.

This was in evidence during the July extravaganzas as distributors leaders from Mexico and Latin America traveled to Singapore and to Cologne to help share their successful DMOs with our Asian and European distributors. With regards to DMOs, our message is simple, every DMO can work. It is up to our distributors to determine the method that puts them on the pathway to success. Between corporate sponsored and distributor sponsored events, our distributor leadership has trained over 50,000 distributors throughout the world during the second quarter. Our distributors, investing in their own businesses, held training events that reached thousands more.

Our brand. As I already mentioned, our brand is bigger and bolder than ever before. So the confidence in our brand is building. Over the past few years we selectively invested in grass-roots and branding initiatives to associate our brand with healthy, active lifestyles, and exposed prospective distributors and customers to the Herbalife brand.

The L.A. Galaxy jersey sponsorship is a coup for our Company. And the positive benefits from this initiative will take our Company, our distributors and our brand to new heights. During this quarter we will probably have beach volleyball legend, Karch Kiraly, join us as a sponsored athlete. Karch is using our products and playing competitive volleyball in the current AVP Volleyball beach season, with athletes half his age. He shared his Herbalife product story to our distributors onstage in Dallas. And he excited them by telling them that not only is he a product user, but his wife is now a product distributor.

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

Around the world Herbalife and our distributors are sponsoring more than 100 sporting and fitness-related events, activities and athletes that define our commitment to a healthy, active lifestyle supported by great nutrition. These include triathlons, as well as tennis and volleyball in Japan, dragon boat races in Hong Kong, and badminton tournaments in the Philippines.

Several of our Herbalife sponsored athletes have their sites on competing in the 2008 Olympics in China. All of this activity creates opportunity for our distributors to activate their businesses at local events, support new distributors with lead generation, and share new customers. This is our brand in action.

All of this leads to a great image, and most importantly the confidence in our image. In addition to our products, business opportunity and brand, we want our image, our reputation, to be at the highest level. Our distributor leadership is aligned around the need to conduct business at the highest standards of ethical behavior and integrity, and make our communities in which they operate better places to live and work. Many of our distributors through our Casa Herbalife Program are committed to help in their communities to build promise and opportunity for children at risk.

We have had a tremendous success in all of these areas over the past several years, but we have so much more potential. We challenge our distributors to go deep, to increase their penetration in our existing markets. Put a canister of Formula 1 in every single kitchen. Today we have 6 volume points per capita penetration in our highest penetrated market, as compared to about 0.5 volume point per capita globally. I always love to play with this number. When we get our global penetration to match the level of those high penetration markets, Herbalife will indeed be the largest direct selling company in the world. That is a gold. That is not a promise, but it certainly is an opportunity.

We clearly had a great quarter. And it may feel like we are already firing on all cylinders, but I continue to say we're just getting started. Let me now turn the call over to my business partner, our President and Chief Operating Officer, Greg Probert, for an update on several of our key markets and activities.

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

Before I start with my prepared remarks, I would also like to congratulate both our distributors and our employees for the records they collectively set during the second quarter, and more importantly for their unity and teamwork, which has created tremendous excitement and positive momentum in our business.

Let me now provide you with an update on our four key markets, the U.S., Mexico, Brazil and China. We will field questions on other markets as necessary during the Q&A session. Our U.S. business achieved record revenue levels of \$108 million in the second quarter, up 31% versus a year ago. With volume of 167 million, up 32% versus last year, this is the fourth sequential quarter where volume point growth exceeded 24%.

Sales in the top 25 metro markets increased 48% compared to 2006. In fact, each of the top 15 metro markets and 22 of the top 25 metro markets in the United States experienced double-digit growth. The Latino segment of the U.S. business now represents 61% of the country's volume. And it grew 56% compared to last year. The non Spanish-speaking distributor segment increased 7% versus last year. And U.S. momentum remains strong, with a 20% growth in total supervisors and a 24% growth in new supervisors versus last year.

Much of this growth is coming from further adoption and expansion and Nutrition Club DMO, as well as the Internet lead sampling DMO, and the Wellness Coach DMO. The message we have reaffirmed with our distributors is that all of the DMOs can work. It is up to you to find the methods that work best for you and fit into your lifestyle.

Dan Waldron, our newest Chairman's Club member, is a great example of a distributor working a business with multiple DMOs. He has been during Herbalife business for 24 years. He started out like most people did using the product, wearing the Herbalife button, and talking to distributors and customers. This traditional way of doing business served him well, and earned him a

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

place on our prestigious President's Team. A few years ago he added Nutrition Clubs to his methods of operations and developed a very productive business, which took his distributorship to the next level, Chairman's Club. Congratulations, Dan.

Branding initiatives continue to be a key element of our strategy to enhance the Herbalife brand and foster opportunities for our distributors to take advantage of grass-roots marketing efforts. Our AVP sponsorship is one example. This sponsorship includes prime time TV coverage, including a 30 second TV spot; athlete sponsorships, including Elaine Young and Karch Kiraly; fantastic venues attended by thousands of fans, along with on-site signage and display tents, which provide our distributors the opportunity to sample our products and increase distributor activity.

For example, through the end of June our distributors handed out nearly 30,000 Liftoff samples during the first half of the AVP season. Our AEG partnership, which includes sponsorships such as the L.A. Galaxy, Tour California and East West Bank Tennis Classic, along with signage at the Home Depot Center in Carson, California, which many people viewed at this weekend's X Games, also provides Herbalife with the recognition and awareness that helps associate our brand with healthy active lifestyles. Our distributors are leveraging this awareness with numerous initiatives on their own and in their local communities to further enhance the Herbalife brand image.

Training remains a top priority for our U.S. distributor leadership and our management team. A few weeks ago we had more than 10,000 distributors attend our North American extravaganza in Dallas. We introduced new products and reinforced DMO training. 5,000 distributors came to the event a day early just to attend Nutrition Club training. Other key topics included product training from our doctors and scientists, along with recognition for numerous distributors to successfully achieve new levels in our marketing plan and success stories on our products.

In April 2007 we opened our fourth sales center in Phoenix, Arizona in order to expand our reach among our distributors who, like in Mexico, prefer to complete their orders in person and use Company offices for their HOMs and training sessions.

Looking towards the second half of 2007, we believe that net sales in North America should continue to grow 20% plus, primarily as a result of continued momentum in the U.S. Latino segment, the success and expansion of Nutrition Club DMO, and increased adoption of the Internet lead sampling DMO.

Now let's turn to Mexico. The Mexico business continues to show signs that it is stabilizing. In terms of volume Mexico's business decreased 8.5 million or 5% compared to the second quarter in 2006, and was essentially flat with the first quarter volume in 2007. This performance was in line with our expectations and previous guidance.

Distributor confidence and retention remains strong as total supervisors increased 42% compared to 2006. New supervisor rate was down 17% as a result of our distributors shifting their focus from recruiting towards training their existing downline organizations in an effort to build a more solid foundation.

As we have highlighted in previous investor calls this year, our Mexico business is responding to growth pains suffered during a period of tremendous expansion over the past three years, which led to a tripling of our business since 2003. We continue to expand and improve our infrastructure, while we work the distributor leadership on initiatives which we believe will strengthen the business and restore sales growth.

Let me give you an example on infrastructure. In the second quarter we opened two sales centers in Puebla and Veracruz, and our new distribution center in Ecatepec. This DC is the fourth location in Mexico City and the largest sales center in Mexico. With these additions Mexico now has 20 locations, including two DCs and 18 sales centers. Both the new and expanded centers are helping alleviate congestion and improve distributor service levels.

Over the past eight months we have expanded our distribution by nine centers to reach nearly 72% of the Mexican population. While our infrastructure currently accommodates 50 million volume points a month, we believe these facilities can accommodate more than 100 million volume points a month, so we are well-positioned to support future growth.

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

Over the next several quarters we will look for new supervisor and volume growth in the region serviced by these new facilities as an indication that our distributors are beginning to expand their businesses outside of Mexico City and Guadalajara.

With regard to training and compliance, our distributor leadership is taking a very proactive role. TAB Team members have visited over 25,000 Nutrition Clubs during the past six months to conduct on-site education and training sessions. As a result, Nutrition Club compliance has increased dramatically since February.

Concurrent with these efforts we continue to invest, along with our distributor leaders, and trained nearly 20,000 distributors in the second quarter at [SDS] and other events. We continue to believe Mexico has tremendous growth potential. Our distributors have developed a fantastic DMO that opens the Herbalife opportunity to a broad customer base. And our recent infrastructure investment will enable our distributors to build businesses throughout the country.

Let me share some penetration statistics with you so you can share my optimism for this market. Currently our deepest penetration, 20 volume points per capita, is in the Federal District with a population of 8.6 million people. In the largest state, Mexico, with a population of 13 million our penetration is only 10 volume points per capita. For the entire country, with a population of approximately 100 million people, Herbalife has only a 6 volume point per capita penetration.

Looking ahead we believe that volume will be flat in 2007, as we expect a negative sales comp in the third quarter before we experience a positive sales comp in the fourth quarter. We feel that we've made significant progress in addressing the key issues which led to the growth pains experienced in the Mexico market during the past nine months. And we believe these improvements will provide a more stable, long-term base for growth in 2008 and beyond.

Now let me turn to Brazil. In volume terms, Brazil was down 3.2 million or 8% compared to the second quarter of 2006. Our strategy to improve business trends in Brazil remains unchanged from our last call in May. Since mid 2006 Brazil's growth has been slowing as distributors redirected their focus from recruiting new supervisors in a total plan DMO to the Nutrition Club DMO. Distributors are working to acculturate this DMO to the Brazil market.

Unlike the success in Mexico, which was mostly through home clubs, it appears that success for Brazil will be through central clubs. While the transition to the Nutrition Club DMO has been disrupted for the growth rate in this market, our distributors remain optimistic that this new DMO will help them develop a stronger retailing business with higher retention, which will ultimately lead to a larger, more stable and more profitable business. As with Mexico and the U.S., we anticipate the ramp up period will take another nine to eighteen months.

Additionally, over the past six months many distributor leaders left Brazil to focus on other markets, including Peru, which increased 7.4 million volume points during the quarter. We anticipate that many leaders will now return to Brazil and refocus on building their business in this market.

Now onto China. Our China business with net sales of \$17 million was up 188% in the second quarter compared to last year, and became our sixth largest country in the world. Total supervisors were up 223%, and new supervisors increased 64% versus last year.

In June the Company received notification from China's Ministry of Commerce that its direct selling license was expanded to permit the Company to conduct a direct selling business in the entire Jiangsu Province. We believe this expanded license reflects how well we have performed expanding our business in the country since receiving our initial license in March, as well as providing the government with confidence in our ability to make the direct selling model work in this market.

This extends our license reach from 2 cities to 13 cities, or 61 counties, allowing us to reach a population of approximately 85 million to 90 million people. While we continue to transition our business in those cities from a retail model to a direct selling model, we will continue to pursue direct selling licenses in other provinces. We will continue to execute our strategy to build



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

out our physical presence in numerous cities and provinces, expand our productline, and work the local distributor leadership to build a strong, sustainable business.

We recently made a management change in our Greater China market. Percy Chin, who was instrumental during the startup phase in our China business, will be leaving the Company. While we search for a new Managing Director for the Greater China market, Paul Noack, our Chief Strategic Officer, who was instrumental in starting up and managing our operations in China, along with [Jerry Lai], our Vice President of Sales in China, will provide day to day leadership in the China market. I will also take a more active role in both China and Taiwan management until we hire a new Managing Director of China.

We're confident that we have built a solid foundation for our China business, strong and engaged distributor leadership and experienced direct selling management team, especially in the areas of government affairs, sales, marketing operations, as well as strong government relations at both the provincial and state levels. Similar to Mexico, we believe we can transition through this management change with minimal disruption to our business.

Looking towards the second half of 2007, we anticipate continued sequential sales growth throughout the remainder of the year, reflecting the newly received license. By the end of the year we expect to operate approximately 100 stores and service centers in 33 provinces. As we have said many times in the past, China is a great long-term opportunity for our Company; however, for us the China story is more about 2008 and beyond.

That concludes my review of our business -- key business trends. As Michael mentioned earlier, we are experiencing great success across many of our 65 markets, several of which recorded record growth in their second quarter results. And our distributors have done an outstanding job committing themselves to this business, our mission for nutrition and sharing best practice ideas across geographic borders. We believe all of these factors have been key contributors to our success and will be for the foreseeable future.

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

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**Rich Goudis - Herbalife Ltd. - CFO**

Let me briefly walk you through the financial results that were contained in yesterday's press release, along with the 10-Q, and then we will open up the call for your questions. Net sales of \$530.1 million in the second quarter were up 13.8% versus the second quarter of last year, as we experienced a strong growth in many of our top ten markets. In fact, our top ten selectively were up 18% versus 2006, led by double-digit growth in countries like the U.S., up 30.7%; China come up 187.9%; Taiwan up 43.1%; Venezuela up 320.1%; Italy up 14.9%; and Spain up 24%. As a whole our top ten markets comprised 69% of our business, an increase from 67% in 2006. Reflecting the global nature of our business, changes in FX rates provided a benefit of 350 basis points in the reported growth rates. Organically our growth was 10.2% in the quarter.

Gross profit in the second quarter was \$418.7 million or 79.0% of sales, reflecting an erosion of 110 basis points compared to 80.1% in the second quarter last year. The decrease from prior year was primarily the result of changes in country mix, which is 34 basis points; foreign currency fluctuations, 21 basis points; and inventory adjustments, 26 basis points.

Royalty expense for the second quarter of \$188.5 million or 35.6% of sales improved 35 basis points compared to 35.0% in the second quarter last year. The improvement over prior year was primarily due to the impact of China royalties, which are partially contained in SG&A due to the employee model we use in China, coupled with lower expense related to our Active World Team promotion. Normalizing for China royalties, the expense would have been 36.8%, or 30 basis points higher than the 36.5% in 2006.

SG&A expense for the second quarter of \$152.2 million, an increase of \$11.3 million versus the second quarter last year, as a percent of sales it experienced an improvement of 153 basis points to 28.7% compared to 30.2% in the second quarter last year.

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

The dollar increase was primarily attributable to higher labor and benefits, including China distributor royalties, employee merit increases, and changes in our stock option expense, coupled with higher occupancy and depreciation expense, which were partially offset by lower sales event expenses due to the timing of extravaganzas.

SG&A as a percent of sales, normalized for the China royalties, improved 222 basis points to 27.4% versus 29.6%, reflecting the favorable impact from our alignment for growth initiative, coupled with the timing of our Asia-Pac extravaganza which was held in the second quarter last year. Second quarter operating profit was \$78.1 million or 14.7% of sales, an improvement of 75 basis points compared to 14% in the second quarter last year.

Second quarter interest expense decreased \$2.7 million to \$2.3 million versus 2006. The decline was primarily attributable to a lower average debt balance of \$48 million -- we had \$249 million last year versus \$201 million this year -- and 185 basis point lower weighted average interest rate during the second quarter of 2007, 6.73% versus 8.58%, reflecting the benefit of the debt recap we did in the third quarter last year.

On an as reported basis, our second quarter effective tax rate was 36.5%. However, excluding the \$600,000 in discrete tax items, the second quarter effective tax rate was 37.3%, compared to 39.6% in the second quarter last year. Sequentially our effective tax rate increased from the first quarter, primarily reflecting country mix as sales in the U.S. comprised more of our total sales.

Net income on a reported basis was \$48.1 million in the quarter compared to \$36.3 million in the second quarter last year. Excluding certain items from both 2007 and 2006, as indicated in our press release last night, net income was \$47.5 million in the second quarter this year compared to \$36.3 million last year, an increase of 30.8%.

On an as reported basis, second quarter diluted earnings per share was \$0.65 versus \$0.49 last year. However, excluding certain items just mentioned, coupled with the accretive benefit of our buyback, second quarter diluted earnings per share increased 31.2% to \$0.64. So in summary, for the P&L our second quarter net sales are up 14%, and our adjusted EPS growth rate was 31%.

Turning to the balance sheet, we had net debt of \$63 million as we ended June, with \$210 million in debt, \$150 million in term, and \$60 million in revolver, and \$147 million in cash. During the second quarter we used \$14 million in excess cash to pay the first quarter dividend and \$79 million in excess cash, along with \$60 million from our revolver, to repurchase \$139 million of our Company stock. Inventory declined \$20.5 million, reflecting the burn up of inventory, which was primarily built last year from Mexico in anticipation of their fourth quarter to ease customs delays.

From an efficiency standpoint, both days on hand improved 17 days, and our inventory turns improved sequentially from 2.7 up to 3.1. CapEx of \$13.5 million for the quarter primarily reflects \$7.3 million in leasehold improvements associated with the move of the majority of our headquarters into a new facility in Torrance, California.

Additionally, we continued investing in our Oracle ERP technology infrastructure, enhancements to our online distributor business tools, and additional investments in China and Mexico. And finally, let me reiterate, for the first time we will give third quarter guidance and increasing our full year guidance.

Due to the strong performance in the second quarter, coupled with our positive outlook for the balance of the year, we anticipate third quarter EPS to be in the range of \$0.59 to \$0.64, and full year 2007 EPS to be between \$2.56 and \$2.61. We are also increasing our topline guidance to 8 to 10% topline growth for the third quarter, and 9 to 11% for the full year, reflecting the weak U.S. dollar, continued 20 plus percent growth in the U.S. business, and our belief that Mexico will be flat to up slightly, reflecting the tremendous efforts of our distributors to improve their business.

Please note that this guidance excludes the cost expected to be incurred relating to our realignment for growth initiative, and the tax adjustments paid in the first and second quarters, as we noted in our press release. Our guidance also includes the accretion from the recent repurchase of 3.5 million shares, along with a slightly higher effective tax rate for the balance of 2007.

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

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

## QUESTIONS AND ANSWERS

### Operator

(OPERATOR INSTRUCTIONS). Chris Ferrara, Merrill Lynch.

### Chris Ferrara - Merrill Lynch - Analyst

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

### Rich Goudis - Herbalife Ltd. - CFO

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

### Chris Ferrara - Merrill Lynch - Analyst

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

### Rich Goudis - Herbalife Ltd. - CFO

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

### Chris Ferrara - Merrill Lynch - Analyst

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

### Greg Probert - Herbalife Ltd. - COO

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

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

**Chris Ferrara** - Merrill Lynch - Analyst

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

**Rich Goudis** - Herbalife Ltd. - CFO

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

**Chris Ferrara** - Merrill Lynch - Analyst

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

**Rich Goudis** - Herbalife Ltd. - CFO

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

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

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

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

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

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

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

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

**Chris Ferrara** - Merrill Lynch - Analyst

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

**Rich Goudis** - Herbalife Ltd. - CFO

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

**Chris Ferrara** - Merrill Lynch - Analyst

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

**Rich Goudis** - Herbalife Ltd. - CFO

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

**Chris Ferrara** - Merrill Lynch - Analyst

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

**Rich Goudis** - Herbalife Ltd. - CFO

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

**Operator**

[Simeon Goodman], Goldman Sachs.

**Simeon Goodman** - Goldman Sachs - Analyst

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

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

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

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

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

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

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**Simeon Goodman** - Goldman Sachs - Analyst

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

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

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

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**Simeon Goodman** - Goldman Sachs - Analyst

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

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

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

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

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

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

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

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

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

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

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

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

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**Simeon Goodman** - Goldman Sachs - Analyst

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

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**Rich Goudis** - Herbalife Ltd. - CFO

We haven't typically guided.

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

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

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

**Rich Goudis** - Herbalife Ltd. - CFO

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

**Operator**

Michael Lasser, Lehman Brothers.

**Michael Lasser** - Lehman Brothers - Analyst

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

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

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

**Rich Goudis** - Herbalife Ltd. - CFO

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

**Michael Lasser** - Lehman Brothers - Analyst

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

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

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



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

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

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

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

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

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

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**Michael Lasser** - *Lehman Brothers - Analyst*

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

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

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

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

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

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

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

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

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

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**Michael Lasser** - *Lehman Brothers - Analyst*

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

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

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

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

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

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**Michael Lasser** - *Lehman Brothers - Analyst*

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

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

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

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

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**Michael Lasser** - *Lehman Brothers - Analyst*

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

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

**Rich Goudis** - Herbalife Ltd. - CFO

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

**Michael Lasser** - Lehman Brothers - Analyst

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

**Rich Goudis** - Herbalife Ltd. - CFO

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

**Michael Lasser** - Lehman Brothers - Analyst

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

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

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

**Michael Lasser** - Lehman Brothers - Analyst

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

**Operator**

Rommel Dionisio, Wedbush.

**Rommel Dionisio** - Wedbush - Analyst

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

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

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

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

**Rommel Dionisio** - *Wedbush - Analyst*

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

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

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

**Operator**

Andy Speller, A.G. Edwards.

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

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

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

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

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

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

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

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

Then I guess secondly, I know it is early since the new products have been introduced, but are you seeing any cannibalization, especially on the kids line from that, or even on the H30?

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

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

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

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

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

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

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

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

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

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

Each quarter for the back half.

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

Thanks a lot.

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

Let me take one more question.

**Operator**

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

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

Why that we just go ahead and close with Michael.

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

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

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

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

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

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#### Operator

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

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