

NU SKIN ENTERPRISES INC  
Form 10-Q  
August 07, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission File Number: 001-12421

**NU SKIN ENTERPRISES, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction  
of incorporation or organization)

**87-0565309**

(IRS Employer  
Identification Number)

**75 West Center Street**

**Provo, UT 84601**

(Address of principal executive offices and zip code)

**(801) 345-1000**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.      Yes      No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).      Yes      No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer      Accelerated filer  
Non-accelerated filer (Do not check if a smaller reporting company)      Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).      Yes      No

As of July 31, 2009, 62,971,182 shares of the registrant's Class A common stock, \$.001 par value per share, were outstanding.

NU SKIN ENTERPRISES, INC.

2009 FORM 10-Q QUARTERLY REPORT SECOND QUARTER

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Nu Skin and Pharmanex are trademarks of Nu Skin Enterprises, Inc. or its subsidiaries.  
The italicized product names used in this Quarterly Report on Form 10-Q are product names, and also, in certain cases, our trademarks.

**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS****NU SKIN ENTERPRISES, INC.****Consolidated Balance Sheets (Unaudited)**

(U.S. dollars in thousands)

|   | <b>June 30,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|---|--------------------------|------------------------------|
| <b>ASSETS</b>   |                          |                              |
| Current assets:   |                          |                              |
| Cash and cash equivalents   | \$ 125,302               | \$ 114,586                   |
| Accounts receivable   | 20,614                   | 16,496                       |
| Inventories, net  | 111,922                  | 114,378                      |
| Prepaid expenses and other  | 45,950                   | 44,944                       |
|   | <b>303,788</b>           | <b>290,404</b>               |
| Property and equipment, net   | 75,958                   | 82,336                       |
| Goodwill  | 112,446                  | 112,446                      |
| Other intangible assets, net  | 83,974                   | 87,888                       |
| Other assets  | 131,433                  | 136,698                      |
| Total assets  | <b>\$ 707,599</b>        | <b>\$ 709,772</b>            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                          |                              |
| Current liabilities:  |                          |                              |
| Accounts payable  | \$ 19,218                | \$ 20,378                    |
| Accrued expenses  | 119,573                  | 115,794                      |
| Current portion of long-term debt   | 29,024                   | 30,196                       |
|   | <b>167,815</b>           | <b>166,368</b>               |
| Long-term debt  | 138,981                  | 158,760                      |
| Other liabilities   | 66,238                   | 68,464                       |
| Total liabilities   | <b>373,034</b>           | <b>393,592</b>               |
| Commitments and contingencies (Note 10)   |                          |                              |
| Stockholders' equity:   |                          |                              |
| Class A common stock - 500 million shares authorized, \$.001<br>par value, 90.6 million shares issued | 91                       | 91                           |
| Additional paid-in capital  | 222,403                  | 218,928                      |
| Treasury stock, at cost - 27.6 million and 27.2 million shares  | (421,810)                | (417,017)                    |
| Retained earnings   | 603,662                  | 584,239                      |
| Accumulated other comprehensive loss  | (69,781)                 | (70,061)                     |
|   | <b>334,565</b>           | <b>316,180</b>               |
| Total liabilities and stockholders' equity  | <b>\$ 707,599</b>        | <b>\$ 709,772</b>            |

The accompanying notes are an integral part of these consolidated financial statements.

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**NU SKIN ENTERPRISES, INC.****Consolidated Statements of Income (Unaudited)**

(U.S. dollars in thousands, except per share amounts)

| <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|--|-------------|--------------------------------------|-------------|
| <b>2009</b>                            | <b>2008</b> | <b>2009</b>                          | <b>2008</b> |

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|   | <b>Three Months Ended<br/>June 30,</b> |         | <b>Six Months Ended<br/>June 30,</b> |         |    |         |    |         |
|---|--|---------|--------------------------------------|---------|----|---------|----|---------|
| Revenue   | \$                                     | 322,565 | \$                                   | 321,713 | \$ | 618,763 | \$ | 619,802 |
| Cost of sales   |  | 60,637  |                                      | 59,319  |    | 114,443 |    | 113,516 |
| Gross profit  |  | 261,928 |                                      | 262,394 |    | 504,320 |    | 506,286 |
| Operating expenses:                                   |  |         |                                      |         |    |         |    |         |
| Selling expenses                                      |  | 134,630 |                                      | 136,983 |    | 257,794 |    | 264,896 |
| General and administrative expenses                   |  | 91,286  |                                      | 96,480  |    | 180,977 |    | 185,035 |
| Restructuring charges                                 |  | 1,561   |                                      |         |    | 10,947  |    |         |
| Total operating expenses                              |  | 227,477 |                                      | 233,463 |    | 449,718 |    | 449,931 |
| Operating income                                      |  | 34,451  |                                      | 28,931  |    | 54,602  |    | 56,355  |
| Other income (expense), net                           |  | 882     |                                      | 4,110   |    | (354)   |    | (1,719) |
| Income before provision for income taxes              |  | 35,333  |                                      | 33,041  |    | 54,248  |    | 54,636  |
| Provision for income taxes                            |  | 13,219  |                                      | 12,440  |    | 20,293  |    | 20,546  |
| Net income  | \$                                     | 22,114  | \$                                   | 20,601  | \$ | 33,955  | \$ | 34,090  |
| Net income per share (Note 2):                        |  |         |                                      |         |    |         |    |         |
| Basic   | \$                                     | .35     | \$                                   | .32     | \$ | .54     | \$ | .54     |
| Diluted   | \$                                     | .35     | \$                                   | .32     | \$ | .53     | \$ | .53     |
| Weighted-average common shares<br>outstanding (000s): |  |         |                                      |         |    |         |    |         |
| Basic   |  | 63,109  |                                      | 63,561  |    | 63,221  |    | 63,509  |
| Diluted   |  | 63,726  |                                      | 64,269  |    | 63,585  |    | 64,242  |

The accompanying notes are an integral part of these consolidated financial statements.

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**NU SKIN ENTERPRISES, INC.**  
**Consolidated Statements of Cash Flows (Unaudited)**  
(U.S. dollars in thousands)

|  | <b>Six Months Ended<br/>June 30,</b> |             |    |        |
|--|--------------------------------------|-------------|----|--------|
|  | <b>2009</b>                          | <b>2008</b> |    |        |
| Cash flows from operating activities:  |                                      |             |    |        |
| Net income   | \$                                   | 33,955      | \$ | 34,090 |
| Adjustments to reconcile net income to net cash provided by<br>operating activities: |                                      |             |    |        |
| Depreciation and amortization  |                                      | 14,475      |    | 15,333 |
| Foreign currency (gains)/losses  |                                      | (2,533)     |    | (799)  |
| Stock-based compensation   |                                      | 4,039       |    | 3,863  |

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|  | <b>Six Months Ended<br/>June 30,</b> |           |
|--|--------------------------------------|-----------|
| Deferred taxes                                 | 1,990                                | 692       |
| Changes in operating assets and liabilities:   |                                      |           |
| Accounts receivable                            | (4,531)                              | (1,729)   |
| Inventories, net                               | 2,279                                | (6,769)   |
| Prepaid expenses and other                     | (902)                                | 4,262     |
| Other assets                                   | (413)                                | (257)     |
| Accounts payable                               | (1,003)                              | 1,657     |
| Accrued expenses                               | 5,975                                | (9,777)   |
| Other liabilities                              | (1,304)                              | (282)     |
| Net cash provided by operating activities      | 52,027                               | 40,284    |
| Cash flows from investing activities:          |                                      |           |
| Purchases of property and equipment            | (6,956)                              | (6,692)   |
| Proceeds on investment sales                   |                                      | 17,315    |
| Purchases of investments                       |                                      | (13,910)  |
| Net cash used in investing activities          | (6,956)                              | (3,287)   |
| Cash flows from financing activities:          |                                      |           |
| Exercises of employee stock options            | 572                                  | 2,449     |
| Payment of cash dividends                      | (14,532)                             | (13,967)  |
| Payments on debt financing                     | (14,520)                             | (19,604)  |
| Income tax benefit of options exercised        | 20                                   | 153       |
| Repurchases of shares of common stock          | (5,930)                              | (2,015)   |
| Net cash used in financing activities          | (34,390)                             | (32,984)  |
| Effect of exchange rate changes on cash        | 35                                   | 1,218     |
| Net increase in cash and cash equivalents      | 10,716                               | 5,231     |
| Cash and cash equivalents, beginning of period | 114,586                              | 87,327    |
| Cash and cash equivalents, end of period       | \$ 125,302                           | \$ 92,558 |

The accompanying notes are an integral part of these consolidated financial statements.

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**NU SKIN ENTERPRISES, INC.**  
**Notes to Consolidated Financial Statements**

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**1. THE COMPANY**

Nu Skin Enterprises, Inc. (the Company) is a leading, global direct selling company that develops and distributes premium-quality, personal care products and nutritional supplements that are sold worldwide under the Nu Skin and Pharmanex brands. The Company reports revenue from five geographic regions: North Asia, which consists of Japan and South Korea; Americas, which consists of the United States, Canada and Latin America; Greater China, which consists of Mainland China, Hong Kong, Macau and Taiwan; Europe, which consists of several markets in Europe as well as Israel, Russia and South Africa; and South Asia/Pacific, which consists of Australia, Brunei, Indonesia, Malaysia, New Zealand, the Philippines, Singapore and Thailand (the Company's subsidiaries operating in these countries are collectively referred to as the Subsidiaries).

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and

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Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The unaudited consolidated financial statements include the accounts of the Company and its Subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, considered necessary for a fair statement of the Company's financial information as of June 30, 2009, and for the three- and six-month periods ended June 30, 2009 and 2008. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the fiscal year. For further information, refer to the consolidated financial statements and accompanying footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

### 2. NET INCOME PER SHARE

Net income per share is computed based on the weighted-average number of common shares outstanding during the periods presented. Additionally, diluted earnings per share data gives effect to all potentially dilutive common shares that were outstanding during the periods presented. For the three-month periods ended June 30, 2009 and 2008, other stock options totaling 5.0 million and 4.7 million, respectively, and for the six-month periods ended June 30, 2009 and 2008, other stock options totaling 5.8 million and 4.6 million, respectively, were excluded from the calculation of diluted earnings per share because they were anti-dilutive.

### 3. DIVIDENDS PER SHARE

In February and May 2009, the Company's board of directors declared a quarterly cash dividend of \$0.115 per share for all shares of Class A common stock. These quarterly cash dividends of \$7.2 million and \$7.2 million, respectively, were paid on March 18, 2009 and June 25, 2009, to stockholders of record on February 27, 2009 and June 15, 2009, respectively. In July 2009, the Company's board of directors declared a quarterly cash dividend of \$0.115 per share for Class A common stock to be paid September 16, 2009 to stockholders of record on August 28, 2009.

### 4. DERIVATIVE FINANCIAL INSTRUMENTS

As of June 30, 2009 and December 31, 2008, the Company did not have any net unrealized gains/(losses) recorded in accumulated other comprehensive loss. At June 30, 2009 and December 31, 2008, the Company did not hold any forward contracts designated as foreign currency cash flow hedges.

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## NU SKIN ENTERPRISES, INC. Notes to Consolidated Financial Statements

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### 5. REPURCHASES OF COMMON STOCK

During the three- and six-month periods ended June 30, 2009, the Company repurchased approximately 0.3 million and 0.5 million shares of its Class A common stock under its open market repurchase plan for approximately \$3.9 million and \$5.9 million, respectively. During the three- and six-month periods ended June 30, 2008, the Company repurchased approximately 0.1 million shares of its Class A common stock under its open market repurchase plan for approximately \$2.0 million.

### 6. COMPREHENSIVE INCOME

The components of comprehensive income, net of related tax, for the three- and six-month periods ended June 30, 2009 and 2008, were as follows (in thousands):

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|   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|---|--------------------------------|-----------|------------------------------|-----------|
|   | 2009                           | 2008      | 2009                         | 2008      |
| Net income                              | \$ 22,114                      | \$ 20,601 | \$ 33,955                    | \$ 34,090 |
| Other comprehensive income, net of tax: |                                |           |                              |           |
| Foreign currency translation adjustment | 170                            | (923)     | 280                          | (1,015)   |
| Comprehensive income                    | \$ 22,284                      | \$ 19,678 | \$ 34,235                    | \$ 33,075 |

**7. SEGMENT INFORMATION**

The Company operates in a single operating segment by selling products to a global network of independent distributors that operates in a seamless manner from market to market, except for its operations in Mainland China. In Mainland China, the Company utilizes an employed sales force, contractual sales promoters and direct sellers to sell its products through fixed retail locations. Selling expenses are the Company's largest expense comprised of the commissions paid to its worldwide independent distributors as well as remuneration to its Mainland China sales employees, promoters and direct sellers paid on product sales. The Company manages its business primarily by managing its global sales force. The Company does not use profitability reports on a regional or divisional basis for making business decisions. However, the Company does recognize revenue in five geographic regions: North Asia, Americas, Greater China, Europe and South Asia/Pacific.

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**NU SKIN ENTERPRISES, INC.**  
**Notes to Consolidated Financial Statements**

Revenue generated in each of these regions is set forth below (in thousands):

| Revenue:           | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|--------------------|--------------------------------|------------|------------------------------|------------|
|                    | 2009                           | 2008       | 2009                         | 2008       |
| North Asia         | \$ 146,712                     | \$ 151,025 | \$ 286,530                   | \$ 300,459 |
| Americas           | 62,240                         | 57,253     | 120,656                      | 107,669    |
| Greater China      | 52,753                         | 55,778     | 100,223                      | 105,682    |
| Europe (region)    | 32,173                         | 30,445     | 58,847                       | 53,278     |
| South Asia/Pacific | 28,687                         | 27,212     | 52,507                       | 52,714     |
| Totals             | \$ 322,565                     | \$ 321,713 | \$ 618,763                   | \$ 619,802 |

Revenue generated by each of the Company's three product lines is set forth below (in thousands):

| Revenue:  | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|-----------|--------------------------------|------------|------------------------------|------------|
|           | 2009                           | 2008       | 2009                         | 2008       |
| Nu Skin   | \$ 182,096                     | \$ 159,992 | \$ 345,299                   | \$ 297,509 |
| Pharmanex | 137,132                        | 157,393    | 267,068                      | 313,345    |
| Other     | 3,337                          | 4,328      | 6,396                        | 8,948      |
| Totals    | \$ 322,565                     | \$ 321,713 | \$ 618,763                   | \$ 619,802 |

Additional information as to the Company's operations in its most significant geographic areas is set forth below (in thousands):

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| Revenue:       | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|----------------|--------------------------------|------------|------------------------------|------------|
|                | 2009                           | 2008       | 2009                         | 2008       |
| Japan          | \$ 110,690                     | \$ 110,048 | \$ 220,574                   | \$ 219,041 |
| United States  | 51,342                         | 48,794     | 100,578                      | 93,172     |
| South Korea    | 36,022                         | 40,977     | 65,956                       | 81,418     |
| Europe         | 26,605                         | 26,352     | 49,424                       | 46,270     |
| Taiwan         | 23,261                         | 25,007     | 42,548                       | 46,574     |
| Mainland China | 17,422                         | 16,174     | 33,874                       | 32,882     |

  

| Long-lived assets: | June 30, | December 31, |
|--------------------|----------|--------------|
|                    | 2009     | 2008         |
| Japan              | \$ 7,513 | \$ 9,891     |
| United States      | 42,678   | 45,940       |
| South Korea        | 1,840    | 2,007        |
| Europe             | 3,157    | 3,050        |
| Taiwan             | 1,890    | 2,220        |
| Mainland China     | 10,837   | 10,747       |
|                    | -6-      |              |

NU SKIN ENTERPRISES, INC.

Notes to Consolidated Financial Statements

**8. DEFERRED TAX ASSETS AND LIABILITIES**

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ( SFAS ) 109. This statement establishes financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. It requires an asset and liability approach for financial accounting and reporting of income taxes. The Company pays income taxes in many foreign jurisdictions based on the profits realized in those jurisdictions, which can be significantly impacted by terms of intercompany transactions between the Company and its foreign affiliates. Deferred tax assets and liabilities are created in this process. As of June 30, 2009, the Company had net deferred tax assets of \$74.0 million. The Company has netted these deferred tax assets and deferred tax liabilities by jurisdiction. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be ultimately realized.

**9. UNCERTAIN TAX POSITIONS**

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. The Company is currently under examination by the United States Internal Revenue Service (the IRS) for the 2006 and 2007 tax years. With a few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examination by tax authorities for years before 2005. For the tax year 2009, the Company entered into a voluntary program with the IRS called Compliance Assurance Process ( CAP ). The objective of CAP is to contemporaneously work with the IRS to achieve federal compliance and resolve all or most of the issues prior to filing of the tax return. The Company may elect to continue participating in CAP for future tax years and may withdraw from the program at any time. In major foreign jurisdictions, the Company is no longer subject to income tax examinations for years before 2002. Along with the IRS examination, the Company is currently under examination in certain foreign jurisdictions; however, the outcomes of these reviews are not yet determinable.

At December 31, 2008, the Company had \$30.9 million in unrecognized tax benefits of which \$5.8 million, if recognized, would affect the effective tax rate. The Company's unrecognized tax benefits relate to multiple foreign and domestic jurisdictions. The Company anticipates that it is reasonably possible that the total amount of gross unrecognized tax benefits, net of foreign currency adjustments, could decrease in the range of \$15 million to \$20 million within the next 12 months due to the closure of tax years by expiration of the statute of limitations and audit settlements. If these tax benefits are ultimately recognized, the impact to the Company's annual effective tax rate for 2009 and 2010, and the effective tax rate in the quarters in which the benefits are recognized would be impacted by approximately \$3 million to \$6 million. The amount of unrecognized tax benefits did not change significantly during the three months ended June 30, 2009.



**NU SKIN ENTERPRISES, INC.**  
**Notes to Consolidated Financial Statements**

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**10. COMMITMENTS AND CONTINGENCIES**

The Company is subject to governmental regulations pertaining to product formulation, labeling and packaging, product claims and advertising and to the Company's direct selling system. The Company is also subject to the jurisdiction of numerous foreign tax and customs authorities. Any assertions or determination that either the Company or the Company's distributors is not in compliance with existing statutes, laws, rules or regulations could potentially have a material adverse effect on the Company's operations. In addition, in any country or jurisdiction, the adoption of new statutes, laws, rules or regulations or changes in the interpretation of existing statutes, laws, rules or regulations could have a material adverse effect on the Company and its operations. Although management believes that the Company is in compliance, in all material respects, with the statutes, laws, rules and regulations of every jurisdiction in which it operates, no assurance can be given that the Company's compliance with applicable statutes, laws, rules and regulations will not be challenged by local or foreign authorities or that such challenges will not have a material adverse effect on the Company's financial position or results of operations or cash flows. The Company and its Subsidiaries are defendants in litigation and proceedings involving various matters. In the opinion of the Company's management, based upon advice of its counsel handling such litigation and proceedings, adverse outcomes, if any, will not likely result in a material effect on the Company's consolidated financial condition, results of operations or cash flows.

The Company is subject to regular audits by federal, state and foreign tax authorities. These audits may result in additional tax liabilities. The Company believes it has appropriately provided for income taxes for all years. Several factors drive the calculation of its tax reserves. Some of these factors include: (i) the expiration of various statutes of limitations; (ii) changes in tax law and regulations; (iii) issuance of tax rulings; and (iv) settlements with tax authorities. Changes in any of these factors may result in adjustments to the Company's reserves, which would impact its reported financial results.

Due to the international nature of the Company's business, the Company is subject from time to time to reviews and audits by the foreign taxing authorities of the various jurisdictions in which it conducts business throughout the world. In 1999, the Company implemented a duty valuation methodology with respect to the importation of certain products into Japan. For purposes of the import transactions at issue, the Company had taken the position that, under applicable customs law, there was a sale between the manufacturer and the Company's Japanese subsidiary, and that customs duties should be assessed on the manufacturer's invoice. The Valuation Department of the Yokohama customs authorities reviewed and approved this methodology at that time, and it had been reviewed on several occasions by the audit division of the Japan customs authorities since then. In connection with subsequent audits in 2004, the Yokohama customs authorities assessed the Company additional duties and penalties on these products imported into Japan from October 2002 to October 2004, based on a different valuation methodology than what was previously approved. With respect to the periods under audit, the customs authorities took the position that the relevant import transaction involved a sale between the Company's U.S. affiliate and its Japan subsidiary and that duties should be assessed on the value of that transaction. The Company disputed this assessment. It also disputed the amount of duties it was required to pay on products imported from November of 2004 to June of 2005 for similar reasons. The total amount assessed or in dispute was approximately yen 2.7 billion (or approximately \$28.0 million as of June 30, 2009), net of any recovery of consumption taxes. Effective July 1, 2005, the Company implemented some modifications to the Company's business structure in Japan and in the United States that it believes will eliminate any further customs valuation disputes with respect to product imports in Japan after that time.

**NU SKIN ENTERPRISES, INC.**  
**Notes to Consolidated Financial Statements**

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Because the Company believes the documentation and legal analysis supports its position and the valuation methodology it used with respect to the products in dispute had been reviewed and approved by the customs authorities in Japan, the Company believes the assessments are improper and it filed letters of protest with Yokohama customs with respect to this entire amount. Yokohama customs rejected the Company's letters of protest, and to follow proper administrative procedures the Company filed appeals with the Japan Ministry of Finance. In order to appeal, the Company was required to pay the approximately yen 2.7 billion in customs

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duties and assessments related to all of the amounts at issue, which it recorded in Other Assets in its Consolidated Balance Sheet. On June 26, 2006, the Company was advised that the Ministry of Finance had rejected the appeals filed with their office relating to the imports from October 2002 to October 2004. The Company decided to appeal this issue through the judicial court system in Japan, and on December 22, 2006 it filed a complaint with the Tokyo District Court Civil Action Section with respect to this period. In January 2007, the Company was advised that the Ministry of Finance also rejected its appeal with them for the imports from November 2004 to June 2005. The Company appealed this decision with the court system in July 2007. Currently, all appeals are pending with the Tokyo District Court Civil Action Section. One of the findings cited by the Ministry of Finance in its decisions was that the Company had treated the transactions as sales between its U.S. affiliate and its Japan subsidiary on its corporate income tax return under applicable income tax and transfer pricing laws. To the extent that the Company is unsuccessful in recovering the amounts assessed and paid, it will be required to take a corresponding charge to its earnings.

In November 2008, the U.S. Internal Revenue Service began an audit of the Company's 2006 and 2007 tax years. The Company anticipates this audit will be completed by approximately the end of 2010.

### 11. LONG-TERM DEBT

The Company currently has debt pursuant to various credit facilities and other borrowings. The following table summarizes the Company's long-term debt arrangements as of June 30, 2009:

| Facility or Arrangement <sup>(1)</sup>                                 | Original Principal Amount | Balance as of June 30, 2009 <sup>(2)</sup>              | Interest Rate | Repayment terms  |
|--|---------------------------|---|---------------|--|
| <b>2000 Japanese yen-denominated notes</b>                             | yen 9.7 billion           | yen 2.8 billion<br>(\$28.8 million as of June 30, 2009) | 3.0%          | Notes due October 2010, with annual principal payments that began in October 2004. |
| <b>2003 \$205.0 million multi-currency uncommitted shelf facility:</b> |                           |   |               |  |
| U.S. dollar denominated:   | \$50.0 million            | \$10.0 million  | 4.5%          | Notes due April 2010 with annual principal payments that began in April 2006.      |
|  | \$40.0 million            | \$40.0 million  | 6.2%          | Notes due July 2016 with annual principal payments that begin in July 2010.        |

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### NU SKIN ENTERPRISES, INC.

#### Notes to Consolidated Financial Statements

| Facility or Arrangement <sup>(1)</sup> | Original Principal Amount | Balance as of June 30, 2008 <sup>(2)</sup>              | Interest Rate | Repayment terms  |
|--|---------------------------|---|---------------|--|
|  | \$20.0 million            | \$20.0 million  | 6.2%          | Notes due January 2017, with annual principal payments beginning January 2011. |
| Japanese yen denominated:              | yen 3.1 billion           | yen 2.2 billion<br>(\$23.2 million as of June 30, 2009) | 1.7%          | Notes due April 2014, with annual principal payments that began in April 2008. |

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| Facility or Arrangement <sup>(1)</sup>               | Original Principal Amount | Balance as of June 30, 2008 <sup>(2)</sup>           | Interest Rate | Repayment terms  |
|--|---------------------------|--|---------------|--|
|  | yen 2.3 billion           | yen 2.3 billion (\$23.5 million as of June 30, 2009) | 2.6%          | Notes due September 2017, with annual principal payments beginning September 2011. |
|  | yen 2.2 billion           | yen 2.2 billion (\$22.5 million as of June 30, 2009) | 3.3%          | Notes due January 2017, with annual principal payments beginning January 2011.     |
| <b>2004 \$25.0 million revolving credit facility</b> | N/A                       | None   | N/A           | Credit facility expires May 2010.  |

<sup>(1)</sup> Each of the credit facilities and arrangements listed in the table are secured by guarantees issued by the Company's material domestic subsidiaries and by pledges of 65% of the outstanding stock of the Company's material foreign subsidiaries.

<sup>(2)</sup> The current portion of the Company's long-term debt (i.e. becoming due in the next 12 months) is \$29.0 million and includes \$14.4 million of the balance on the Company's 2000 Japanese yen denominated notes, \$4.6 million of the balance of the Company's Japanese yen-denominated debt under the 2003 multi-currency uncommitted shelf facility and \$10.0 million of the balance on the Company's U.S. dollar denominated debt under the 2003 multi-currency uncommitted shelf facility.

**12. RESTRUCTURING CHARGES**

During the first half of 2009, the Company recorded restructuring charges of \$11.0 million, related to restructuring of its Japan operations, including an approximate 30% headcount reduction as well as facility relocations and closures. \$7.2 million of these charges related to severance payments to terminated employees and \$3.8 million related to facility relocation or closing costs. The Company anticipates that it will incur approximately \$3 million in additional restructuring charges during the remainder of 2009 primarily related to facility relocations and closures in Japan.

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**NU SKIN ENTERPRISES, INC.**

**Notes to Consolidated Financial Statements**

As of June 30, 2009, approximately \$0.4 million remains accrued for anticipated payments of the severance charges during the second quarter of 2009. The majority of these severance charges are related to a voluntary employment reduction program, which the Company accounted for under the provision of SFAS 112, Employer's Accounting for Postemployment Benefits. The restructuring charges for facility relocation or closing costs related to costs incurred during the first half of 2009 for leases terminated in that period. The Company accounted for these facility closing charges under the provisions of SFAS 146, Accounting for Costs Associated with Exit of Disposal Activities.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**ITEM 1. FINANCIAL STATEMENTS**

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The following Management's Discussion and Analysis should be read in conjunction with Management's Discussion and Analysis included in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission (SEC) on February 27, 2009, and our other filings, including Current Reports on Form 8-K, filed with the SEC through the date of this report.

### Overview

Our revenue for the three-month period ended June 30, 2009 increased slightly to \$322.6 million compared to \$321.7 million in the prior-year period. Revenue for the six-month period ended June 30, 2009 decreased slightly to \$618.8 million compared to \$619.8 million for the same period in 2008. Foreign currency exchange rate fluctuations negatively impacted revenue by 4% for both the three- and six-month periods. Solid year-over-year local-currency growth in our South Korea, Americas, Europe and South Asia/Pacific markets helped offset the impact of foreign currency fluctuations. During the quarter we continued to see strong sales results in our personal care brand, including continued demand for the *Galvanic Spa System II* and *ageLOC Galvanic Gels*, our first products to incorporate *ageLOC* technology, which are currently being sold in our Americas and Europe regions.

Earnings per share for the second quarter and first half of 2009 were \$0.35 and \$0.53, respectively, compared to \$0.32 and \$0.53 for the same periods in 2008. Earnings per share for the second quarter and first half of 2009 were negatively impacted by \$1.6 million and \$11.0 million, respectively, in planned restructuring charges (or \$0.02 and \$0.11 per share), primarily related to transformation efforts to streamline our operations in Japan.

### Revenue

North Asia. The following table sets forth revenue for the three- and six-month periods ended June 30, 2009 and 2008 for the North Asia region and its principal markets (U.S. dollars in millions):

|                  | Three Months Ended<br>June 30, |          |        | Six Months Ended<br>June 30, |          |        |
|------------------|--------------------------------|----------|--------|------------------------------|----------|--------|
|                  | 2009                           | 2008     | Change | 2009                         | 2008     | Change |
| Japan            | \$ 110.7                       | \$ 110.0 | 1%     | \$ 220.6                     | \$ 219.1 | 1%     |
| South Korea      | 36.0                           | 41.0     | (12%)  | 65.9                         | 81.4     | (19%)  |
| North Asia total | \$ 146.7                       | \$ 151.0 | (3%)   | \$ 286.5                     | \$ 300.5 | (5%)   |

Revenue in the region for the three- and six-month periods ended June 30, 2009 was negatively impacted approximately 1% by foreign currency exchange rate fluctuations as a significant weakening of the Korean won was largely offset by a strengthening of the yen compared to the prior-year period.

Local-currency revenue in Japan declined 6% and 8% for the three- and six-month periods ended June 30, 2009, respectively, compared to the same periods in 2008, which was offset by the impact of a stronger yen during the quarter compared to the prior-year period. Although we experienced a smaller year-over-year decline in revenue compared to the prior two quarters, we continued to be negatively impacted by year-over-year declines in our distributor numbers, with active and executive distributor counts decreasing 8% and 7%, respectively. Regulatory and media scrutiny of the industry and our focus on distributor compliance in response to this scrutiny continued to negatively affect our business. During the quarter, however, we continued to focus on initiatives that have successfully contributed to growth in our other markets. We have experienced a positive response to these initiatives from our distributors, contributing to improvements in the number of new distributor signups, the number of distributors applying to become executive distributors and the average sales volume per distributor in this market over the last couple of quarters.

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South Korea continued to experience local-currency revenue growth with local-currency revenue increasing 11% and 10% for the three- and six-month periods ended June 30, 2009, respectively, compared to the same periods in 2008. However, a 26% weighted average weakening of the Korean won during the second quarter of 2009 resulted in a large decline in reported revenue in this market compared to the prior-year period. As the Korean won continues to fluctuate, it may positively or negatively impact our results. The number of active and executive distributors in Korea increased 14% and 7%, respectively, compared to the prior-year period.

Americas. The following table sets forth revenue for the three- and six-month periods ended June 30, 2009 and 2008 for the Americas region and its principal markets (U.S. dollars in millions):

|  | Three Months Ended<br>June 30, |      |        | Six Months Ended<br>June 30, |      |        |
|--|--------------------------------|------|--------|------------------------------|------|--------|
|  | 2009                           | 2008 | Change | 2009                         | 2008 | Change |

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|                | Three Months Ended<br>June 30, |      |    |      |     | Six Months Ended<br>June 30, |       |    |       |     |
|----------------|--------------------------------|------|----|------|-----|------------------------------|-------|----|-------|-----|
|                |                                |      |    |      |     |                              |       |    |       |     |
| United States  | \$                             | 51.3 | \$ | 48.8 | 5%  | \$                           | 100.6 | \$ | 93.2  | 8%  |
| Canada         |                                | 6.0  |    | 4.1  | 46% |                              | 10.6  |    | 7.4   | 43% |
| Latin America  |                                | 4.9  |    | 4.4  | 11% |                              | 9.5   |    | 7.1   | 34% |
| Americas total | \$                             | 62.2 | \$ | 57.3 | 9%  | \$                           | 120.7 | \$ | 107.7 | 12% |

Revenue in the United States for the three- and six-month periods ended June 30, 2009 increased by 5% and 8%, respectively, compared to the prior-year periods, reflecting slower growth than in recent quarters. The increase in revenue continues to be driven by strong interest in our highly demonstrable *Galvanic Spa System II*. Our launch of *ageLOC Galvanic Gels* during the last quarter of 2008 also contributed to growth during the first-half of 2009. At our global convention in the fourth quarter of 2009, we will launch our new *ageLOC* anti-aging skin care system on a limited basis, with the full launch to follow in the first quarter of 2010. Active distributors in the United States decreased 4% and executive distributors increased 8% in the second quarter of 2009 compared to the same prior-year period.

On a local-currency basis, revenue in Canada increased 68% and 71% for the three- and six-month periods respectively, over the prior-year periods. Latin America local-currency revenue increased by 30% and 54% for the three- and six-month periods, respectively, over the prior-year periods. Revenue was driven primarily by the success of our *Galvanic Spa System II* and *ageLOC* gels in these markets. Our growth in Latin America is also attributed to our expansion into Venezuela last year as well as the commencement of initial marketing efforts in Colombia during the second quarter of 2009.

**Greater China.** The following table sets forth revenue for the three- and six-month periods ended June 30, 2009 and 2008 for the Greater China region and its principal markets (U.S. dollars in millions):

|                     | Three Months Ended<br>June 30, |      |    |      |        | Six Months Ended<br>June 30, |       |    |       |        |
|---------------------|--------------------------------|------|----|------|--------|------------------------------|-------|----|-------|--------|
|                     |                                | 2009 |    | 2008 | Change |                              | 2009  |    | 2008  | Change |
| Taiwan              | \$                             | 23.3 | \$ | 25.0 | (7%)   | \$                           | 42.5  | \$ | 46.6  | (9%)   |
| Mainland China      |                                | 17.4 |    | 16.2 | 7%     |                              | 33.9  |    | 32.9  | 3%     |
| Hong Kong           |                                | 12.1 |    | 14.6 | (17%)  |                              | 23.8  |    | 26.2  | (9%)   |
| Greater China total | \$                             | 52.8 | \$ | 55.8 | (5%)   | \$                           | 100.2 | \$ | 105.7 | (5%)   |

Foreign currency exchange rate fluctuations negatively impacted revenue in this region by approximately 3% and 2% for the three- and six-month periods, respectively, ending June 30, 2009.

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On a local-currency basis, revenue in Mainland China increased 6% in the three-month period and was relatively level for the six-month period ended June 30, 2009, compared to the same periods in 2008. The year-over-year increase in revenue in Mainland China was the result of strong sales of the *Galvanic Spa System II*, successful sales initiatives and the adoption of our revised business model. We continue to operate cautiously in this market as we continue to focus our efforts on managing our sales force to ensure compliance with our policies and local regulations. The number of preferred customers in Mainland China decreased 43% and sales representatives decreased 8%, compared to the prior-year period, due to a shift in our business model.

Local-currency revenue in Taiwan was up 1% and down 1% for the three- and six-month periods ended June 30, 2009, respectively, and local-currency revenue in Hong Kong was down 18% and 10% for the three- and six-month periods ended June 30, 2009, compared to the same prior-year periods. Revenue comparisons in Hong Kong were negatively impacted by sales to non-Hong Kong distributors attending the regional convention held during the second quarter last year. We continue to be unable to market the *Galvanic Spa System II* in Taiwan due to regulatory restrictions, which has been a primary growth initiative in our other markets. The second quarter executive and active distributor counts in Taiwan were down 4% and 2% when compared to the prior-year period, while executive distributors in Hong Kong were level with the prior year period and the active distributors in Hong Kong were down 3%.

**Europe.** The following table sets forth revenue for the three- and six-month periods ended June 30, 2009 and 2008 for Europe (U.S. dollars in millions):

|        | Three Months Ended<br>June 30, |      |    |      |        | Six Months Ended<br>June 30, |      |    |      |        |
|--------|--------------------------------|------|----|------|--------|------------------------------|------|----|------|--------|
|        |                                | 2009 |    | 2008 | Change |                              | 2009 |    | 2008 | Change |
| Europe | \$                             | 32.2 | \$ | 30.4 | 6%     | \$                           | 58.8 | \$ | 53.3 | 10%    |

Regional results were negatively impacted 16% and 19% in the three- and six-month periods by foreign currency fluctuations.

We continue to experience strong growth throughout our European markets. Growth in this region was driven by strong sales force leadership and sustained interest in our *Galvanic Spa System II* and our products supported by the *Pharmanex BioPhotonic Scanner*, as well as

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momentum generated from the expansion of our business in Eastern Europe, which includes the markets of Hungary, Romania, Russia, Slovakia, Poland and the recently opened Czech Republic. We also began initial marketing activities in Turkey during the second quarter of 2009.

South Asia/Pacific. The following table sets forth revenue for the three- and six-month periods ended June 30, 2009 and 2008 for the South Asia/Pacific region and its principal markets (U.S. dollars in millions):

|                           | Three Months Ended<br>June 30, |         |        |         | Six Months Ended<br>June 30, |        |  |  |
|---------------------------|--------------------------------|---------|--------|---------|------------------------------|--------|--|--|
|                           | 2009                           | 2008    | Change | 2009    | 2008                         | Change |  |  |
| Singapore/Malaysia/Brunei | \$ 11.6                        | \$ 11.4 | 2%     | \$ 21.0 | \$ 21.4                      | (2%)   |  |  |
| Thailand                  | 9.2                            | 8.2     | 12%    | 17.2    | 16.9                         | 2%     |  |  |
| Australia/New Zealand     | 3.2                            | 3.5     | (9%)   | 6.0     | 6.8                          | (12%)  |  |  |
| Indonesia                 | 2.9                            | 2.5     | 2%     | 4.9     | 4.4                          | 11%    |  |  |
| Philippines               | 1.8                            | 1.6     | 1%     | 3.4     | 3.2                          | 6%     |  |  |
| South Asia/Pacific total  | \$ 28.7                        | \$ 27.2 | 6%     | \$ 52.5 | \$ 52.7                      | *      |  |  |

\*Less than 1%

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Foreign currency exchange rate fluctuations negatively impacted revenue in South Asia/Pacific by 11% and 13%, respectively, in the three- and six-month periods ended June 30, 2009 when compared to the same prior-year periods. Constant currency growth of 17% and 13% in the three- and six-month periods in this region was driven primarily by steady sales of our *Galvanic Spa System II* and *The Right Approach* weight loss products. We also successfully launched enhancements to our sales compensation plan in these markets, which we believe helped contribute to increased distributor productivity. The growth in this region was driven by double-digit constant-currency growth in Malaysia, Australia/New Zealand, Philippines, Thailand and Indonesia.

### Gross profit

Gross profit as a percentage of revenue decreased to 81.2% and 81.5% for the three- and six-month periods ended June 30, 2009 from 81.6% and 81.7% for the same periods in 2008. This decline is due primarily to foreign currency fluctuations and shifting product mix, including increased sales of our *Galvanic Spa System II*, which has a slightly lower margin.

### Selling expenses

Selling expenses as a percentage of revenue decreased to 41.7% for the three- and six-month periods ended June 30, 2009 from 42.6% and 42.7% from the same prior-year periods, respectively. This improvement was largely related to the phase-in of the Wealth Maximizer compensation plan adjustments in several markets.

### General and administrative expenses

General and administrative expenses as a percentage of revenue for the three- and six-month periods ended June 30, 2009 decreased to 28.3% and 29.3% from 30.0% and 29.9% for the same periods in 2008, due primarily to our business transformation efforts. We also had approximately \$5.0 million in expenses related to conventions in the second quarter of 2008, but did not have any convention or related expenses in the second quarter of 2009, which was offset slightly by higher costs associated with distributor recognition events in 2009 compared to 2008.

### Restructuring charges

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During the three- and six-month periods ended June 30, 2009, we recorded restructuring charges of \$1.6 million and \$11.0 million, respectively, primarily related to restructuring in our Japan operations, including an approximately 30% headcount reduction as well as facility relocations and closures. Approximately \$7.2 million of these charges related to severance payments to terminated employees and approximately \$3.8 million related to facility relocation or closing costs. We currently anticipate that we will incur approximately \$3 million in additional restructuring charges during the remainder of 2009 primarily related to facility relocations and closures in Japan.

### **Other income (expense), net**

Other income (expense), net for the three- and six-month periods ended June 30, 2009 was approximately \$0.8 million and (\$0.4) million compared to \$4.1 million and (\$1.7) million for the same periods in 2008. Fluctuations in other income (expense), net are primarily due to foreign exchange fluctuations to the U.S. dollar on the translation of yen-based bank debt and other foreign denominated intercompany balances into U.S. dollars for financial reporting purposes. For the three-month period ended June 30, 2009, the other income was largely a result of a \$1.9 million translation gain.

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### **Provision for income taxes**

Provision for income taxes for the three- and six-month periods ended June 30, 2009 was \$13.2 million and \$20.3 million of expense compared to \$12.4 million and \$20.5 million of expense for the same periods in 2008. The effective tax rate was 37.4% of pre-tax income during the three- and six-month periods ended June 30, 2009, compared to a rate of 37.7% and 37.6% in the same prior-year periods. We expect our tax rate for the year to be between 35% and 36%. However, due to the fluctuations in the timing of uncertain tax positions booked under FIN 48, the most recent income tax accounting pronouncement, we expect a shift in our tax rate during the third and fourth quarters. We expect our tax rate to decrease in the third quarter and then return in the fourth quarter to the historical rate of between 37% and 38%.

### **Net income**

Net income for the three-month period ended June 30, 2009 increased to \$22.1 million compared to \$20.6 million for the same prior-year period based on the factors described above. Net income for the six-month period ended June 30, 2009, remained relatively level with the prior-year period at \$34.0 million.

### **Liquidity and Capital Resources**

Historically, our principal uses of cash have included operating expenses, particularly selling expenses, and working capital (principally inventory purchases), as well as capital expenditures, stock repurchases, dividends, debt repayment and the development of operations in new markets. We typically generate positive cash flow from operations due to favorable gross margins and the variable nature of selling expenses, which constitute a significant percentage of operating expenses. We generated \$52.0 million in cash from operations during the first half of 2009, compared to \$40.3 million during the same period in 2008. We typically have relied on cash flow from operations to fund capital investments and dividends, and we have at times incurred long-term debt in order to fund strategic transactions and stock repurchases.

As of June 30, 2009, working capital was \$136.0 million, compared to \$124.0 million as of December 31, 2008. Cash and cash equivalents at June 30, 2009 and December 31, 2008 were \$125.3 million and \$114.6 million, respectively. The increase in cash balances was primarily due to the increase in cash generated from operating activities. This increase in cash positively impacted our working capital.

Capital expenditures in the first half of 2009 totaled \$7.0 million, and we anticipate capital expenditures of approximately \$25 million for 2009. These capital expenditures are primarily related to:

purchases of computer systems and software, including equipment and development costs; and

the build-out and upgrade of leasehold improvements in our various markets, including retail stores in China and walk-in centers in Japan.

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We currently have long-term debt pursuant to various credit facilities and other borrowings. The following table summarizes these long-term debt arrangements as of June 30, 2009:

| Facility or Arrangement <sup>(1)</sup>                                 | Original Principal Amount | Balance as of June 30, 2009 <sup>(2)</sup>              | Interest Rate | Repayment terms  |
|--|---------------------------|---|---------------|--|
| <b>2000 Japanese yen-denominated notes</b>                             | yen 9.7 billion           | yen 2.8 billion<br>(\$28.8 million as of June 30, 2009) | 3.0%          | Notes due October 2010, with annual principal payments that began in October 2004. |
| <b>2003 \$205.0 million multi-currency uncommitted shelf facility:</b> |                           |   |               |  |
| U.S. dollar denominated:   | \$50.0 million            | \$10.0 million  | 4.5%          | Notes due April 2010 with annual principal payments that began in April 2006.      |
|  | \$40.0 million            | \$40.0 million  | 6.2%          | Notes due July 2016 with annual principal payments that begin in July 2010.        |
|  | \$20.0 million            | \$20.0 million  | 6.2%          | Notes due January 2017, with annual principal payments beginning January 2011.     |
| Japanese yen denominated:  | yen 3.1 billion           | yen 2.2 billion<br>(\$23.2 million as of June 30, 2009) | 1.7%          | Notes due April 2014, with annual principal payments that began in April 2008.     |
|  | yen 2.3 billion           | yen 2.3 billion<br>(\$23.5 million as of June 30, 2009) | 2.6%          | Notes due September 2017, with annual principal payments beginning September 2011. |
|  | yen 2.2 billion           | yen 2.2 billion<br>(\$22.5 million as of June 30, 2009) | 3.3%          | Notes due January 2017, with annual principal payments beginning January 2011.     |
| <b>2004 \$25.0 million revolving credit facility</b>                   | N/A                       | None  | N/A           | Credit facility expires May 2010.  |

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<sup>(1)</sup> Each of the credit facilities and arrangements listed in the table are secured by guarantees issued by our material domestic subsidiaries and by pledges of 65% of the outstanding stock of our material foreign subsidiaries.

<sup>(2)</sup> The current portion of our long-term debt (i.e. becoming due in the next 12 months) is \$29.0 million and includes \$14.4 million of the balance on our 2000 Japanese yen denominated notes, \$4.6 million of the balance of our Japanese yen-denominated debt under the 2003 multi-currency uncommitted shelf facility and \$10.0 million of the balance on our U.S. dollar denominated debt under the 2003 multi-currency uncommitted shelf facility.



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Our board of directors has approved a stock repurchase program authorizing us to repurchase our outstanding shares of Class A common stock on the open market or in private transactions. The repurchases are used primarily to offset dilution from our equity incentive plans and for strategic initiatives. During the first half of 2009, we repurchased approximately 0.5 million shares of Class A common stock under this program for approximately \$5.9 million. At June 30, 2009, approximately \$77.7 million was available for repurchases under the stock repurchase program.

In February 2009 and May 2009, our board of directors declared a quarterly cash dividend of \$0.115 per share for Class A common stock. These quarterly cash dividends of \$7.2 million were paid on March 18, 2009 and June 25, 2009 to stockholders of record on February 27, 2009 and June 15, 2009. Currently, we anticipate that our board of directors will continue to declare quarterly cash dividends and that the cash flows from operations will be sufficient to fund our future dividend payments. However, the continued declaration of dividends is subject to the discretion of our board of directors and will depend upon various factors, including our net earnings, financial condition, cash requirements, future prospects and other factors deemed relevant by our board of directors.

We believe we have sufficient liquidity to be able to meet our obligations on both a short- and long-term basis. We currently believe that existing cash balances, future cash flows from operations and existing lines of credit will be adequate to fund our cash needs on both a short- and long-term basis. The majority of our historical expenses have been variable in nature and as such, a potential reduction in the level of revenue would reduce our cash flow needs. In the event that our current cash balances, future cash flow from operations and current lines of credit are not sufficient to meet our obligations or strategic needs, we would consider raising additional funds in the debt or equity markets or restructuring our current debt obligations. Additionally, we would consider realigning our strategic plans, including a reduction in capital spending, stock repurchases or dividend payments.

Due to the international nature of our business, we are subject from time to time to reviews and audits by the foreign taxing authorities of the various jurisdictions in which we conduct business throughout the world. In 1999, we implemented a duty valuation methodology with respect to the importation of certain products into Japan. For purposes of the import transactions at issue, we had taken the position that, under applicable customs law, there was a sale between the manufacturer and our Japan subsidiary, and that customs duties should be assessed on the manufacturer's invoice. The Valuation Department of the Yokohama customs authorities reviewed and approved this methodology at that time, and it had been reviewed on several occasions by the audit division of the Japan customs authorities since then. In connection with subsequent audits in 2004, the Yokohama customs authorities assessed us additional duties and penalties on these products imported into Japan from October 2002 to October 2004, based on a different valuation methodology than what was previously approved. With respect to the periods under audit, the customs authorities took the position that the relevant import transaction involved a sale between our U.S. affiliate and our Japan subsidiary and that duties should be assessed on the value of that transaction. We disputed this assessment. We also disputed the amount of duties we were required to pay on products imported from November of 2004 to June of 2005 for similar reasons. The total amount assessed or in dispute was approximately yen 2.7 billion (or approximately \$28.0 million as of June 30, 2009), net of any recovery of consumption taxes. Effective July 1, 2005, we implemented some modifications to our business structure in Japan and in the United States that we believe will eliminate any further customs valuation disputes with respect to product imports in Japan after that time.

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Because we believe the documentation and legal analysis supports our position and the valuation methodology we used with respect to the products in dispute had been reviewed and approved by the customs authorities in Japan, we believe the assessments are improper and we filed letters of protest with Yokohama customs with respect to this entire amount. Yokohama customs rejected our letters of protest, and to follow proper administrative procedures we filed appeals with the Japan Ministry of Finance. In order to appeal, we were required to pay the approximately yen 2.7 billion in custom duties and assessments related to all of the amounts at issue, which we recorded in Other Assets in our Consolidated Balance Sheet. On June 26, 2006, we were advised that the Ministry of Finance had rejected the appeals filed with their office relating to the imports from October 2002 to October 2004. We decided to appeal this issue through the judicial court system in Japan, and on December 22, 2006, we filed a complaint with the Tokyo District Court Civil Action Section with respect to this period. In January 2007, we were advised that the Ministry of Finance also rejected our appeal with them for the imports from November 2004 to June 2005. We appealed this decision with the court system in July 2007. Currently, all appeals are pending with the Tokyo District Court Civil Action Section. One of the findings cited by the Ministry of Finance in its decisions was that we had treated the transactions as sales between our U.S. affiliate and our Japan subsidiary on our corporate income tax return under applicable income tax and transfer pricing laws. To the extent that we are unsuccessful in recovering the amounts assessed and paid, we will be required to take a corresponding charge to our earnings.

### **Critical Accounting Policies**

The following critical accounting policies and estimates should be read in conjunction with our audited consolidated financial statements and related notes thereto, and our interim unaudited consolidated financial statements and related notes thereto. Management considers the most critical accounting policies to be the recognition of revenue, accounting for income taxes, accounting for intangible assets and accounting for stock-based compensation. In each of these areas, management makes estimates based on historical results, current trends and future projections.

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**Revenue.** We recognize revenue when products are shipped, which is when title and risk of loss pass to our independent distributors. With some exceptions in various countries, we offer a return policy whereby distributors can return unopened and unused product for up to 12 months subject to a 10% restocking fee. Reported revenue is net of returns, which have historically been less than 5% of gross sales. A reserve for product returns is accrued based on historical experience. We classify selling discounts as a reduction of revenue. Our selling expenses are computed pursuant to our global compensation plan for our distributors, which is focused on remunerating distributors based primarily upon the selling efforts of the distributors and the volume of products purchased by their downlines, and not their personal purchases.

**Income Taxes.** We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. This statement establishes financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. It requires an asset and liability approach for financial accounting and reporting of income taxes. We pay income taxes in many foreign jurisdictions based on the profits realized in those jurisdictions, which can be significantly impacted by terms of intercompany transactions among our affiliates around the world. Deferred tax assets and liabilities are created in this process. As of June 30, 2009, we had net deferred tax assets of \$74.0 million. These net deferred tax assets assume sufficient future earnings will exist for their realization, as well as the continued application of current tax rates. In certain foreign jurisdictions valuation allowances have been recorded against the deferred tax assets specifically related to use of net operating losses. When we determine that there is sufficient taxable income to utilize the net operating losses, the valuation allowances will be released. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period such determination was made.

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We file income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. The Company is currently under examination by the United States Internal Revenue Service (the IRS) for the 2006 and 2007 tax years. With a few exceptions, we are no longer subject to U.S. federal, state and local income tax examination by tax authorities for years before 2005. For the tax year 2009, we entered into a voluntary program with the IRS called Compliance Assurance Process (CAP). The objective of CAP is to contemporaneously work with the IRS to achieve federal tax compliance and resolve all or most of the issues prior to filing of the tax return. We may elect to continue participating in CAP for future tax years and may withdraw from the program at any time. In major foreign jurisdictions, we are no longer subject to income tax examinations for years before 2002. Along with the IRS examination, we are currently under examination in certain foreign jurisdictions; however, the final outcomes of these reviews are not yet determinable.

At December 31, 2008, we had \$30.9 million in unrecognized tax benefits of which \$5.8 million, if recognized, would affect the effective tax rate. In comparison, at December 31, 2007, we had \$31.9 million in unrecognized tax benefits of which \$9.1 million, if recognized, would affect the effective tax rate. Our unrecognized tax benefits relate to multiple foreign and domestic jurisdictions. We anticipate that it is reasonably possible that the total amount of gross unrecognized tax benefits, net of foreign currency adjustments, could decrease in the range of \$15 million to \$20 million within the next 12 months due to the closure of tax years by expiration of the statute of limitations and audit settlements. If these tax benefits are ultimately recognized, the impact to our annual effective tax rate for 2009 and 2010, and the effective tax rate in the quarters in which the benefits are recognized would be impacted by approximately \$3 million to \$6 million. The amount of unrecognized tax benefits did not change significantly during the three months ended June 30, 2009.

We are subject to regular audits by federal, state and foreign tax authorities. These audits may result in additional tax liabilities. We account for such contingent liabilities in accordance with FIN 48, and believe we have appropriately provided for income taxes for all years. Several factors drive the calculation of our tax reserves. Some of these factors include: (i) the expiration of various statutes of limitations; (ii) changes in tax law and regulations; (iii) issuance of tax rulings; and (iv) settlements with tax authorities. Changes in any of these factors may result in adjustments to our reserves, which would impact our reported financial results.

**Intangible Assets.** Under the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), our goodwill and intangible assets with indefinite useful lives are not amortized. All of our goodwill is based in the U.S. Our intangible assets with finite lives are recorded at cost and are amortized over their respective estimated useful lives and are reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (see Note 5 to the Consolidated Financial Statements).

We are required to make judgments regarding the useful lives of our intangible assets. With the implementation of SFAS 142, we determined certain intangible assets to have indefinite lives based upon our analysis of the requirements of SFAS No. 141, *Business Combinations* (SFAS 141), and SFAS 142. Under the provisions of SFAS 142, we are required to test these assets for impairment at least annually. The annual impairment tests were completed in the second quarter of 2009, and did not result in an impairment charge. To the extent an impairment is identified in the future, we will record the amount of the impairment as an operating expense in the period in which it is identified.

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**Stock-Based Compensation.** Effective January 1, 2006, we adopted the fair value recognition provisions of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), using the modified prospective transition method. Under this method we recognize

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compensation expense for all share-based payments granted after January 1, 2006, and prior to, but not yet vested as of January 1, 2006, in accordance with SFAS 123R. Under the fair value recognition provisions of SFAS 123R, we recognize stock-based compensation net of any estimated forfeitures on a straight-line basis over the requisite service period of the award. The fair value of our stock-based compensation expense is based on estimates using the Black-Scholes option-pricing model. This option-pricing model requires the input of highly subjective assumptions including the option's expected life, risk-free interest rate, expected dividends and price volatility of the underlying stock. The stock price volatility assumption was determined using the historical volatility of our common stock.

### Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 157, *Fair Value Measurements* ( SFAS 157 ), which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. In February 2008, the FASB issued Staff Position 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS No. 157 for nonfinancial assets and liabilities, except for those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until January 1, 2009. We adopted SFAS 157 as of January 1, 2008, with the exception of the application of the statement to non-recurring, nonfinancial assets and liabilities. Later we adopted FASB Staff Position 157-2 on January 1, 2009. The adoption of SFAS 157 did not have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*, ( SFAS 141R ), which changes how business combinations are accounted for. SFAS 141R became effective January 1, 2009. The impact of SFAS 141R depends on the nature and terms of future acquisitions.

In December 2007, the FASB ratified the Emerging Issues Task Force consensus on EITF Issue No. 07-1, *Accounting for Collaborative Arrangements*, that discusses how parties to a collaborative arrangement (which does not establish a legal entity within such arrangement) should account for various activities. The consensus indicated that costs incurred and revenues generated from transactions with third parties (i.e. parties outside of the collaborative arrangement) should be reported by the collaborators on the respective line items in their income statements pursuant to EITF Issue No. 99-19, *Reporting Revenue Gross as a Principal Versus Net as an Agent*. Additionally, the consensus provides that income statement characterization of payments between the participants in a collaborative arrangement should be based upon existing authoritative pronouncements; analogy to such pronouncements if not within their scope; or reasonable, rational, and consistently applied accounting policy election. EITF Issue 07-1 became effective for us January 1, 2009. The adoption of EITF Issue No. 07-1 did not have a material impact on our consolidated results of operations or financial condition.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* ( SFAS 160 ), which changes the accounting and reporting standards for the noncontrolling interests in a subsidiary in consolidated financial statements. SFAS 160 recharacterizes minority interests as noncontrolling interests and requires noncontrolling interests to be classified as a component of shareholders equity. SFAS 160 became effective January 1, 2009. The adoption of SFAS 160 had no effect on our consolidated results of operations or financial condition.

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In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of SFAS No. 133* ( SFAS 161 ). This Standard requires enhanced disclosures regarding derivatives and hedging activities, including: (a) the manner in which an entity uses derivative instruments; (b) the manner in which derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*; and (c) the effect of derivative instruments and related hedged items on an entity's financial position, financial performance, and cash flows. The Standard is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. As SFAS 161 relates specifically to disclosures, the Standard has no impact on our financial condition, results of operations or cash flows.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* ( SFAS 165 ). SFAS 165 sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is effective for the second quarter of 2009 and did not have a material impact on our Consolidated Financial Statements. In that regard, we performed an evaluation of subsequent events through August 7, 2009, the date the financial statements were issued. We did not have any required disclosures to include under the caption Subsequent Event.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles*, a replacement of FASB Statement No. 162 ( SFAS 168 ), which establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with generally accepted accounting principles. SFAS 168 explicitly recognizes rules and interpretive releases of the Securities and Exchange Commission ( SEC ) under federal securities laws as authoritative GAAP for SEC registrants. SFAS 168 will become effective in the

fourth quarter of 2009 and will not have a material impact on our consolidated financial statements.

### Seasonality and Cyclicalities

In addition to general economic factors, we are impacted by seasonal factors and trends such as major cultural events and vacation patterns. For example, most Asian markets celebrate their respective local New Year in the first quarter, which generally has a negative impact on that quarter. We believe that direct selling in Japan, the United States and Europe is also generally negatively impacted during the third quarter, when many individuals, including our distributors, traditionally take vacations.

We have experienced rapid revenue growth in certain new markets following commencement of operations. This initial rapid growth has often been followed by a period of stable or declining revenue, then followed by renewed growth fueled by product introductions, an increase in the number of active distributors and increased distributor productivity. The contraction following initial rapid growth has been more pronounced in certain new markets, due to other factors such as business or economic conditions or distributor distractions outside the market.

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### Distributor Information

The following table provides information concerning the number of active and executive distributors as of the dates indicated. Active distributors are those distributors and preferred customers who were resident in the countries in which we operated and purchased products for resale or personal consumption directly from us during the three months ended as of the date indicated. Executive distributors are active distributors who have achieved required monthly personal and group sales volumes as well as sales representatives in China who have completed a qualification process.

| Region:            | As of June 30, 2009 |           | As of June 30, 2008 |           |
|--------------------|---------------------|-----------|---------------------|-----------|
|                    | Active              | Executive | Active              | Executive |
| North Asia         | 322,000             | 13,803    | 329,000             | 14,292    |
| Americas           | 171,000             | 5,385     | 174,000             | 4,921     |
| Greater China      | 103,000             | 6,129     | 130,000             | 6,443     |
| Europe             | 89,000              | 3,173     | 71,000              | 2,648     |
| South Asia/Pacific | 67,000              | 2,525     | 64,000              | 2,168     |
| Total              | 752,000             | 31,015    | 768,000             | 30,472    |

### Currency Risk and Exchange Rate Information

A majority of our revenue and many of our expenses are recognized outside of the United States, except for inventory purchases, which are primarily transacted in U.S. dollars from vendors in the United States. The local currency of each of our Subsidiaries' primary markets is considered the functional currency. All revenue and expenses are translated at weighted-average exchange rates for the periods reported. Therefore, our reported revenue and earnings will be positively impacted by a weakening of the U.S. dollar and will be negatively impacted by a strengthening of the U.S. dollar. Given the large portion of our business derived from Japan, any weakening of the yen negatively impacts reported revenue and profits, whereas a strengthening of the yen positively impacts our reported revenue and profits. Given the uncertainty of exchange rate fluctuations, it is difficult to predict the effect of these fluctuations on our future business, product pricing and results of operation or financial condition. However, based on current exchange rate levels, we anticipate that foreign currency fluctuations will continue to have a negative impact on reported revenue in 2009.

We may seek to reduce our exposure to fluctuations in foreign currency exchange rates through the use of foreign currency exchange contracts, through intercompany loans of foreign currency and through our Japanese yen-denominated debt. We do not use derivative financial instruments for trading or speculative purposes. We regularly monitor our foreign currency risks and periodically take measures to reduce the impact of foreign exchange fluctuations on our operating results.

**Note Regarding Forward-Looking Statements**

With the exception of historical facts, the statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that reflect our current expectations and beliefs regarding our future results of operations, performance and achievements. These statements are subject to risks and uncertainties and are based upon assumptions and beliefs that may not materialize. These forward-looking statements include, but are not limited to, statements concerning:

our expectations regarding our initiatives, strategies, restructuring efforts and other innovations;

our expectations regarding the impact of foreign currency fluctuations and our efforts to reduce our exposure to such fluctuations;

our expectations regarding the amount, timing and impact of our restructuring efforts;

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our expectations regarding our tax rate;

our anticipation regarding the amount and uses of capital expenditures for 2009;

our expectations regarding the uses of repurchased stock;

our anticipation that our board of directors will continue to declare quarterly cash dividends and that the cash flows from operations will be sufficient to fund our future dividend payments;

our beliefs and plans regarding our liquidity and cash balances;

our beliefs regarding the merits of our position in our Japan customs dispute;

our belief that modifications to our business structure in Japan and in the United States will eliminate any further customs valuation disputes with respect to product imports in Japan;

our expectations regarding critical accounting policies and recent accounting pronouncements; and

our beliefs and expectations regarding the impact of seasonal and cyclical factors and trends.

In addition, when used in this report, the words or phrases will likely result, expect, anticipate, will continue, intend, plan, believe similar expressions are intended to help identify forward-looking statements.

We wish to caution readers that our operating results are subject to various risks and uncertainties that could cause our actual results and outcomes to differ materially from those discussed or anticipated. Reference is made to the risks and uncertainties described below and in our Annual Report on Form 10-K and amendments thereto (which contains a more detailed discussion of the risks and uncertainties related to our business). We also wish to advise readers not to place any undue reliance on the forward-looking statements contained in this report, which reflect our beliefs and expectations only as of the date of this report. We assume no obligation to update or revise these forward-looking statements to reflect new events or circumstances or any changes in our beliefs or expectations, except as required by law. Some of the risks and uncertainties that might cause actual results to differ from those anticipated include, but are not limited to, the following:

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(a) Global economic conditions have been challenging over the past year. Consumer confidence and spending have declined drastically and the global credit crisis has limited access to capital for many companies. Although we have continued to see growth in many of our markets during this period, the economic downturn could adversely impact our business in the future by causing a decline in demand for our products, particularly if the economic conditions are prolonged or continue to worsen. In addition, such economic conditions may adversely impact access to capital for us and our suppliers, may decrease our distributors' ability to obtain or maintain credit cards, and may otherwise adversely impact our operations and overall financial condition. Although we have historically met our funding needs utilizing cash flow from operations, no assurances can be given that we will not need to obtain additional equity or debt financing and that such financing will be available to us on

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terms that are favorable.

(b) Recently, numerous foreign currencies have weakened against the U.S. dollar, including substantial devaluations of the South Korean won and the euro. If these currencies continue at present levels or weaken further, our results could be negatively impacted.

(c) We have experienced revenue declines in Japan over the last several years and continue to face challenges in this market. If we are unable to renew growth in this market our results could be harmed. Factors that could impact our results in the market include:

continued or increased levels of regulatory and media scrutiny and any regulatory actions taken by regulators, or any adoption of more restrictive regulations, in response to such scrutiny;

any weakening of the Japanese yen;

regulatory constraints with respect to the claims we can make regarding the efficacy of products and tools, which could limit our ability to effectively market them;

risks that the new initiatives we are implementing in Japan, which are patterned after successful initiatives implemented in other markets, will not have the same level of success in Japan, may not generate renewed growth or increased productivity among our distributors, and may cost more or require more time to implement than we have anticipated;

inappropriate activities by our distributors and any resulting regulatory actions;

any weakness in the economy or consumer confidence; and

increased competitive pressures from other direct selling companies and their distributors who actively seek to solicit our distributors to join their businesses.

(d) Distributor activities that violate applicable laws or regulations could result in government or third party actions against us. We have experienced an increase in complaints and inquiries to consumer protection centers in Japan and have taken steps to try to resolve these issues including providing additional training and restructuring our compliance group in Japan. We have also been in contact with general consumer centers in Japan, one of which recently sent us a written warning that we needed to reduce the number of complaints and inquiries being filed with that consumer protection center. If consumer complaints escalate to a government review or, if the current level of complaints does not improve, regulators could take action against us. In addition, in Fall 2009, Japan will be implementing a national organization of consumer protection centers, which may increase scrutiny of our business and industry.

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(e) Our operations in China are subject to significant regulatory scrutiny, and we have experienced challenges in the past, including interruption of sales activities at certain stores and fines being paid in some cases. Even though we have now obtained a direct selling license, government regulators continue to scrutinize our activities and the activities of our employed sales representatives, contractual sales promoters and direct sellers to monitor our compliance with applicable regulations as we integrate direct selling into our business model. Any determination that our operations or activities, or the activities of our employed sales representatives, contractual sales promoters or direct sellers, are not in compliance with applicable regulations, could result in the imposition of substantial fines, extended interruptions of business, termination of necessary licenses and permits, including our direct selling licenses, or restrictions on our ability to open new stores or obtain approvals for service centers or expand into new locations, all of which could harm our business.

(f) The direct selling regulations in China are restrictive and there continues to be some confusion and uncertainty as to the meaning of the regulations and the specific types of restrictions and requirements imposed under them. It is also difficult to predict how regulators will interpret and enforce these regulations. Our business and our growth prospects may be harmed if Chinese regulators interpret the anti-pyramiding regulations or direct selling regulations in such a manner that our current method of conducting business through the use of employed sales representatives, contractual sales promoters and direct sellers violates these regulations. In particular, our business would be harmed by any determination that our current method of compensating our employed sales representatives and contractual sales promoters, including our use of the sales productivity of an individual and the group of individuals whom he or she trains and supervises as one of the factors in establishing salary and compensation, violates the restriction on multi-level compensation under the rules. Our business could also be harmed if regulators inhibit our ability to concurrently operate our business model, which includes retail stores, employed sales representatives, contractual sales promoters and direct sellers.

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(g) Our ability to retain key and executive level distributors or to sponsor new executive distributors is critical to our success. Because our products are distributed exclusively through our distributors and we compete with other direct selling companies in attracting distributors, our operating results could be adversely affected if our existing and new business opportunities and incentives, products, business tools and other initiatives do not generate sufficient enthusiasm and economic incentive to retain our existing distributors or to sponsor new distributors on a sustained basis. In addition, in our more mature markets, one of the challenges we face is keeping distributor leaders with established businesses and high income levels motivated and actively engaged in business building activities and in developing new distributor leaders. There can be no assurance that our initiatives will continue to generate excitement among our distributors in the long-term or that planned initiatives will be successful in maintaining distributor activity and productivity or in motivating distributor leaders to remain engaged in business building and developing new distributor leaders.

(h) There have been a series of third party actions and governmental actions involving some of our competitors in the direct selling industry. These actions have generated negative publicity for the industry and likely have resulted in increased regulatory scrutiny of other companies in the industry. There can be no assurance that similar allegations will not be made against us. In addition, adverse rulings in cases involving our competitors could harm our business if they create adverse publicity or interpret laws in a manner inconsistent with our current business practices.

(i) We recently implemented compensation plan modifications in most of our markets. Although initial results of these modifications have been generally positive, the size of our distributor force and the complexity of our compensation plans make it difficult to predict whether such changes will achieve their desired long-term results. There are risks that the compensation plan modifications will not be well received or achieve desired long-term results and that the transition could have a negative impact on revenue. If our distributors fail to adapt to these changes or find them unattractive, our business could be harmed.

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(j) As we continue to implement our business transformation initiative, there could be unintended negative consequences, including business disruptions and/or a loss of employees. Further, we may not realize the cost improvements and greater efficiencies we hope for as a result of this realignment. In addition, as we continually evaluate strategic reinvestment of any savings generated as a result of our transformation initiative, we may not ultimately achieve the amount of savings that we currently anticipate.

(k) The network marketing and nutritional supplement industries are subject to various laws and regulations throughout our markets, many of which involve a high level of subjectivity and are inherently fact-based and subject to interpretation. Negative publicity concerning supplements with controversial ingredients has spurred efforts to change existing regulations or adopt new regulations in order to impose further restrictions and regulatory control over the nutritional supplement industry. If our existing business practices or products, or any new initiatives or products, are challenged or found to contravene any of these laws by any governmental agency or other third party, or if there are any new regulations applicable to our business that limit our ability to market such products or impose additional requirements on us, our revenue and profitability may be harmed.

(l) Our revenue was negatively impacted in 2003 by the SARS epidemic that hit Asia during that year. More recently, human cases of swine flu, originating in Latin America, have been identified as potential global health risks. It is difficult to predict the impact on our business, if any, of a recurrence of SARS, or the emergence of new epidemics, such as avian flu or swine flu. Although such events could generate increased sales of health and immune supplements and certain personal care products, our direct selling and retail activities and results of operations could be harmed if the fear of any communicable and rapidly spreading disease results in travel restrictions or causes people to avoid group meetings or gatherings or interaction with other people.

In addition, most of our Pharmanex nutritional supplement revenue is generated from products that are encapsulated in bovine- and/or porcine-sourced gel capsules. If we experience production difficulties, quality control problems, or shortages in supply in connection with bovine or porcine related health concerns, this could result in additional risk of product shortages or write-offs of inventory that no longer can be used. In addition, our business could be harmed if consumers become unduly concerned about consumption of bovine- and/or porcine-sourced products, or, alternatively, if consumers react negatively to our switching from capsules to tablets on some products. The sources and ingredients of our products are also subject to governmental regulations by numerous domestic and foreign governmental agencies and authorities regarding product ingredients. We may be unable to introduce our products in some markets if we are unable to obtain the necessary regulatory approvals or if any product ingredients are prohibited, which could harm our business.

(m) Production difficulties and quality control problems could harm our business, in particular our reliance on third party suppliers to deliver quality products in a timely manner. Occasionally, we have experienced production difficulties with respect to our products, including the delivery of products that do not meet our quality control standards. These quality problems have resulted in the past, and could result in the future, in stock outages or shortages in our markets with respect to such products, harming our sales and creating inventory write-offs for unusable products.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information required by Item 3 of Part I of Form 10-Q is incorporated herein by reference from the section entitled "Currency Risk and Exchange Rate Information" in Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operation of Part I and also in Note 4 to the Financial Statements contained in Item 1 of Part I.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of disclosure controls and procedures.**

As of the end of the period covered by this report, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, our disclosure controls and procedures were effective as of June 30, 2009.

**Changes in internal controls over financial reporting.**

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15 (f) under the Exchange Act) during the most recent fiscal quarter covered by this report, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

No updates to report. Please refer to our recent SEC filings, including our Annual Report on Form 10-K for the 2008 fiscal year and subsequent Quarterly Report on Form 10-Q, for information regarding the status of certain legal proceedings.

**ITEM 1A. RISK FACTORS**

Please refer to our recent SEC filings, including our Annual Report on Form 10-K for the 2008 fiscal year and subsequent Quarterly Report on Form 10-Q, for a detailed discussion of risks associated with our business.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

**Issuer Purchases of Equity Securities**

| Period | (a)<br>Total Number<br>of Shares<br>Purchased | (b)<br>Average Price<br>Paid per Share | (c)<br>Total Number of Shares<br>Purchased as Part of<br>Publicly Announced | (d)<br>Approximate Dollar Value<br>of Shares that May Yet Be<br>Purchased Under the |
|--------|---|--|---|---|
|--------|---|--|---|---|

Issuer Purchases of Equity Securities



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|                    | (a)     | (b)      | (c)<br>Plans<br>or Programs | (d)<br>Plans or Programs<br>(in millions) <sup>(1)</sup> |
|--------------------|---------|----------|-----------------------------|--|
| April 1 - 30, 2009 | 1,000   | \$ 10.15 | 1,000                       | \$ 81.6  |
| May 1 - 31, 2009   | 191,970 | \$ 13.83 | 191,970                     | \$ 79.0  |
| June 1 - 30, 2009  | 89,600  | \$ 14.14 | 89,600                      | \$ 77.7  |
| Total              | 282,570 |          |                             |  |

(1) In August 1998, our board of directors approved a plan to repurchase \$10.0 million of our Class A common stock on the open market or in private transactions. Our board has from time to time increased the amount authorized under the plan and a total amount of approximately \$335.0 million is currently authorized. As of June 30, 2009, we had repurchased approximately \$257.3 million of shares under the plan. There has been no termination or expiration of the plan since the initial date of approval.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Our Annual Meeting of Stockholders was held on May 18, 2009. At the Annual Meeting of Stockholders eleven directors were elected to serve as our directors until the next annual meeting of stockholders or until their successors are duly elected. Each director was elected by a plurality of votes in accordance with the Delaware General Corporation Law. There was no solicitation in opposition to management's director nominees. The figures reported reflect votes cast by holders of our Class A common stock. Each share of Class A common stock entitles its holder to one vote.

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The directors received the following votes: 52,808,790 shares were voted for Blake M. Roney (1,910,831 withheld); 53,912,362 shares were voted for M. Truman Hunt (807,259 withheld); 52,827,058 shares were voted for Sandra N. Tillotson (1,892,563 withheld); 43,255,774 shares were voted for Jake Garn (11,463,847 withheld); 53,951,541 shares were voted for Daniel W. Campbell (768,080 withheld); 39,596,520 shares were voted for Andrew D. Lipman (15,123,101 withheld); 51,345,817 shares were voted for Steven J. Lund (3,373,804 withheld); 44,642,507 shares were voted for Patricia Negrón (10,077,114 withheld); 54,049,821 shares were voted for Nevin N. Andersen (669,800 withheld); 54,051,263 shares were voted for Thomas R. Pisano (668,358 withheld); and 44,635,392 shares were voted for David D. Ussery (10,084,229 withheld).

The stockholders also ratified the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2009, with 53,510,297 votes being cast for, 1,175,365 votes being cast against, 33,957 abstentions and no broker non-votes.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

| Exhibits<br>Regulation | Description |
|------------------------|-------------|
|------------------------|-------------|

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**S-K  
Number**

- 31.1 Certification by M. Truman Hunt, President and Chief Executive Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- 31.2 Certification by Ritch N. Wood, Chief Financial Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification by M. Truman Hunt, President and Chief Executive Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification by Ritch N. Wood, Chief Financial Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**NU SKIN ENTERPRISES, INC.**

August 7, 2008

By: /s/ Ritch N. Wood  
Ritch N. Wood  
Its: Chief Financial Officer and  
Duly Authorized Officer

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SIGNATURE

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