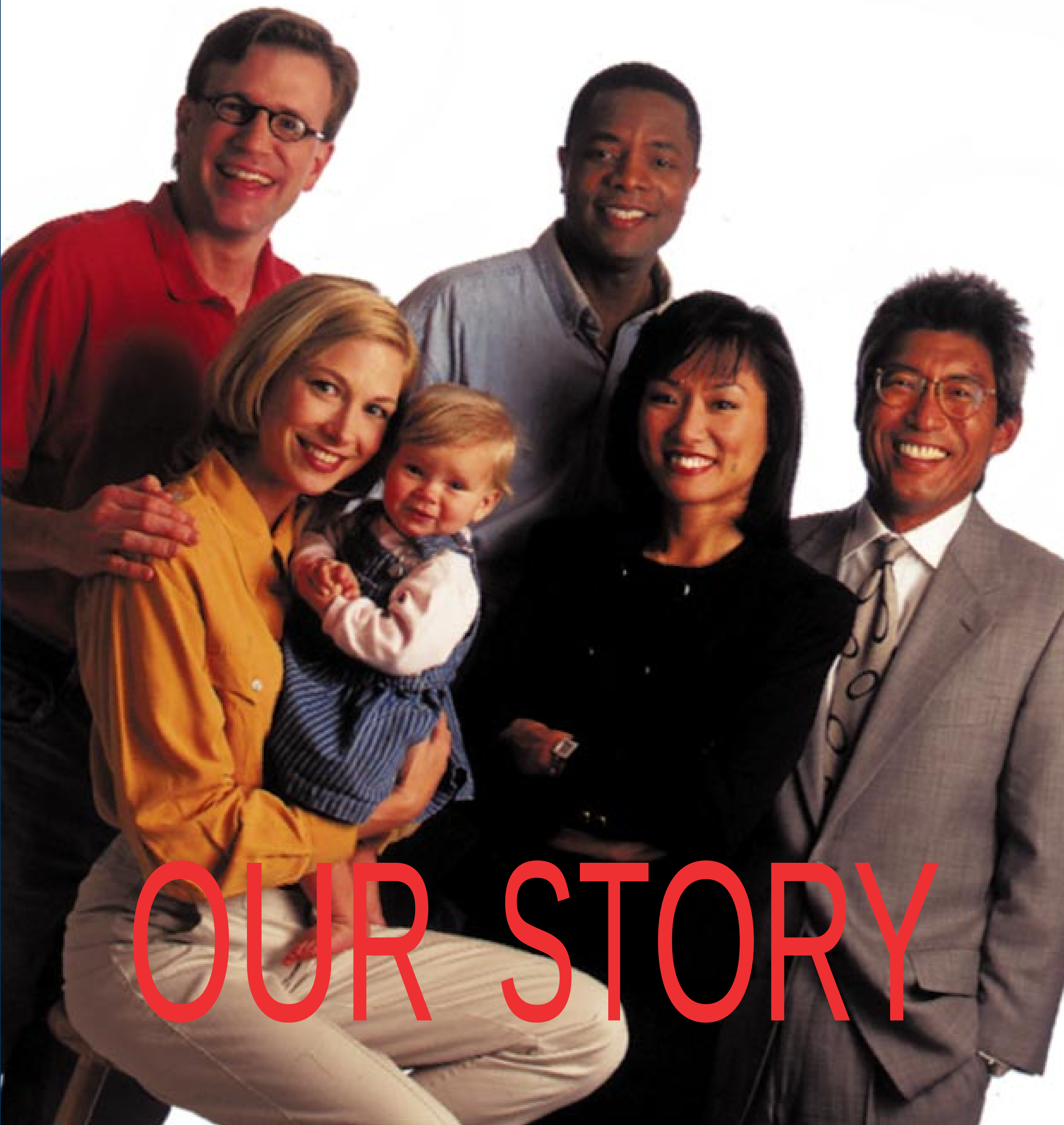
NU SKIN ENTERPRISES, INC. ANNUAL REPORT 1998

OPPORTUNITY



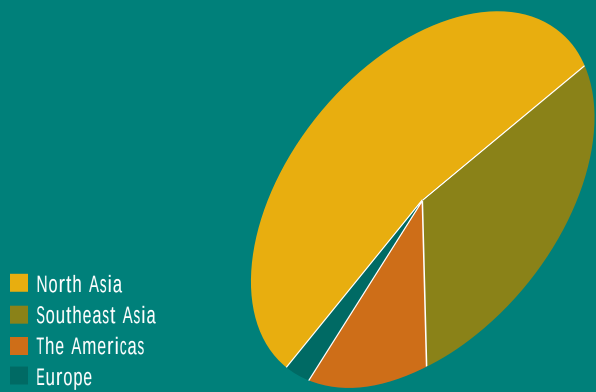
OUR STORY

Nu Skin at a Glance

Nu Skin Enterprises, Inc. is a leading direct marketer of premium personal care products, nutritional supplements, Internet-based technology and communications products and services. One of the largest direct selling companies in the world, Nu Skin currently sells its products in 27 countries throughout the Americas, the Asia Pacific region and Europe.

Divisions | **Sales by Market as a Percent of Total Sales** | **Product Categories**

Nu Skin Personal Care



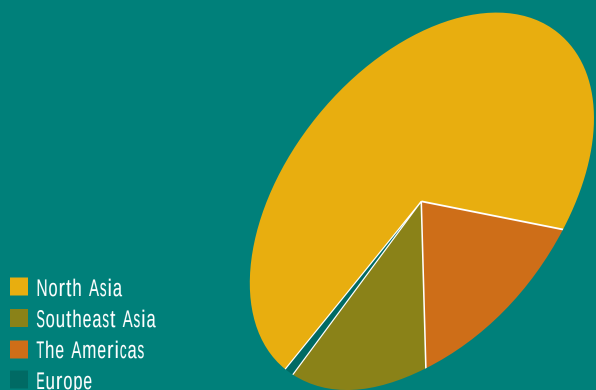
Face and Body Care
Cleansers, moisturizers, sunscreens, anti-aging treatments, MHA™ (multi-hydroxy acid) systems, Believe™ perfume and the Epoch™ line of ethnobotanical products

Hair Care
HairFitness® shampoos, conditioners, styling aids and special hair and scalp treatments

Cosmetics
Nu Colour™ line of cosmetics and applicators

Oral Care
AP-24® toothpaste, mouthwash, floss and breath spray

Pharmanex



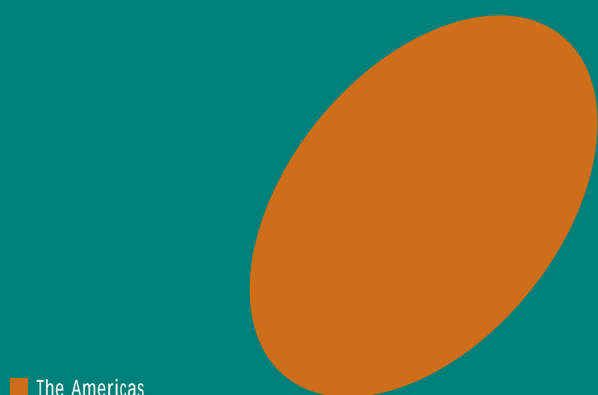
Multivitamin/Mineral Supplements
LifePak® formulations for every stage of life and other general wellness supplements

Proprietary Natural Health Supplements
Cholestin™ promotes healthy cholesterol levels, CordyMax Cs-4™ promotes vitality and stamina, Tegreen 97® supports the immune system, BioGinko 27/7® stimulates memory and concentration and Bio St. John's™ provides healthy emotional balance and support

Standardized Botanicals
Line of natural botanicals including Echinacea, Ginseng, Kava Kava, Garlic and Saw Palmetto

Specialized Health Systems
HealthTrim® weight management system, Sportrition™ sports nutrition system, dietary supplements and health food line

Big Planet*



Internet Access and Services
Three service plans, a state-of-the-art network operations center that supports one of the largest dial-up networks in the U.S.

Unified Communications
Personalized Web page design and domain name service

Telecommunications
Long-distance and wireless phone programs and services, calling cards and paging

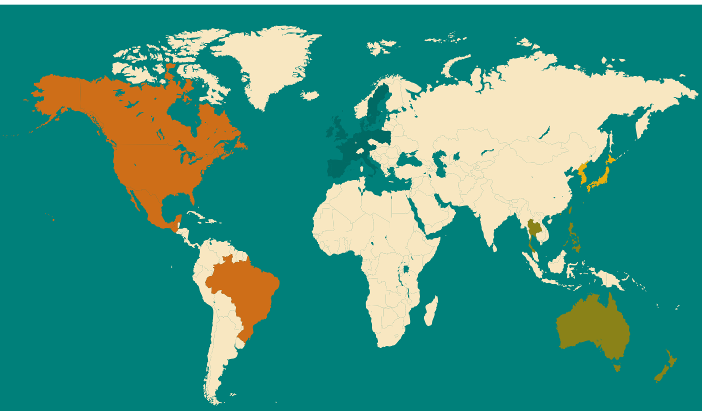
Education and Training
Internet-based training programs, educational software and reference books on CD-ROM

Electronic Commerce
Over 350,000 items currently for sale, including electronics, sporting goods, computer hardware and apparel

*The acquisition of Big Planet is expected to close by June 1999.

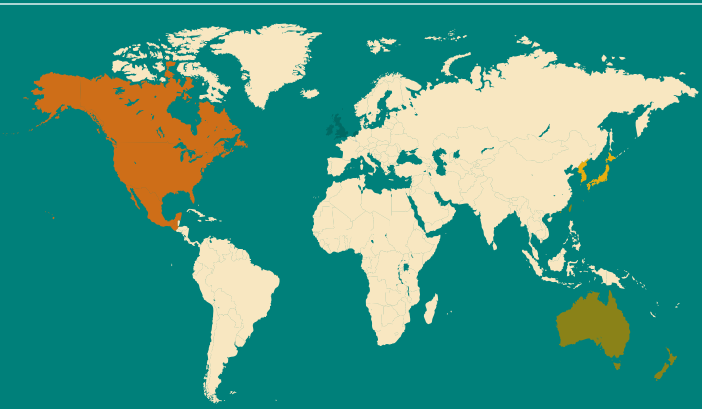
Markets

Emerging Opportunities in 1999



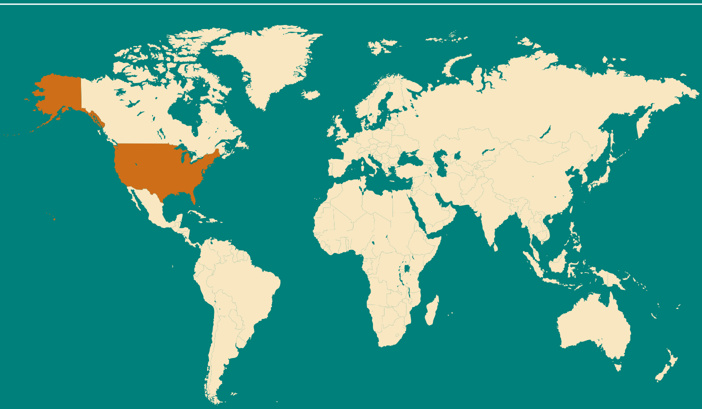
Nu Skin Personal Care is a leader in utilizing advanced technologies and cutting-edge ingredients to formulate its innovative products.

- Introduce a revolutionary new skin treatment system formulated to diminish the signs of aging.
- Enhance the Nu Colour™ cosmetics line with improvements to shades, packaging and positioning.
- Direct research and clinical studies at the recently established Nu Skin Center for Dermatological Research at Stanford University School of Medicine.
- Continue to leverage the direct sales distribution channel to teach customers about the unique attributes of our products and the guidelines for using them effectively.



Pharmanex is at the forefront of the nutritional supplement industry by creating products with unparalleled efficacy, safety and quality through pharmaceutical-level research and development.

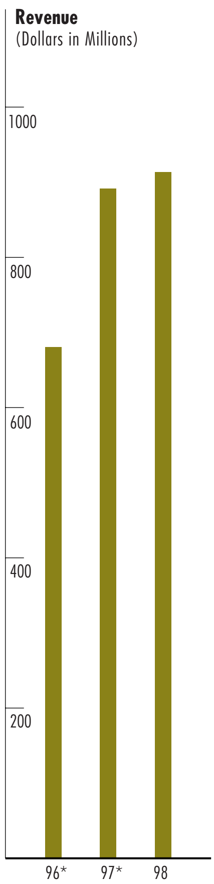
- Introduce innovative new proprietary products based on extensive research and development efforts.
- Expand relationships with major universities in order to develop new supplements and publish research studies to confirm the efficacy of Pharmanex products.
- Continue to vertically integrate to increase efficiency, improve margins and reduce costs.
- Introduce Pharmanex's proprietary products into several new countries including Japan, Taiwan, Hong Kong, South Korea, Australia and New Zealand.



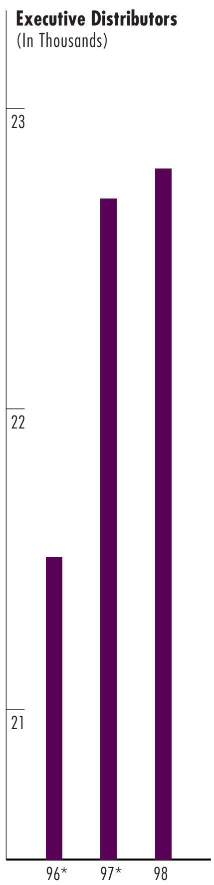
Big Planet is an innovative provider of Internet-based technology and communications products and services for individuals and small businesses.

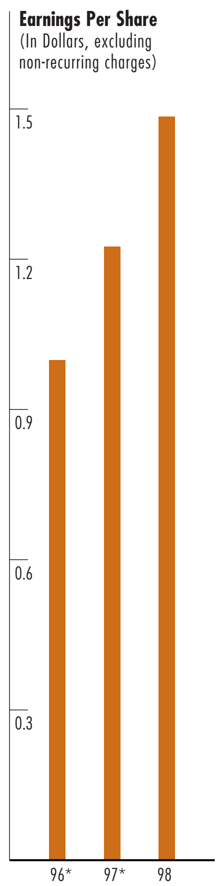
- Increase e-commerce potential by developing strategic relationships with new affiliates to expand the product offering in the Big Planet Store (www.bpstore.com).
- Strengthen the product offering in the United States by enhancing current services and expanding into new technology product categories.
- Solidify plans to introduce the Big Planet opportunity to markets around the world.
- Leverage Big Planet's technological expertise throughout other Nu Skin business units.

Our mission is to act as a force for good throughout the world. We achieve this goal by selling exceptional products, providing rewarding direct selling business opportunities and supporting distributors, stockholders, consumers and employees in ways that improve their quality of life.



*excluding NSI acquisition completed in March 1998.





Contents

SIGNIFICANT EVENTS

- Completed the acquisition of Nu Skin International, a transaction that added 12 existing markets and rights to all future markets as well as the worldwide distributor force and product trademarks, logos and formulas.
- Renamed the company Nu Skin Enterprises to better reflect Nu Skin's business and its potential as a global consumer products company.
- Acquired Pharmanex, a leading research and development company of standardized and proprietary nutritional supplements, to enhance Nu Skin's existing nutrition business.
- Increased local manufacturing in key markets to preserve margins and keep pricing competitive.
- Appointed a local, experienced direct selling executive as vice president of European operations.
- Opened the markets of Poland, Denmark, Sweden and the Philippines.
- Commenced operations in Brazil, the third largest direct selling market in the world and the hub for Nu Skin's future expansion throughout South America.
- Hosted a record crowd of nearly 13,000 distributors from around the world at the company's ninth international convention in Salt Lake City, Utah.
- Completed a successful convention in Tokyo where Nu Skin Japan introduced several new products along with Internet services to capacity crowds.

FINANCIAL HIGHLIGHTS

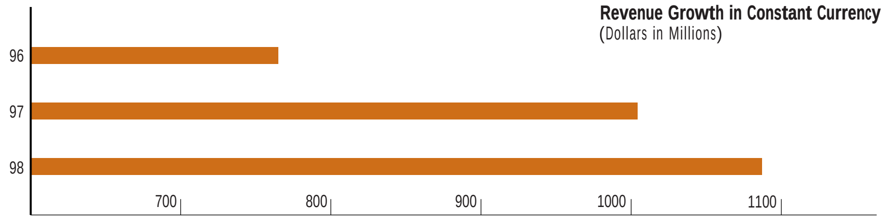
(U.S. dollars in millions, except per share amounts) Year Ended	Dec. 31, 1996*	Dec. 31, 1997*	Dec. 31, 1998*
Revenue	$ 761.6	$ 953.4	$ 913.5
Gross Profit	590.4	762.2	703.4
Operating Income	137.1	180.2	156.2
Net Income	$ 84.7	$ 118.5	$ 103.9
Earnings Per Share			
Basic	$ 1.07	$ 1.42	$ 1.22
Diluted	$ 1.02	$ 1.36	$ 1.19
Weighted Average Common Shares Outstanding (000s)			
Basic	79,194	83,331	84,894
Diluted	83,001	87,312	87,018
Cash and Cash Equivalents	$ 214.8	$ 174.3	$ 188.8
Working Capital	143.3	123.2	164.6
Total Assets	380.5	405.0	606.4
Stockholders' Equity	$ 113.5	$ 110.6	$ 254.6
Operating Income as a Percentage of Revenue	18.0%	18.9%	17.1%
Net Income as a Percentage of Revenue	11.1%	12.4%	11.4%
Active Distributors	397,000	448,000	470,000
Executive Distributors	21,500	22,700	22,800

*Note: Financial results include the results of NSI for the years presented with non-recurring expenses of $2.0 million, $17.9 million and $35.2 million for 1996, 1997 and 1998, respectively.

DEAR STOCKHOLDERS: Nu Skin's management team began 1998 more determined than ever to reward stockholders by making the most of the incredible opportunities our unique direct sales model presents. In a year of focused strategic action, we strengthened key product lines and added new ones. We launched bold new initiatives that position us for leadership in exciting new businesses. We opened dynamic new market opportunities that expand our global reach. We developed valuable new tools that will drive our growth by helping distributors excel. And we found new ways to channel our resources so our organization can continue to work as a force for good. Nu Skin stockholders are better positioned for success because our distributors—the lifeblood of our organization—have more opportunities and more support than ever before.

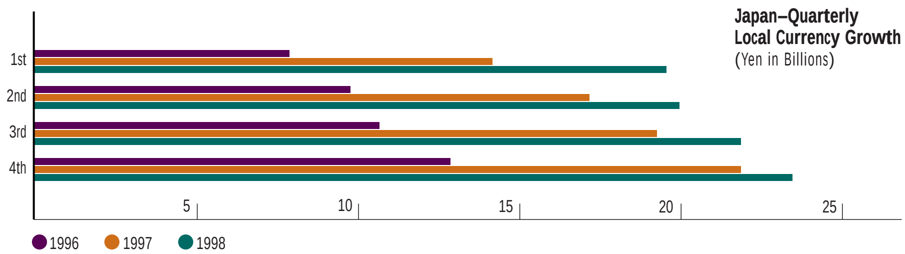
In 1998, Nu Skin pushed forward as fluctuating currencies in key Asian markets, plus weakening economic conditions in southeast Asia, made sales and revenue goals tough to reach. Unlike many of our competitors, though, our revenues grew by 18 percent in local currency terms in our key market, Japan—a reflection of our compelling product lines and the determined efforts of our distributors.

Even though we also gained ground in new markets such as the Philippines, Sweden and Brazil, we could not compensate for lower revenues from much larger markets such as Taiwan and South Korea that were impacted by weakened currencies and economies. After seven



consecutive years of revenue growth, Nu Skin's reported revenue declined by four percent to $913.5 million. Reported net income was $103.9 million, while diluted earnings per share were $1.19. Without the non-recurring charges related to our acquisitions, however, our net income and earnings per share would have increased to $129.2 million and $1.48, respectively—a testament to our efficient operations.

This slowdown in reported revenue, however, in no way hampers our optimism for the future. During the year we made two strategic acquisitions that position us well for future revenue growth. By the fourth quarter there were clear signs that we are poised to resume this



growth. We recorded the strongest fourth-quarter performance in our history, and we believe that the strategies outlined below will produce renewed growth.

Creating Value for Distributors and Stockholders From the beginning, the exceptionally high quality of our products—and the captivating stories behind them—made direct sales the ideal business model for Nu Skin. But we didn't just adopt an existing model; we reinvented it to deliver optimal long-term growth and stability. In our business, it's critically important to attract and maintain a dedicated, motivated and highly talented group of distributors because they are our direct channel to consumers around the world. So we've built our organization to help our more than 500,000 distributors worldwide meet their sales and sponsorship goals.

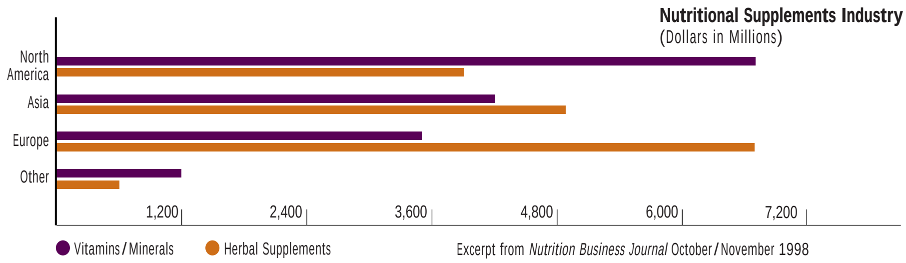
We create value for our distributors by keeping the Nu Skin opportunity fresh, whether by introducing new and improved products, opening new markets, or continuously fine-tuning our strong support infrastructure and our generous compensation package. We've also created a divisional structure that provides multiple alternatives for unbridled opportunity today and the flexibility to create new growth platforms for tomorrow. Today, distributors can focus on

NU SKIN PHARMANEX™ BIG PLANET™

Nu Skin personal care products; Pharmanex nutritional supplements; Big Planet technology products and services such as Internet access, e-commerce and telecommunications; or any combination they choose. This structure makes it easier for distributors to build their downlines by attracting professionals with diverse interests and backgrounds. By structuring their downlines to ensure activity across all divisions, distributors can position themselves to benefit directly from sales of the complete mix of new and existing products. The result: higher rewards for distributors, higher sales volume for Nu Skin and, ultimately, higher returns for stockholders.

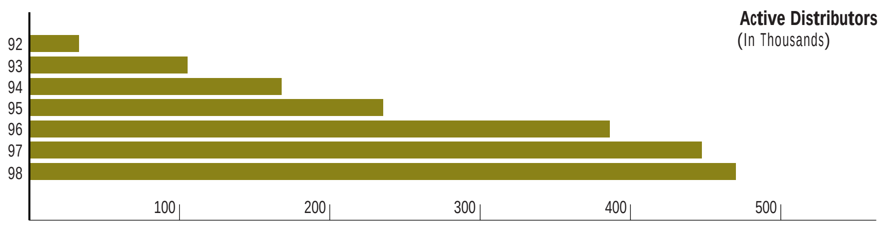
Renewing the Opportunity In 1998, Nu Skin worked on many fronts to create fresh opportunities for distributors and lasting value for stockholders. Our far-reaching initiatives to strengthen existing product lines, open new markets, establish a technology division and fortify our support infrastructure have placed Nu Skin on a path of continued growth.

In October, we completed our acquisition of Pharmanex, a powerful research and development company of nutritional supplements. Pharmanex uses a rigorous pharmaceutical approach to build a portfolio of safe, natural and highly effective nutritional supplement products



based on traditional natural remedies. Because of the strength of Pharmanex's offerings, we were able to create a new business opportunity for our distributors in nutrition products. This acquisition positions the company for leadership in the fast-growing nutritional supplements industry for several reasons. First, the Pharmanex research and development engine ensures a future of unique proprietary products that will complement and strengthen Nu Skin's existing Interior Design® Nutritionals (IDN) product line. Further, its clinical research expertise, combined with vertically integrated farming and extraction processes, delivers a competitive advantage at a time when regulators are subjecting nutritional products to higher standards of quality, consistency and efficacy, and consumers are seeking preventative health care products that are reliable, effective and economical. And finally, Nu Skin's unparalleled distribution channel offers the most efficient means available to bring the unique Pharmanex story to consumers around the world.

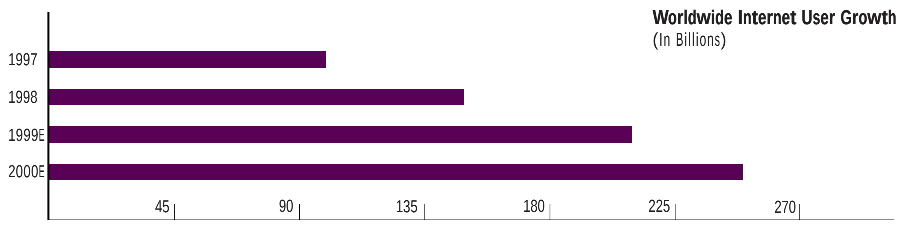
To capitalize on our sales momentum in Japan and Europe, we enhanced the opportunity for distributors by broadening our product mix. In Japan, we identified the $700 million water treatment market as a promising growth platform and launched a countertop water filtration product that delivers superior technology and performance at less than half the cost



of its chief competitor. This product moved from concept to market in one year, and our ability to sell 16,000 units in five weeks indicates we are on our way to seizing a significant share of this market. Following our proven strategy of introducing new products on a carefully timed basis, we also launched our family of AP-24® oral care products in Japan, took our reformulated and expanded LifePak® product to the European market, and set the stage for our 1999 introduction of Pharmanex products in Japan, Taiwan, Hong Kong, South Korea, Australia and New Zealand.

To pave the way for future growth, we continue to target and open new markets in areas where economic, demographic and cultural factors create solid, long-term growth prospects. In early 1998, we opened the Philippines with core Nu Skin products and developed the Sción™ product line specifically for that market. We also opened Sweden and Denmark, two Scandinavian markets with robust demand for health and beauty products and a deep pool of dynamic, entrepreneurial people. And late in the year, we entered Brazil—the world's third-largest direct selling market—where we plan to introduce Kanure™, a hair-care line formulated to address the natural properties of severely dry and curly hair. We believe Brazil—and South America in general—has all the ingredients for steady, long-term revenue growth.

Also during 1998, we created yet another powerful vehicle for success when our U.S. distributors began marketing services such as Internet access, e-commerce and telecommunications through Big Planet, a private affiliate formed to capitalize on the rapid evolution of these dynamic technologies. Distributors can now earn long-term residual income while building a knowledge and experience base in one of today's fastest growing and most exciting fields. After testing the concept, deploying the resources, building the distribution channel and creating a new connection-based compensation model in 1998, we announced in early 1999 that Nu Skin will acquire Big Planet



Source: Nua Internet Surveys as cited in *U.S. Government Working Group on Electronic Commerce*

and establish it as a new division. Big Planet enables us to reach out to a talented, enthusiastic pool of new distributors who are eager to participate in rapidly growing technology products and services. It also offers current distributors a third, separate high-growth business opportunity, plus access to powerful new online capabilities to manage and grow their businesses. Though Big Planet is in its infancy, we expect it to contribute significantly to our ability to attract and retain distributors, which we believe will lead to revenue and earnings growth for many years to come.

Our commitment to our distributors goes far beyond proactively managing product and opportunity lifecycles, however. Over the years, we've made the technology and other infrastucture investments to lead the direct sales industry in distributor support. In 1998, we enhanced our support infrastructure and compensation formulas to make it even easier for distributors to build and manage profitable businesses. In Japan, for example, we opened a new walk-in center to support ongoing sales and training efforts. And in other markets, we've developed new compensation plans to drive sales activity by giving distributors short-term as well as long-term rewards for pursuing opportunities in new markets.

Recent advances in information technology are ushering in a new paradigm in direct sales, and we are equipping our distributors to take full advantage of the unlimited possibilities of digital communications. We continue to refine a number of new communications tools—our nuskin.com, pharmanex.com and bigplanet.com Web sites, personalized Web pages, worldwide e-mail, international voice mail and online ordering, to name a few—to give distributors instant online access to their downlines as well as to all the information they need to manage their businesses.

CHARTING OUR FUTURE Nu Skin enters 1999 with three growing divisions, each with the potential to become multibillion dollar categories. Our strong and healthy balance sheet will give us the financial flexibility to support the growth of these businesses and to pursue other opportunities—just as it did in 1998.

We believe several factors are in place to reward stockholders with renewed revenue growth and continued growth in earnings per share. Performance in 1999 will reflect the impact of our consolidation of Nu Skin operations in North America into the public company, a move that diversifies our revenue base. In addition, new products such as water filtration systems and proprietary nutritional supplements have the potential to improve top- and bottom-line performance, especially as Pharmanex products are introduced to Japan and Taiwan. And the addition of Big Planet—and our new divisional structure—gives our distributors three distinct branded opportunities, all supported by focused management teams and a flexible infrastructure that can accommodate new opportunities as they arise.

We are pleased with the progress we made this year, and we thank you—our distributors, employees and stockholders—for your loyal support. Together, we have strengthened our foundation and have moved closer to our goal of becoming the world's leading direct sales organization. And most important, we've done this while improving the quality of people's lives throughout the world.

Sincerely,

Blake M. Roney
Chairman

Steven J. Lund
Chief Executive Officer

Opportunity. Our Story.

At Nu Skin, there's a powerful story behind every product. But there's more to these stories than the innovative formulations and advanced technologies used to create high quality products in our three growing divisions. • Nu Skin distributors have compelling stories of their own—whether they've already built thriving international businesses or they're just getting started. So do our research scientists who develop and test new products, and other Nu Skin employees focused on seizing market opportunities and helping distributors succeed. • These are our stories. This is your opportunity.

Ten short years ago I had a corporate job and Resa was running a day-care center out of our home. I never dreamed that one day we would direct a global business together that operates in 12 countries, with a large organization that moves $100 million of goods and services per year.

Pooling Our Energies To Reach Our Goals

We've always found the international part of our business especially rewarding because of the relationships we've developed and the new cultures we've experienced. When Nu Skin opened the Japanese market in 1993, the best man in our wedding put us in touch with a businessman who had strong connections in Japan. We invested our time and capital to build a solid foundation of aggressive young entrepreneurs who have since become our business partners and friends. By the end of Nu Skin's first year in Japan, our group had generated about $5 million in sales volume, and today we are reaping the rewards of a strong foundation.

Now our biggest challenge is taking advantage of all the opportunities available to us. Resa concentrates her energy on Nu Skin Personal Care, but her efforts result in business in all of Nu Skin's product categories. She loves the people side of the business and finds inspiration in the relationships she's built. Her college roommate, Nancy Hassen, is a Blue Diamond (a top-level distributor) in Portland, Oregon, who focuses on nutrition. Nancy, a CPA by training, has developed her own leaders in all Nu Skin divisions, but her passion is working with medical professionals through Pharmanex.

Meanwhile, in addition to supporting our network of international leaders, I've thrown myself into Big Planet full-time. I believe it may be the biggest opportunity yet, because it allows the mass market to join the high-technology revolution that is taking place all around us.

Even with all this going on in our lives, our Nu Skin business gives us the flexibility to put our family first. Today, our boys Justin and Ronnie are 13 and 10 years old, and there's always time to coach baseball and take them fishing and skiing. And it's comforting to know our family's future is secure, thanks largely to our association with Nu Skin and to the tremendous new business opportunities that lie ahead. With three outstanding growth platforms in Nu Skin Personal Care, Pharmanex and Big Planet, we're confident the best is yet to come.

Making the most of the Nu Skin opportunity, Resa and Matt Salter have created a successful international business while working together from their home. As their business continues to expand, they rely on technologies such as the Internet and Nu Skin's interactive voice response system to access up-to-date reports on specific segments of their business. These technologies also help them support distributors in 12 countries, sell products and services online and attract and train talented new distributors. Because they can do all of this from home, they have the flexibility and freedom most highly successful business executives only dream about.

Nu Skin Japan Vice President of Operations Robert Conlee and Marketing Specialist Tomochika Asano worked together to develop and launch a new water filtration product targeted at the Japanese market. Conlee helped to structure the business arrangement with the U.S.-based manufacturer and worked to develop an economical new countertop unit that uses special hollow-fiber technology to filter out elements as small as .02 microns. Asano laid the groundwork in Japan by gathering market information, developing a marketing strategy and planning training seminars in nine Japanese cities to help Nu Skin meet its aggressive launch date.

As marketers, we're always looking for the next great product concept. That's why we keep our eyes on emerging needs within our market, investigate new technologies and constantly seek new ideas—whether they come from scientists, distributors, manufacturers or Nu Skin executives.

A Fluid Partnership Promotes Healthy Living

We've also learned that the real work lies in quickly taking a new product from concept to market—especially since lost time translates into lost revenue. Fortunately for us, we're able to combine vendor-based manufacturing with an extensive direct sales channel. This approach proved especially successful in 1998 as we worked between two continents to develop and launch a new water filtration product for the Japanese market.

This time, the idea came from executives at Nu Skin Japan, who identified the opportunity to develop and market a water treatment product that was superior to those currently available in Japan. It was also a good fit with our growing nutritional supplement business, since pure water promotes good health.

Before we moved forward, our Nu Skin Japan marketing group tested the concept with a group of Japanese distributors. They saw the product's potential—providing it could meet the highest quality standards, have measurable performance characteristics and be affordably priced.

In March, a team from our corporate office began to search for a manufacturer. Several existing products fell short of our criteria for quality and production volume. Eventually, the team found a manufacturer, Connecticut-based Cuno, Inc., that would partner with us from the outset to design a product to meet the strict standards of the Japanese Water Works Association.

In November, we announced the new product at our convention in Japan. Within weeks, we held product seminars in nine Japanese cities and trained over 7,000 distributors. When our new water filtration product hit the market in December, our distributors sold 16,000 units in the first five weeks. By then, though, we'd already begun working on the next great concept—one that takes advantage of the Internet's explosive global growth.

When I joined Nu Skin I spent several years developing training programs that helped distributors build successful businesses. I enjoyed seeing so many of those I worked with reach their potential.

A Bold New Future for Direct Marketing

Today, I have a different role with Nu Skin. But I'm every bit as focused on helping distributors make the most of their opportunity. As director of corporate distributor channel marketing, I'm working on a Web-based business tool that's going to make Nu Skin's direct selling model thrive.

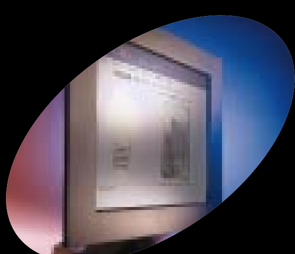
The possibilities are truly overwhelming. Take distributor management, for example. We've built a sophisticated new browser into our global genealogy database. It allows distributors to access information on specific areas of their business 24 hours a day, so they can tell where to focus their attention to maximize their sales volume.

With the touch of a button, distributors can also send messages to their entire downline—anywhere in the world. Some are even using personal Web pages to hold online meetings attended by distributors in different countries. And next year, they'll be able to invite prospective distributors to view a sales convention that is broadcast online or take them on a virtual tour of Nu Skin's headquarters.

And to help distributors build their businesses, Nu Skin has created a separate interactive Web site for each of the company's three divisions. These sites capture the unique culture and flavor of each brand. Prospective distributors can gain a dynamic view of the entire Nu Skin opportunity, while customers can learn about specific products and even place orders online. That means distributors can earn commissions based on much greater total volume—especially since our marketing people will soon be able to send online marketing messages tailored to each customer's order patterns.

Nu Skin has always given its people great opportunities, and now there are even better resources available. With management's support, we're expanding our technology base to have an even greater impact on the lives of the distributors who drive our success. And I feel good about that.

Tracy Foster, Nu Skin's Director of Corporate Distributor Channel Marketing, believes the Internet has the power to transform network marketing as we know it today. She's helping Nu Skin stay ahead of the curve by developing new Internet-based business tools that give distributors the global seamless support they need to take full advantage of the Nu Skin opportunity. Distributors can now invite retail customers and new recruits to experience Nu Skin's personal care, nutrition and technology divisions through separate interactive Web sites that capture the personality of each brand.



In the pharmaceutical industry, some of the most promising discoveries never see the light of day. For example, while I worked with major pharmaceutical companies over a 15-year period, my research teams performed biological screenings on 50,000 herbal extracts, looking for natural compounds that could help people lead healthier lives. Many of our exciting discoveries reached the IND (Investigative New Drug) application stage, but often management support evaporated. I was confident, however, there was huge potential for these products among consumers. As a result, I joined with others to start Pharmanex.

Provided by Nature, Proven by Science

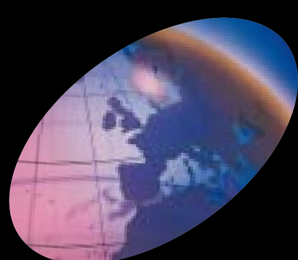
Pharmanex is a truly innovative new company that uses "Western" pharmaceutical science and methodology to develop natural nutritional supplements. In several cases, we began with ancient remedies time-tested in China and Europe for more than 1,000 years. We use advanced chemistry and biology protocols to identify and isolate the active ingredients and use these findings to develop product formulations. We establish consistent and standardized manufacturing techniques, then develop rigorous clinical protocols to test for safety and efficacy. We manage raw material sourcing—including cultivation and harvesting—directly. And we develop proprietary extraction technologies to ensure consistently high quality ingredients.

This approach is truly unique. So are our products. For example, one of them—CordyMax Cs-4™—is an all-natural energizer based on a rare Tibetan mushroom known for its ability to promote vitality and lung function. With the support of our research partners, we developed a method to grow this rare substance under controlled conditions and standardized the preparation to yield desired clinical benefits.

For the last few years we've been searching for a corporate partner who could help us tell the Pharmanex story. We found a perfect match in Nu Skin. This dynamic company has the commitment to promote our ongoing research and development efforts. Nu Skin has an outstanding distribution organization that can effectively communicate the Pharmanex message and the power of our products. It has already built a strong position in the nutritional supplement industry. It's also a good cultural match for Pharmanex, because both organizations share the same commitment to quality and integrity.

Dr. Michael Chang, Senior Vice President of Research and Development at Pharmanex, relies on extensive clinical trials to demonstrate the benefits and safety of Pharmanex's proprietary nutritional supplements. A new study published in the American Journal of Clinical Nutrition *shows that Cholestin™, a dietary supplement derived from red yeast rice, can play a significant role in promoting and maintaining healthy cholesterol levels. This study, performed at the UCLA Center for Human Nutrition, confirmed the results from more than 20 clinical studies of Cholestin conducted in China.*

Lena Nordin-Andersson, a Nu Skin Executive Distributor in Sweden, sees nothing but opportunity ahead as Nu Skin expands its Scandinavian presence in 1999. Now that she's running her Nu Skin business full-time from home, she'll have plenty of cherished moments with her two sons, Simon (left) and Adam.



Today, I said “good-bye” to my job as a graphic designer with a multinational electric utility company. And even though my associates wonder why I’m leaving behind a good, solid position and all the long-term security that goes with it, I can’t remember the last time I felt so excited about my future.

Nurturing My Children—And My Business

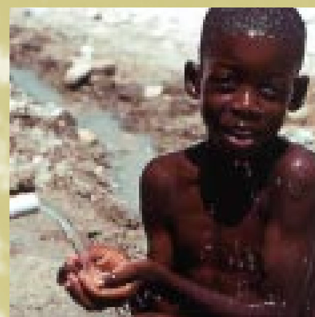
About 18 months ago, a friend from Europe visited me and was incredibly enthusiastic about the Nu Skin personal care products she was selling. She told me I could have the same opportunity here in Sweden, and I saw how I could begin to live life on my own terms. I could stay home with my young children while doing a job I’d find fun, satisfying and—yes—rewarding.

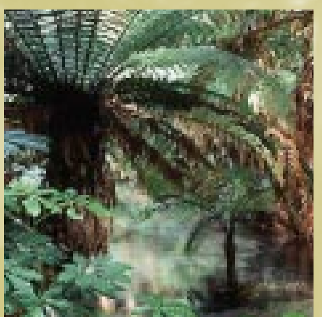
About that time, Nu Skin began selling its products in Sweden. I decided to test the waters on a part-time basis, so I could learn the business and see whether I could make it work for me. I began with a kit of 21 personal care products that I had already begun to use myself. Soon, others I knew started using and selling them, too, and building their own organizations. We started to meet regularly to get together, have fun and learn from each other. We also got great ideas from our upline leadership: the Lindstroms in the U.K. and the Sexsmiths in Florida. They’d give us all kinds of new ideas—and all the encouragement we could ever need. I also began using the Internet to learn about Big Planet. It turns out one of my downline distributors is in the United States building a Big Planet business in New York. More power to her!

So tomorrow, I’ll be home with my two kids for the first time. I don’t know who’s more excited—them or me. Probably me, because in addition to watching them grow up, I’ve got a great opportunity throughout the Scandinavian markets to think about in 1999, along with a whole new line of nutritional products to try out. And my organization is now 150 strong, in countries like Italy, Portugal, Great Britain and the United States. Something tells me I made the right choice.

Force for Good

Nu Skin began in 1984 with the simple goal of creating a product line and a business opportunity that would improve people's lives. Our unique products and business organization have done just that. We've enhanced the lives of customers around the world and given hundreds of thousands of distributors a real opportunity to improve their quality of life. And equally important, our Force for Good Foundation has used funding from the sales of Epoch™ products, substantial donations from distributors, and regular corporate contributions to touch the lives of people and cultures worldwide. • For example, we work with Stanford University to champion research for epidermolysis bullosa, a fatal skin disease. As a result of Force for Good funding, researchers are very close to a cure. Nu Skin also financed and equipped a hospital in Ghana to perform surgeries on burulie ulcer, a life-threatening disease. And among other projects, we sponsor corrective surgeries on children born with physical deformities such as cleft palate or clubfoot in South and Central America, Russia and the Philippines. • The Force for Good Foundation will continue to find new ways to make a difference—one person at a time.





Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of the Company's financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and the related notes thereto, which are included in this report.

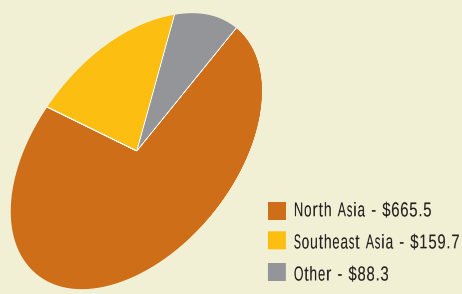
General Nu Skin Enterprises, Inc. (the "Company"), is a network marketing company involved in the distribution and sale of premium quality, innovative personal care and nutritional products and, following the planned acquisition of Big Planet, Inc. discussed below, Internet and telecommunication products and services. The Company distributes Nu Skin–branded products in markets throughout the world. The Company's operations throughout the world are divided into three regions: North Asia, which consists of Japan and South Korea; Southeast Asia, which consists of Taiwan, Thailand, Hong Kong (including Macau), the Philippines, Australia, and New Zealand; and Other Markets, which consists of the United Kingdom, Austria, Belgium, Denmark, France, Germany, Italy, Ireland, Poland, Portugal, Spain, Sweden, the Netherlands, Brazil (the Company's subsidiaries operating in these countries are collectively referred to as the "Subsidiaries") and sales to and license fees from the Company's North American private affiliates. In 1998, the Company acquired Generation Health Holdings, Inc., the parent of Pharmanex, Inc. (the "Pharmanex Acquisition"). With the Pharmanex Acquisition, the Company increased its nutritional product development and formulation capabilities. In February 1999, the Company announced its intent to acquire certain assets of its North American private affiliates as well as to acquire Big Planet, Inc., an Internet-based affiliate of the Company.

The Company's revenue is primarily dependent upon the efforts of a network of independent distributors who purchase products and sales materials from the Company in their local currency and who constitute and/or sell to the Company's customers. The Company recognizes revenue when products are shipped and title passes to these independent distributors. Revenue is net of returns, which have historically been less than 3.5% of gross sales. Distributor incentives are paid to several levels of distributors on each product sale. The amount and recipient of the incentive varies depending on the purchaser's position within the Global Compensation Plan. These incentives are classified as operating expenses. The following table sets forth revenue information for the time periods indicated. This table should be reviewed in connection with the tables presented under "Results of Operations" which disclose distributor incentives and other costs associated with generating the aggregate revenue presented.

(U.S. dollars in millions) Region	Year ended	December 31, 1996	December 31, 1997	December 31, 1998
North Asia		$ 502.4	$ 673.6	$ 665.5
Southeast Asia		183.7	225.3	159.7
Other Markets		75.5	54.5	88.3
Totals		**$ 761.6**	**$ 953.4**	**$ 913.5**

Revenue generated in North Asia represented 73% of total revenue generated during 1998. The Company's operations in Japan generated 98% of the North Asia revenue. Revenue from the Southeast Asia operations generated 17% of total revenue generated in 1998. The Company's operations in Taiwan generated 75% of the Southeast Asia revenue. Revenue generated in Other Markets represented the remaining 10% of total revenue generated in 1998. The majority of the Other Market revenue in 1998 is generated from sales to and license fees from the Company's North American private affiliates.

Revenue by Region
(U.S. dollars in millions)



Selected Financial Data

Income Statement Data (U.S. dollars in thousands, except per share data) Year ended	December 31, 1994	December 31, 1995	December 31, 1996	December 31, 1997	December 31, 1998
REVENUE	**$ 330,680**	**$ 435,855**	**$ 761,638**	**$ 953,422**	**$ 913,494**
Cost of sales	76,012	101,474	171,187	191,218	188,457
Cost of sales-amortization of inventory step-up	—	—	—	—	21,600
GROSS PROFIT	**254,668**	**334,381**	**590,451**	**762,204**	**703,437**
Operating expenses:					
Distributor incentives	104,994	139,495	282,588	362,195	331,448
Selling, general and administrative	86,931	115,950	168,706	201,880	202,150
Distributor stock expense	—	—	1,990	17,909	—
In-process research and development	—	—	—	—	13,600
Total operating expenses	191,925	255,445	453,284	581,984	547,198
OPERATING INCOME	**62,743**	**78,936**	**137,167**	**180,220**	**156,239**
Other income (expense), net	(394)	650	10,771	8,973	13,599
Income before provision for income taxes and minority interest	62,349	79,586	147,938	189,193	169,838
Provision for income taxes	10,071	19,141	49,526	55,707	62,840
Minority interest	7,561	10,498	13,700	14,993	3,081
NET INCOME	**$ 44,717**	**$ 49,947**	**$ 84,712**	**$ 118,493**	**$ 103,917**
Net income per share:					
Basic			$ 1.07	$ 1.42	$ 1.22
Diluted			1.02	1.36	1.19
Weighted average common shares outstanding:					
Basic			79,194	83,331	84,894
Diluted			83,001	87,312	87,018

Balance Sheet Data (U.S. dollars in thousands)	December 31, 1994	December 31, 1995	December 31, 1996	December 31, 1997	December 31, 1998
Cash and cash equivalents	$ 63,550	$ 84,000	$ 214,823	$ 174,300	$ 188,827
Working capital	65,446	56,801	143,308	123,220	164,597
Total assets	119,908	182,154	380,482	405,004	606,433
Short term notes payable to stockholders	—	—	71,487	19,457	—
Long term notes payable to stockholders	—	—	—	116,743	—
Short term debt	—	—	—	—	14,545
Long term debt	—	—	—	—	138,734
Stockholders' equity	63,849	68,363	113,495	94,892	254,642

Other Information(1)	December 31, 1994	December 31, 1995	December 31, 1996	December 31, 1997	December 31, 1998
Number of active distributors	182,000	260,000	397,000	448,000	470,000
Number of executive distributors	6,391	8,173	21,479	22,689	22,781

(1) Active distributors are those distributors who are resident in the countries in which the Company operates and who have purchased products during the three months ended as of the date indicated, rounded to the nearest thousand. An executive distributor is an active distributor who has submitted a qualifying letter of intent to become an executive distributor, achieved specified personal and group sales volumes for a four month period and maintained such specified personal and group sales volumes thereafter.

Cost of sales primarily consists of the cost of products purchased from third-party vendors (generally in U.S. dollars), the freight cost of shipping these products to distributors as well as duties related to the importation of such products. Additionally, cost of sales includes the cost of sales materials sold to distributors at or near cost. Sales materials are generally purchased in local currencies. As the sales mix changes between product categories and sales materials, cost of sales and gross profit may fluctuate to some degree due primarily to the margin on each product line as well as varying import duty rates levied on imported product lines. In each of the Company's current markets, duties are generally higher on nutritional products than on personal care products. Also, as currency exchange rates fluctuate, the Company's gross margin will fluctuate. In general, however, costs of sales move proportionate to revenue.

Distributor incentives are the Company's most significant expense. Distributor incentives are paid to distributors on a monthly basis based upon their personal and group sales volume as well as the group sales volume of up to six levels of executive distributors in their downline sales organization. These incentives are computed each month based on the sales volume and network of the Company's global distributor force. Small fluctuations occur in the amount of incentives paid as the network of distributors actively purchasing products changes from month to month. However, due to the size of the Company's distributor force, with nearly 500,000 active distributors, the fluctuation in the overall payout is relatively small. The overall payout averages from 39% to 41% of global product sales. Pursuant to the agreements between the Company and its North American affiliates, the North American affiliated entities are contractually obligated to pay a distributor commission expense of 42.0% of commissionable product sales to the Company each month to cover the commission obligation from the sales of Nu Skin products in North America. Additionally, distributor incentives include the cost of computing and paying commissions as well as the cost of various incentive programs for distributors including an annual trip to Hawaii for the Company's leading distributors. These additional costs average approximately 1% of revenue and are included in distributor incentives. Because the Company's revenue includes sales of both commissionable and non-commissionable items, distributor incentives as a percentage of total revenue have ranged from approximately 36.8% to 38.9% since December 31, 1994. Non-commissionable items consist of sales materials and starter kits as well as sales to the Company's North American private affiliates.

In the fourth quarter of 1996, the Company implemented a one-time distributor equity incentive program. This global program provided for the granting of options to distributors to purchase 1.6 million shares of the Company's Class A Common Stock. The number of options each distributor received was based on his or her performance and productivity through August 31, 1997. The options are exercisable at a price of $5.75 per share and vested on December 31, 1997. The Company recorded a $2.0 million charge in 1996 and recorded additional charges in 1997 of $17.9 million for the non-cash and non-recurring expenses associated with this program. There are currently no plans to repeat this or similar distributor stock incentive programs.

Selling, general and administrative expenses include wages and benefits, rents and utilities, travel and entertainment, promotion and advertising, research and development and professional fees.

Provision for income taxes is dependent on the statutory tax rates in each of the countries in which the Company operates. For example, statutory tax rates are 16.0% in Hong Kong, 25.0% in Taiwan, 30.0% in Thailand, 30.1% in South Korea, 35.0% in the Philippines and 57.9% in Japan. However, the statutory tax rate in Japan is scheduled to be reduced to 54.3% for fiscal years beginning in 1999 and in the Philippines the rate is scheduled to be reduced to 33% and 32% in 1999 and 2000, respectively. The Company operates a regional business center in Hong Kong, which bears inventory obsolescence and currency exchange risks. Any income or loss incurred by the regional business center is not subject to taxation in Hong Kong. In addition, since the incorporation of the Company in 1996, the Company has been subject to taxation in the United States, where it is incorporated, at a statutory corporate federal tax rate of 35.0%. However, the Company receives foreign tax credits in the U.S. for the amount of foreign taxes actually paid in a given period, which are utilized to reduce taxes payable in the United States.

In March 1998, the Company completed the acquisition (the "NSI Acquisition") of the capital stock of Nu Skin International, Inc. ("NSI"), NSI affiliates in Europe, South America, Australia and New Zealand and certain other

NSI affiliates (the "Acquired Entities"). Inasmuch as a portion of the Acquired Entities were under common control, the Company's consolidated financial statements have been combined and restated as if the Company and the Acquired Entities had been combined during all periods presented.

Minority interest represents the earnings of the Acquired Entities which are not under common control. The minority interest at March 26, 1998 was purchased as part of the NSI Acquisition.

In connection with the Pharmanex Acquisition, the Company allocated $13.6 million to purchased in-process research and development. During 1998, the in-process research and development amount was fully written off.

In February 1999, the Company announced its intent to acquire Big Planet, Inc., certain assets of Nu Skin USA, Inc., and the Company's remaining affiliates in Canada, Mexico and Guatemala for approximately $40.0 million in cash, $14.5 million in a three-year note and the assumption of certain liabilities. In connection with the Nu Skin USA acquisition which was concluded in March 1999, the Company, through a newly formed wholly owned susidiary, acquired certain assets of Nu Skin USA, including equipment, inventory, intellectual property, marketing materials, contracts related to the network marketing of NSI's personal care and nutritional products, and approximately 620,000 shares of Class A Common Stock of the Company, in exchange for cash in the amount of approximately $8.7 million and the assumption of approximately $8.0 million of Nu Skin USA liabilities. NSI, a subsidiary of the Company, terminated various license agreements and other intercompany agreements with Nu Skin USA and paid Nu Skin USA a $10.0 million termination fee.

The Company is currently pursuing the proposed acquisitions of Big Planet, Inc., and the Company's remaining private affiliates in Canada, Mexico and Guatemala.

Results of Operations

The following tables set forth operating results and operating results as a percentage of revenue, respectively, for the periods indicated.

(U.S. dollars in millions) Year ended	December 31, 1996	December 31, 1997	December 31, 1998
REVENUE	**$ 761.6**	**$ 953.4**	**$ 913.5**
Cost of sales	171.2	191.2	188.5
Cost of sales-amortization of inventory step-up	—	—	21.6
GROSS PROFIT	**590.4**	**762.2**	**703.4**
Operating expenses:			
Distributor incentives	282.6	362.2	331.4
Selling, general and administrative	168.7	201.9	202.2
Distributor stock expense	2.0	17.9	—
In-process research and development	—	—	13.6
Total operating expenses	453.3	582.0	547.2
OPERATING INCOME	**137.1**	**180.2**	**156.2**
Other income (expense), net	10.8	9.0	13.6
Income before provision for income taxes and minority interest	147.9	189.2	169.8
Provision for income taxes	49.5	55.7	62.8
Minority interest	13.7	15.0	3.1
NET INCOME	**$ 84.7**	**$ 118.5**	**$ 103.9**
Unaudited supplemental data(1):			
Income before pro forma provision for income taxes and minority interest	$ 147.9	$ 189.2	$ 169.8
Pro forma provision for income taxes	54.7	71.9	66.0
Pro forma minority interest	8.6	9.3	1.9
PRO FORMA NET INCOME	**$ 84.6**	**$ 108.0**	**$ 101.9**

Year ended	December 31, 1996	December 31, 1997	December 31, 1998
REVENUE	**100.0%**	**100.0%**	**100.0%**
Cost of sales	22.5	20.1	20.6
Cost of sales-amortization of inventory step-up	—	—	2.4
GROSS PROFIT	**77.5**	**79.9**	**77.0**
Operating expenses:			
Distributor incentives	37.1	38.0	36.3
Selling, general and administrative	22.1	21.2	22.1
Distributor stock expense	.3	1.9	—
In-process research and development	—	—	1.5
Total operating expenses	59.5	61.1	59.9
OPERATING INCOME	**18.0**	**18.8**	**17.1**
Other income (expense), net	1.4	.9	1.5
Income before provision for income taxes and minority interest	19.4	19.7	18.6
Provision for income taxes	6.5	5.8	6.9
Minority interest	1.8	1.5	.3
NET INCOME	**11.1%**	**12.4%**	**11.4%**
Unaudited supplemental data(1):			
Income before pro forma provision for income taxes and minority interest	19.4%	19.7%	18.6%
Pro forma provision for income taxes	7.2	7.5	7.2
Pro forma minority interest	1.1	.9	.2
PRO FORMA NET INCOME	**11.1%**	**11.3%**	**11.2%**

(1) Reflects adjustment for Federal and state income taxes as if the Company's subsidiaries had been taxed as C corporations rather than as S corporations for the years ended December 31, 1996, 1997 and 1998.

1998 Compared to 1997

Revenue decreased 4.2% to $913.5 million from $953.4 million for the years ended December 31, 1998 and 1997, respectively. The decrease in revenue resulted primarily from significant weakening of the Japanese yen and other Asian currencies relative to the U.S. dollar, an increasing competitive environment in Taiwan and the economic downturn in Asia, particularly in South Korea and Thailand. These issues more than offset the increase in revenue from the Company's other markets including license fees from and product sales to the Company's private North American affiliated entities.

Revenue in North Asia, which consists of Japan and South Korea, decreased to $665.5 million from $673.6 million for the years ended December 31, 1998 and 1997, respectively. Economic challenges and a weakened currency in South Korea resulted in a significant decline in South Korean revenue from $74.2 million for the year ended December 31, 1997 to $11.4 million in 1998. This revenue decline was offset by revenue in Japan which increased from $599.4 million for the year ended December 31, 1997 to $654.2 million in 1998. In spite of challenging economic conditions in Japan, the Company recorded increases in revenue in Japan of 9.1% in U.S. dollar terms and 17.6% in local currency terms from 1997 to 1998. This increase is attributed to continued growth of the personal care and nutritional product lines and a strong Japanese distributor force.

Revenue in Southeast Asia, which consists of Taiwan, Thailand, Hong Kong, the Philippines, Australia and New Zealand, totaled $159.7 million for the year ended December 31, 1998, down from revenue of $225.3 million for the year ended December 31, 1997, a decrease of 29.1%. The Company's operations in Taiwan have continued to suffer the impact of increased competition and currency devaluation which resulted in a decline in revenue from $168.6 million in 1997 to $119.5 million in 1998. In addition, the Company's operations in Thailand have been impacted negatively by Thailand's economic challenges and currency devaluation resulting in a revenue decrease to $8.3 million in 1998 from $22.8 million in 1997.

The declines in North and Southeast Asia were partially offset by aggregate revenue increases in the Company's other markets, which include the United Kingdom, Germany, Italy, the Netherlands, France, Belgium, Spain, Portugal, Ireland, Austria, Poland, Denmark, Sweden, Brazil and product sales to and license fees from the Company's North American private affiliates. Aggregate revenue in these markets increased to $88.3 million for the year ended December 31, 1998 from $54.5 million for the year ended December 31, 1997, an increase of 62.0%. These increases were primarily due to increased revenue from the Company's North American private affiliates following a successful global convention held in the first quarter of 1998, as well as increased sales from the openings of the Company's operations in Poland, Denmark, Sweden and Brazil in 1998 and the introduction of nutritional products in several European markets in 1998.

Gross profit as a percentage of revenue was 77.0% for the year ended December 31, 1998 compared to 79.9% for the year ended December 31, 1997. The amortization of the step-up of inventory from the NSI Acquisition increased cost of sales by $21.6 million for the year ended December 31, 1998. Without this non-recurring charge, gross profit as a percentage of revenue would have been 79.4% for the year ended December 31, 1998. The Company purchases goods in U.S. dollars and recognizes revenue in local currency and is consequently subjected to exchange rate risks in its gross margins. The negative pressure on gross margins, due primarily to weakened currencies throughout the Company's Asian markets, was somewhat offset by gross margin improvement as a result of price increases in certain markets in 1998. In addition, increased local manufacturing, including the local manufacturing in Taiwan of LifePak®, the Company's leading nutritional product, improved and stabilized gross margins.

Distributor incentives as a percentage of revenue decreased to 36.3% for the year ended December 31, 1998 from 38.0% for the year ended December 31, 1997. The primary reason for this decrease was increased revenue in 1998 from product sales to and license fees from the Company's North American private affiliates which is not subject to incentives being paid by the Company.

Selling, general and administrative expenses as a percentage of revenue increased to 22.1% for the year ended December 31, 1998 from 21.2% for the year ended December 31, 1997. This increase was primarily due to the revenue declines in 1998 and increases in U.S. dollar-based selling, general and administrative expenses, resulting from the NSI Acquisition. In dollar terms, selling, general and administrative expenses increased slightly from $201.9 million in

1997 to $202.2 million in 1998. In spite of the increases in selling, general and administrative expenses from the NSI Acquisition, the selling, general and administrative expenses in the local markets decreased in U.S. dollar terms due to weakened local currencies.

Distributor stock expense of $17.9 million for the year ended December 31, 1997 reflects a one-time grant of distributor stock options at an exercise price of $5.75 per share, 25% of the per share offering price in the Company's initial public offering completed in November 1996. This non-cash expense is non-recurring and was only recorded in the fourth quarter of 1996 and in each of the four quarters of 1997. There are currently no plans to repeat this or other similar distributor stock incentive programs.

In-process research and development expense of $13.6 million for the year ended December 31, 1998 reflects a one-time expense for research and development intangible assets purchased in the Pharmanex Acquisition during the fourth quarter of 1998. This non-cash expense is non-recurring and was only recorded in the fourth quarter of 1998.

Operating income decreased 13.3% to $156.2 million for the year ended December 31, 1998 from $180.2 million in 1997. Operating margin decreased to 17.1% in 1998 from 18.8% in 1997. The operating income and margin decreases resulted from declines in U.S. dollar revenue in North and Southeast Asia, lower gross margins as a result of significant weakening in foreign currencies in North and Southeast Asia and by the non-recurring amortization of inventory step-up and in-process research and development expenses recorded in the Company's other markets in 1998, and was partially offset by the distributor stock expense recorded in 1997.

Other income increased from $9.0 million for the year ended December 31, 1997 to $13.6 million for the year ended December 31, 1998. The increase was primarily caused by yen-based hedging gains from forward contracts and intercompany loans during 1998.

Provision for income taxes increased to $62.8 million for the year ended December 31, 1998 from $55.7 million for the year ended December 31, 1997 due to an increase in the effective tax rate from 29.4% to 37.0% for the same periods, which more than offset the decreased operating income in 1998 compared to 1997. The increase in the effective tax rate is due to the Acquired Entities being taxed as C corporations rather than as S corporations during most of 1998. The pro forma provision for income taxes decreased to $66.0 million for the year ended December 31, 1998 from $71.9 million for the year ended December 31, 1997 due to decreased income in 1998. The pro forma provision for income taxes presents income taxes as if the Acquired Entities had been taxed as C corporations rather than as S corporations for the years ended December 31, 1998 and 1997.

Minority interest relates to the earnings of the Acquired Entities which are not under common control. The minority interest at March 26, 1998 was purchased as part of the NSI Acquisition. Accordingly, minority interest does not continue after the NSI Acquisition.

Net income decreased by $14.6 million to $103.9 million for the year ended December 31, 1998 compared with the same period in 1997 due primarily to the amortization of inventory step-up and in-process research and development expense recorded in 1998 partially offset by distributor stock expense recorded in 1997. Net income as a percentage of revenue decreased to 11.4% for the year ended December 31, 1998 as compared to 12.4% for the same period in 1997.

1997 Compared to 1996

Revenue increased 25.2% to $953.4 million from $761.6 million for the years ended December 31, 1997 and 1996, respectively. The increase in revenue resulted primarily from continued revenue growth in North and Southeast Asia related to the personal care and nutritional product lines.

Revenue in North Asia, which consists of Japan and South Korea, increased to $673.6 million from $502.4 million for the years ended December 31, 1997 and 1996, respectively. Revenue in Japan increased from $380.0 million for the year ended December 31, 1996 to $599.4 million in 1997. This increase in revenue was primarily a result of continued growth of the personal care and nutritional product lines, which grew 43.8% and 94.9%, respectively, in 1997 and 1996. Additionally, revenue in Japan increased following a distributor convention held in the first quarter of 1997 and the sponsorship of the Japan Supergames featuring National Basketball Association stars in the third quarter of 1997. Offsetting revenue growth in North Asia was the decrease in revenue in South Korea from $122.3 million in 1996 to $74.2 million in 1997, which was primarily due to economic challenges and a weakened currency in South Korea.

Revenue in Southeast Asia, which consists of Taiwan, Thailand, Hong Kong, Australia and New Zealand, totaled $225.3 million for the year ended December 31, 1997 from revenue of $183.7 million for the year ended December 31, 1996, an increase of 22.6%. Revenue in Taiwan increased to $168.6 million in 1997 from $154.5 million in 1996, an increase of 9.1%, primarily as a result of growth in nutritional product sales following the late 1996 introduction of LifePak®, the Company's leading nutritional supplement. In addition, the Company's operations in Thailand commenced in March 1997 and generated revenue of $22.8 million in 1997. Revenue in Hong Kong increased to $21.3 million in 1997 from $17.0 million in 1996 as a result of growth in nutritional product sales following the introduction of LifePak® in the first quarter of 1997.

The increases in North and Southeast Asia were partially offset by an aggregate revenue decrease in the Company's other markets, which include the United Kingdom, Germany, Italy, the Netherlands, France, Belgium, Spain, Portugal, Ireland, Austria and product sales to and license fees from the Company's North American private affiliates. Aggregate revenue in these markets decreased to $54.5 million for the year ended December 31, 1997 from $75.5 million for the year ended December 31, 1996, a decrease of 27.8%. These decreases were primarily due to higher revenue recorded in 1996 as a result of a successful global convention held in 1996 by the Company's North American private affiliates.

Gross profit as a percentage of revenue was 79.9% for the year ended December 31, 1997 compared to 77.5% for the year ended December 31, 1996. Gross margin improvement resulted from price increases throughout North and Southeast Asia which occurred during the second quarter of 1997. In addition, increased local manufacturing efforts were designed to improve and stabilize gross margins.

Distributor incentives as a percentage of revenue increased to 38.0% for the year ended December 31, 1997 from 37.1% for the year ended December 31, 1996. The primary reason for this increase was decreased revenue in 1997 from product sales to and license fees from the Company's North American private affiliates which is not subject to incentives being paid by the Company.

Selling, general and administrative expenses as a percentage of revenue decreased to 21.2% for the year ended December 31, 1997 from 22.1% for the year ended December 31, 1996. In dollar terms, selling, general and administrative expenses increased from $168.7 million in 1996 to $201.9 million in 1997. This increase, in dollar terms, was primarily due to increased promotion expenses of approximately $4.0 million resulting from the expense of sponsoring the Japan Supergames and approximately $2.0 million resulting from distributor conventions held during the first quarter of 1997. In addition, other general and administrative expenses were higher in 1997 as a result of expenses of operating as a public company and as a result of increased spending in each of the Company's markets to support current operations. These increased costs were offset as a percentage of revenue by increased operating efficiencies as the Company's revenue increased.

Distributor stock expense of $17.9 million and $2.0 million for the years ended December 31, 1997 and 1996, respectively, reflects a one-time grant of distributor stock options at an exercise price of $5.75 per share, 25% of the per share offering price in the Company's initial public offering completed in November 1996. This non-cash expense is nonrecurring and was only recorded in the fourth quarter of 1996 and in each of the four quarters of 1997.

Operating income increased 31.3% to $180.2 million for the year ended December 31, 1997 from $137.1 million in 1996. Operating margin increased to 18.8% in 1997 from 18.0% in 1996. The operating income and margin increases resulted from increases in U.S. dollar revenue in North and Southeast Asia and improved gross margins as a result of price changes during the second quarter of 1997 in North and Southeast Asia, which were partially offset by the $17.9 million distributor stock expense recorded in 1997.

Other income decreased from $10.8 million for the year ended December 31, 1996 to $9.0 million for the year ended December 31, 1997. The decrease was primarily caused by the exchange losses relating to intercompany balances denominated in foreign currencies offset by hedging gains from forward contracts and intercompany loans.

Provision for income taxes increased to $55.7 million for the year ended December 31, 1997 from $49.5 million for the year ended December 31, 1996 due to increased income that was offset partially by the decrease in the effective tax rate to 29.4% from 33.5% for the same periods. The decrease in the effective tax rate is due to the Company's termination of its S corporation status during 1996. The pro forma provision for income taxes increased to $71.9 million for the year ended December 31, 1997 from $54.7 million for the year ended December 31, 1996 due to increased income in 1997. The pro forma provision for income taxes presents income taxes as if the Acquired Entities had been taxed as C corporations rather than as S corporations for the years ended December 31, 1997 and 1996.

Minority interest relates to the earnings of the Acquired Entities which are not under common control. The minority interest at March 26, 1998 was purchased as part of the NSI Acquisition. Accordingly, minority interest does not continue after the NSI Acquisition.

Net income increased by $33.8 million to $118.5 million for the year ended December 31, 1997 compared with the same period in 1996 due primarily to the increase in revenue and improvements in gross margins in 1997 partially offset by distributor stock expense recorded in 1997. Net income as a percentage of revenue increased to 12.4% for the year ended December 31, 1997 as compared to 11.1% for the same period in 1996.

Liquidity and Capital Resources

Historically, the Company's principal needs for funds have been for distributor incentives, working capital (principally inventory purchases), operating expenses, capital expenditures and the development of new markets. The Company has generally relied entirely on cash flow from operations to meet its business objectives without incurring long-term debt to unrelated third parties to fund operating activities.

The Company generates significant cash flow from operations due to favorable gross margins and minimal capital requirements. Additionally, the Company does not generally extend credit to distributors, but requires payment prior to shipping products. This process eliminates the need for significant accounts receivable from distributors. During the first quarter of each year, the Company pays significant accrued income taxes in many foreign jurisdictions including Japan. These large cash payments generally more than offset significant cash generated in the first quarter. During the year ended December 31, 1998, the Company generated $118.6 million from operations compared to $108.6 million generated during the year ended December 31, 1997. This increase in cash generated from operations is primarily due to the repayment of significant related party payables to the Company's North American private affiliates in 1997 by NSI in connection with the spin-off of its U.S. operations and reduced purchases of inventories and other assets in 1998.

As of December 31, 1998, working capital was $164.6 million compared to $123.2 million as of December 31, 1997. This increase is largely due to increased cash balances as well as increased inventory levels and other current assets. Cash and cash equivalents at December 31, 1998 and 1997 were $188.8 million and $174.3 million, respectively.

Key Management Ratios for 1998	
Quick ratio	1.07
Current ratio	1.87
Debt/Equity	.60
ROA	20.5%
ROE	59.5%

Capital expenditures, primarily for equipment, computer systems and software, office furniture and leasehold improvements, were $18.3 million and $14.4 million for the years ended December 31, 1998 and 1997, respectively. In addition, the Company anticipates additional capital expenditures in 1999 of $40.0 million to further enhance its infrastructure, including enhancements to computer systems and software and call-center facilities in order to accommodate anticipated future growth.

In March 1998, the Company completed its acquisition of the Acquired Entities for $70.0 million in preferred stock and long-term notes payable to the stockholders of the Acquired Entities (the"NSI Stockholders") totaling approximately $6.2 million. Also, as part of the NSI Acquisition, the Company assumed approximately $171.3 million in S distribution notes and incurred acquisition costs totaling $3.0 million. During the second quarter of 1998, the S distribution notes and long-term notes payable to the NSI Stockholders were paid in full with proceeds from the credit facility described below. In addition, NSI and the Company met certain earnings growth targets in 1998 resulting in a contingent payment payable to the NSI Stockholders of $25.0 million as of December 31, 1998. Contingent upon NSI and the Company meeting certain earnings growth targets over the next three years, the Company may pay up to $25.0 million in cash in each of the next three years to the NSI Stockholders. The contingent consideration of $25.0 million earned in 1998 is to be paid in the second quarter of 1999 and has been accounted for as an adjustment to the purchase price and allocated to the Acquired Entities' assets and liabilities. Any additional contingent consideration paid over the next three years, if any, will be accounted for in a similar manner.

In May 1998, the Company and its Japanese subsidiary Nu Skin Japan Co., Ltd. entered into a $180.0 million credit facility with a syndicate of financial institutions for which ABN-AMRO, N.V. acted as agent. This credit facility was used to satisfy Company liabilities which were assumed as part of the NSI Acquisition. The Company borrowed $110.0 million and Nu Skin Japan Co., Ltd. borrowed the Japanese yen equivalent of $70.0 million denominated in local currency. Payments totaling $41.6 million were made during the second quarter of 1998 relating to the $180.0 million credit facility. As of December 31, 1998, the balance relating to the $180.0 million credit facility totaled $153.3 million. The U.S. portion of the credit facility bears interest at either a base rate as specified in the credit facility or the London Inter-Bank Offer Rate plus an applicable margin, in the borrower's discretion. The Japanese portion of the credit facility bears interest at either a base rate as specified in the credit facility or the Tokyo Inter-Bank Offer Rate plus an applicable margin, in the borrower's discretion. The maturity date for the credit facility is three years from the borrowing date, with a possible extension of the maturity date upon approval of the then outstanding lenders. The credit facility provides that the amounts borrowed are to be used for general corporate purposes. The credit facility also contains other terms and conditions and affirmative and negative financial covenants customary for credit facilities of this type. As of December 31, 1998, the Company has continued to comply with all financial and other covenants under the credit facility.

During 1998, the Board of Directors authorized the Company to repurchase up to $20.0 million of the Company's outstanding shares of Class A Common Stock. As of December 31, 1998, the Company had repurchased 917,254 shares for an aggregate price of approximately $10.5 million.

In October 1998, the Company completed the Pharmanex Acquisition for $77.6 million, which consisted of approximately 4.0 million shares of the Company's Class A Common Stock, including 261,008 shares issuable upon exercise of options assumed by the Company. Contingent upon Pharmanex meeting specific revenue and other requirements, approximately 565,000 of the 4.0 million shares are being held in escrow and will be returned to the Company if such requirements are not met within one year from the date of the Pharmanex Acquisition. The contingent shares issued, if any, will be accounted for as an adjustment to the purchase price and allocated to the acquired assets and liabilities. Also, as part of the Pharmanex Acquisition, the Company assumed approximately $34.0 million in liabilities and incurred acquisition costs totaling $1.3 million. The net assets acquired totaling $3.6 million include net deferred tax assets totaling $0.8 million. In connection with the closing of the Pharmanex Acquisition, the Company paid approximately $29.0 million relating to the assumed liabilities. Under the terms of the Pharmanex Acquisition, the Company was required to pay up to an additional $32.0 million in consideration if the Company's stock price failed to trade at certain agreed upon levels. Based on the Company's stock price performance following the Pharmanex Acquisition, the Company is no longer obligated to make any further payments.

Under its operating agreements with other Nu Skin affiliated companies, the Company incurs related party payables and receivables. The Company had related party payables of $25.0 million and $10.0 million at December 31, 1998 and 1997, respectively. In addition, the Company had related party receivables of $22.3 million and $23.0 million, respectively, at those dates. Related party balances outstanding in excess of 60 days bear interest at a rate of 2% above the U.S. prime rate. As of December 31, 1998, no material related party payables or receivables had been outstanding for more than 60 days.

Management considers the Company to be liquid and able to meet its obligations on both a short and long-term basis. Management currently believes existing cash balances together with future cash flows from operations will be adequate to fund cash needs relating to the implementation of the Company's strategic plans.

Year 2000

The Company has developed a comprehensive plan to address Year 2000 issues. In connection with this plan, the Company has established a committee that is responsible for assessing and testing the Company's systems to identify Year 2000 issues, and overseeing the upgrade or remediation of non-compliant Year 2000 systems. This committee reports on a regular basis to the executive management team of the Company and the Audit Committee of the Board of Directors on the progress and status of the plan and the Year 2000 issues affecting the Company.

To date, the Company has completed a broad scope assessment and audit of its information technology systems and non-information technology systems to identify and prioritize potential Year 2000 issues and is currently performing a micro-based assessment designed to identify specific Year 2000 issues at the hardware, software, and processing levels. Through this process the Company has identified potential Year 2000 issues in its information systems and is in the process of addressing these issues through upgrades and other remediation. The Company currently estimates that the cost of all upgrades related to Year 2000 issues, including scheduled upgrades intended primarily to increase efficiencies within the Company and also address Year 2000 issues, is anticipated to be approximately $10.0 million through 1999, which the Company anticipates will be funded by cash from operations. The Company currently anticipates that it will complete the micro-based analysis and remediation on all of its significant in-house systems by the second quarter of 1999. In 1999, the Company will continue to run broad scope tests of its in-house systems to confirm that it has adequately addressed all Year 2000 issues and continue its work on the systems of its foreign offices.

As part of the Year 2000 plan, the Company is also assessing and monitoring the Company's vendors and suppliers and other third parties for Year 2000 readiness. To date the committee has sent questionnaires to these third parties seeking their assessment and evaluation of their own Year 2000 readiness and has received responses back from a substantial majority of these third parties. Members of the committee have already begun follow-up calls to the top fifty vendors of the Company and plan to visit the Company's significant suppliers and vendors in person for purposes of evaluating their Year 2000 readiness and sharing Year 2000 information. The Company will continue the follow-up with third party vendors throughout 1999.

Based on the Company's evaluation of the Year 2000 issues affecting the Company, the Company believes that Year 2000 readiness of its vendors and suppliers, which is beyond the control of the Company, is currently the most significant area of risk, particularly in its foreign markets. The Company does not believe it is possible at this time to quantify or estimate the most reasonable worst case Year 2000 scenario. However, the Company is beginning to formulate contingency plans to limit, to the extent possible, interruption of the Company's operations arising from the failure of third parties to be Year 2000 compliant as it moves forward in the implementation of its Year 2000 plan. The Company will continue to work with third parties as indicated above to further evaluate and quantify this risk and will continue the development of contingency plans throughout 1999 as this process moves forward. There can be no assurance, however, that the Company will be able to successfully identify and develop contingency plans for all Year 2000 issues that could, directly or indirectly, adversely affect the Company's operations, some of which are beyond the control of the Company. In particular, the Company cannot predict or evaluate domestic and foreign governments' and utility companies' preparation for the Year 2000 or the readiness of other third parties (domestic and foreign) that do not have relationships with the Company, and the resulting impact that the failure of such parties to be Year 2000 compliant may have on the economy in general and on the Company's business.

The foregoing discussion of the Year 2000 issues contains forward-looking statements that represent the Company's current expectations or beliefs. These forward-looking statements are subject to various risks and uncertainties that could cause outcomes to be different from those currently anticipated including those risks identified under the heading "Note Regarding Forward-looking Statements."

Seasonality and Cyclicality

The direct selling industry is impacted by certain seasonal trends such as major cultural events and vacation patterns. For example, Japan, Taiwan, Hong Kong, South Korea and Thailand celebrate their respective local New Year in the Company's first quarter. Management believes that direct selling in Japan and Europe is also generally negatively impacted during the month of August which is in the Company's third quarter, when many individuals traditionally take vacations.

The Company has experienced rapid revenue growth in certain new markets from the commencement of operations. In Japan, Taiwan and Hong Kong, the initial rapid growth was followed by a short period of stable or declining revenue followed by renewed growth fueled by new product introductions, an increase in the number of active distributors and increased distributor productivity. In South Korea, the Company experienced a significant decline in its 1997 revenue from revenue in 1996 and experienced additional quarterly sequential declines in 1998. Revenue in Thailand also decreased significantly after the commencement of operations in March 1997. Management believes that the revenue declines in South Korea and Thailand were partly due to normal business cycles in new markets, but were primarily due to volatile economic conditions in these markets. In addition, the Company may experience variations on a quarterly basis in its results of operations, as new products are introduced and new markets are opened. No assurance can be given that the Company's revenue growth rate in new markets where Nu Skin operations have not commenced will follow this pattern.

Quarterly Results

The following table sets forth certain unaudited quarterly data for the periods shown, restated for the NSI Acquisition.

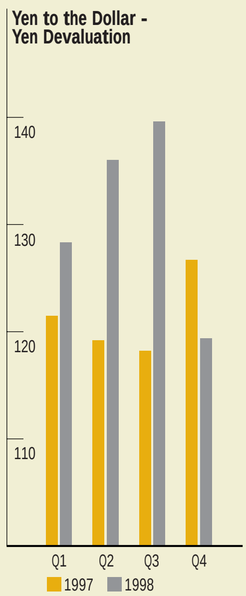
(U.S. dollars in millions, except per share amounts) 1997	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	$ 224.2	$ 245.9	$ 243.1	$ 240.2
Gross profit	179.0	195.3	194.4	193.5
Operating income	38.3	46.7	45.7	49.6
Net income	25.7	30.0	30.7	32.0
Net income per share:				
Basic	0.31	0.36	0.37	0.39
Diluted	0.29	0.34	0.35	0.37

(U.S. dollars in millions, except per share amounts) 1998	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	$ 227.9	$ 209.1	$ 217.9	$ 258.7
Gross profit	182.2	151.5	164.9	204.9
Operating income	51.0	29.6	37.4	38.3
Net income	33.7	22.0	25.5	22.8
Net income per share:				
Basic	0.41	0.26	0.30	0.26
Diluted	0.39	0.25	0.30	0.26

Currency Risk and Exchange Rate Information

A majority of the Company's revenue and many of its expenses are recognized primarily outside of the United States except for inventory purchases which are primarily transacted in U.S. dollars from vendors in the United States. Each entity's local currency is considered the functional currency. All revenue and expenses are translated at weighted average exchange rates for the periods reported. Therefore, the Company's reported sales 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 uncertainty of exchange rate fluctuations, the Company cannot estimate the effect of these fluctuations on its future business, product pricing, results of operations or financial condition. However, because a majority of the Company's revenue is realized in local currencies and the majority of its cost of sales is denominated in U.S. dollars, the Company's gross profits will be positively affected by a weakening in the U.S. dollar and will be negatively affected by a strengthening in the U.S. dollar. The Company seeks to reduce its exposure to fluctuations in foreign exchange rates by creating offsetting positions through the use of foreign currency exchange contracts and through certain intercompany loans of foreign currency. The Company does not use such derivative financial instruments for trading or speculative purposes. The Company regularly monitors its foreign currency risks and periodically takes measures to reduce the impact of foreign exchange fluctuations on the Company's operating results.



The Company's foreign currency derivatives are comprised of over-the-counter forward contracts with major international financial institutions. As of December 31, 1998, the primary currency for which the

Company has net underlying foreign currency exchange rate exposure is the Japanese yen. Based on the Company's foreign exchange contracts at December 31, 1998 as discussed in Note 14 of the notes to Consolidated Financial Statements, the impact of a 10% appreciation or 10% depreciation of the U.S. dollar against the Japanese yen would not result in significant other income or expense recorded in the Consolidated Statements of Income.

Following are the weighted average currency exchange rates of $1 into local currency for each of the Company's markets in which revenue exceeded $5.0 million for at least one of the quarters listed:

Quarterly Exchange Rates

1996	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Japan(1)	105.8	107.5	109.0	112.9
Taiwan	27.4	27.4	27.5	27.5
Hong Kong	7.7	7.7	7.7	7.7
South Korea	782.6	786.5	815.5	829.4
Thailand	25.2	25.3	25.3	25.5

1997	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Japan(1)	121.4	119.1	118.1	125.6
Taiwan	27.5	27.7	28.4	31.0
Hong Kong	7.7	7.7	7.7	7.7
South Korea	863.9	889.6	894.8	1,097.0
Thailand	26.0	25.4	31.5	40.3

1998	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Japan(1)	128.2	135.9	139.5	119.3
Taiwan	32.8	33.6	34.5	32.6
Hong Kong	7.7	7.8	7.8	7.8
South Korea	1,585.7	1,392.6	1,327.0	1,278.9
Thailand	45.1	40.3	40.9	37.1

(1) Since January 1, 1992, the highest and lowest exchange rates for the Japanese yen have been 147.3 and 80.6, respectively.

Outlook

Management currently anticipates revenue and earnings growth during calendar 1999. This growth is expected to result in part from continued growth in Japan, improved margins resulting from the NSI Acquisition, the strengthening of local currencies against the U.S. dollar and the addition of recent, and anticipated acquisitions as discussed below. Further, markets where the Company recently commenced operations, specifically Brazil, which began operations in the fourth quarter of 1998, are expected to contribute to revenue growth. The Company's anticipated revenue and earnings growth, however, could be adversely affected by fluctuations in Asian currencies, particularly the yen, and a renewed weakening of Asian economies.

The Company anticipates that its growth in local currencies will be largely attributed to the introduction of new products, including nutritional supplements provided to the Company as part of the Pharmanex Acquisition. Currently the Company's intent is to begin introducing some of these products in Japan, Taiwan and South Korea by the third quarter of 1999. Also, these Pharmanex nutritional supplements are intended to be introduced in other markets throughout 1999 and into the year 2000. Also, in Japan, the Company's leading market, a repositioned and locally manufactured color cosmetic line of products, including shades more suited to Japanese preferences, is scheduled to be launched in the second quarter of 1999.

The Company acquired certain assets of Nu Skin USA and began distributing nutritional and personal care products in the United States in March 1999. The Company expects increases in annual revenue and earnings in 1999 as a result of sales of the Company's existing products and Pharmanex nutritional products in the United States market. Additionally, the Company recently announced its intent to acquire Big Planet, Inc., Nu Skin Canada, Nu Skin Mexico and Nu Skin Guatemala. The acquisition of assets from Nu Skin USA and the proposed acquisitions of Big Planet, Inc., Nu Skin Canada, Nu Skin Mexico and Nu Skin Guatemala are anticipated to increase revenue and gross margins, but reduce operating margins due to the absorption of their operating expense structures as these acquisitions are concluded. Management believes that the Company's proposed acquisition of Big Planet, Inc. presents a significant revenue growth opportunity in the United States as well as potential growth in many international markets, including Japan and Europe. During 1998, Big Planet, Inc. generated significant operating losses and the Company anticipates further operating losses in 1999. In Japan, the Company has already invested more than $5.0 million in Internet-based initiatives designed to prepare distributors in that market for the eventual launch of Big Planet products and services. Currently, it is anticipated that these services will begin to be offered to Japanese distributors in late 1999 or in the year 2000.

Note Regarding Forward-looking Statements

Management's Discussion and Analysis of Financial Condition and Results of Operations, particularly the "Liquidity and Capital Resources," "Year 2000" and "Outlook" sections, contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, concerning, among other things, the adequacy of current cash and future cash flows to meet the required cash needs of the Company, the Company's anticipated revenue and earnings growth in 1999, planned product introductions in the Company's markets, the effect of the recent and planned acquisitions of the Company's private affiliates on the financial and operating results of the Company, the Company's expectation that it will be able to successfully address any Year 2000 related issues, including with third parties, and develop contingency plans as more fully described under the Year 2000 section above, and the Company's plan to implement forward contracts and other hedging strategies to manage foreign currency risks. These forward-looking statements represent the Company's expectations and/or beliefs concerning future events. The Company wishes to caution readers that these forward-looking statements are subject to numerous risks and uncertainties that could cause actual results and outcomes to differ materially from any forward-looking statement views expressed herein. These risks and uncertainties include, but are not limited to: (A) any weakening of Asian currencies, particularly the yen, from their current levels; (B) renewed and/or sustained weakness of the Asian economies, particularly Japan, or such weakness adversely affecting the Company's operations more than in the past; (C) lower than expected revenue, revenue growth and cash flow from operations because of adverse economic, business or political conditions, increased competition, adverse publicity in the Company's markets, particularly Japan and Taiwan, adverse developments or changes in regulatory or legal requirements applicable to the Company or its business, or the Company's inability, for any reason, to open new markets, introduce new products, implement its marketing and local sourcing initiatives and other strategic plans as well as the potential negative effect of distributor actions such as decreased selling efforts or increased turnover; (D) the inability of the Company to consummate the acquisition of Big Planet, Inc. and the Company's other North American private affiliates; (E) the inability of the Company to gain market acceptance of new products, including the Pharmanex products and Big Planet products and services if the Big Planet acquisition is consummated; (F) increased expenditures required to address the Year 2000 issue if the Company's technology requirements change or unforseen problems are discovered; (G) risks that the Company's and its vendors' plans to remedy Year 2000 issues may be inadequate which could result in disruptions of the Company's business; (H) the significant regulatory and legal requirements in the Company's markets applicable to nutritional products and telecommunication products which could delay or inhibit the ability of the Company to introduce and market certain products, including certain Pharmanex and Big Planet products, into its markets; (I) the risk that the Company could incur difficulties and undue expense in integrating the business of Pharmanex and Big Planet into the Company's operations, distribution channel and markets. These forward-looking statements are further qualified by a more detailed discussion of risks and uncertainties related to the Company's business contained in the Company's Form 10-K for the year ended December 31, 1998, and any amendments thereto, and other documents filed by the Company with the Securities and Exchange Commission.

Consolidated Balance Sheets

(U.S. dollars in thousands, except share amounts)	December 31, 1997	December 31, 1998
ASSETS		
Current assets		
Cash and cash equivalents	$ 174,300	$ 188,827
Accounts receivable	11,074	13,777
Related parties receivable	23,008	22,255
Inventories, net	69,491	79,463
Prepaid expenses and other	38,716	50,475
	316,589	354,797
Property and equipment, net	27,146	42,218
Other assets, net	61,269	209,418
TOTAL ASSETS	**$ 405,004**	**$ 606,433**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 23,259	$ 17,903
Accrued expenses	140,615	132,723
Related parties payable	10,038	25,029
Current portion of long-term debt	—	14,545
Current portion of notes payable to stockholders	19,457	—
	193,369	190,200
Long-term debt, less current portion	—	138,734
Other liabilities	—	22,857
Notes payable to stockholders, less current portion	116,743	—
Minority interest	—	—
Commitments and contingencies (Notes 10 and 17)		
Stockholders' equity		
Preferred stock—25,000,000 shares authorized, $.001 par value, 1,941,331 and no shares issued and outstanding	2	—
Class A common stock—500,000,000 shares authorized, $.001 par value, 11,758,011 and 33,709,251 shares issued and outstanding	12	34
Class B common stock—100,000,000 shares authorized, $.001 par value, 70,280,759 and 54,606,905 shares issued and outstanding	70	55
Additional paid-in capital	115,053	146,781
Accumulated other comprehensive income	(28,578)	(43,604)
Retained earnings	17,788	158,064
Deferred compensation	(9,455)	(6,688)
	94,892	254,642
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 405,004**	**$ 606,433**

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

Consolidated Statements of Income

(U.S. dollars in thousands, except per share amounts) Year ended	December 31, 1996	December 31, 1997	December 31, 1998
REVENUE	**$ 761,638**	**$ 953,422**	**$ 913,494**
Cost of sales	171,187	191,218	188,457
Cost of sales–amortization of inventory step-up	—	—	21,600
GROSS PROFIT	**590,451**	**762,204**	**703,437**
Operating expenses:			
Distributor incentives	282,588	362,195	331,448
Selling, general and administrative	168,706	201,880	202,150
Distributor stock expense	1,990	17,909	—
In-process research and development (Note 4)	—	—	13,600
Total operating expenses	453,284	581,984	547,198
OPERATING INCOME	**137,167**	**180,220**	**156,239**
Other income (expense), net	10,771	8,973	13,599
Income before provision for income taxes and minority interest	147,938	189,193	169,838
Provision for income taxes (Note 12)	49,526	55,707	62,840
Minority interest	13,700	14,993	3,081
NET INCOME	**$ 84,712**	**$ 118,493**	**$ 103,917**
Net income per share (Note 2):			
Basic	$ 1.07	$ 1.42	$ 1.22
Diluted	1.02	1.36	1.19
Weighted average common shares outstanding:			
Basic	79,194	83,331	84,894
Diluted	83,001	87,312	87,018
Unaudited pro forma data (Note 12):			
Income before pro forma provision for income taxes and minority interest	$ 147,938	$ 189,193	$ 169,838
Pro forma provision for income taxes	54,752	71,856	65,998
Pro forma minority interest	8,630	9,299	1,947
PRO FORMA NET INCOME	**$ 84,556**	**$ 108,038**	**$ 101,893**
Pro forma net income per share:			
Basic	$ 1.07	$ 1.30	$ 1.20
Diluted	1.02	1.24	1.17

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

Consolidated Statements of Stockholders' Equity

(U.S. dollars in thousands)	Capital Stock	Preferred Stock	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Deferred Compensation	Total Stockholders' Equity
Balance at January 1, 1996	$5,595					$ (2,858)	$ 65,626		$ 68,363
Net income	—					—	84,712		84,712
Foreign currency translation adjustments	—					(3,196)	—		(3,196)
Total comprehensive income									81,516
Reorganization and termination of S corporation status (Note 1)	(4,550)			$ 80	$ 1,209	—	3,261		—
Net proceeds from the Offerings and conversion of shares by stockholders (Notes 1 and 11)	—		$ 12	(8)	98,829	—	—		98,833
Contributed capital	1,570		—	—	—	—	—		1,570
Purchase of Acquired Entities (Note 3)	(2,615)	$ 2	—	—	2,613	—	—		—
Dividends	—	—	—	—	—	—	(65,139)		(65,139)
Issuance of notes payable to stockholders	—	—	—	—	—	—	(86,487)		(86,487)
Issuance of distributor stock options	—	—	—	—	33,039	—	—	$ (20,688)	12,351
Issuance of employee stock awards	—	—	—	—	13,280	—	—	(13,280)	—
Amortization of deferred compensation	—	—	—	—	—	—	—	2,488	2,488
BALANCE AT DECEMBER 31, 1996	**—**	**2**	**12**	**72**	**148,970**	**(6,054)**	**1,973**	**(31,480)**	**113,495**
Net income	—	—	—	—	—	—	118,493	—	118,493
Foreign currency translation adjustments	—	—	—	—	—	(22,524)	—	—	(22,524)
Total comprehensive income									95,969
Conversion of shares from Class B to Class A	—	—	2	(2)	—	—	—	—	—
Repurchase of 1,416 shares of Class A common stock (Note 11)	—	—	(2)	—	(20,260)	—	—	—	(20,262)
Adjustment to distributor stock options (Note 11)	—	—	—	—	(2,546)	—	—	(690)	(3,236)
Forfeitures of employee stock awards	—	—	—	—	(1,181)	—	—	1,181	—
Amortization of deferred compensation	—	—	—	—	—	—	—	23,247	23,247
Contributed capital	—	—	—	—	7,383	—	—	—	7,383
Dividends	—	—	—	—	(19,026)	—	(46,054)	—	(65,080)
Issuance of employee stock awards and options	—	—	—	—	1,713	—	—	(1,713)	—
Issuance of notes payable to stockholders	—	—	—	—	—	—	(56,624)	—	(56,624)
BALANCE AT DECEMBER 31, 1997	**—**	**2**	**12**	**70**	**115,053**	**(28,578)**	**17,788**	**(9,455)**	**94,892**
Net income	—	—	—	—	—	—	103,917	—	103,917
Foreign currency translation adjustments	—	—	—	—	—	(15,026)	—	—	(15,026)
Total comprehensive income									88,891
Amortization of deferred compensation	—	—	—	—	—	—	—	3,626	3,626
Issuance of notes payable to stockholders	—	—	—	—	—	—	(24,413)	—	(24,413)
Purchase of Acquired Entities and termination of S corporation status	—	1	—	—	(22,144)	—	60,772	—	38,629
Purchase of Pharmanex (Note 4)	—	—	4	—	78,710	—	—	(859)	77,855
Repurchase of 917 shares of Class A common stock (Note 11)	—	—	—	—	(10,549)	—	—	—	(10,549)
Exercise of distributor and employee stock options	—	—	—	—	1,961	—	—	—	1,961
Conversion of preferred stock (Note 3)	—	(3)	3	—	—	—	—	—	—
Conversion of shares from Class B to Class A	—	—	15	(15)	—	—	—	—	—
Contingent payments to stockholders (Note 5)	—	—	—	—	(16,250)	—	—	—	(16,250)
BALANCE AT DECEMBER 31, 1998	**$ —**	**$ —**	**$ 34**	**$ 55**	**$ 146,781**	**$ (43,604)**	**$ 158,064**	**$ (6,688)**	**$ 254,642**

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

Consolidated Statements of Cash Flows

(U.S.dollars in thousands) Year ended	December 31, 1996	December 31, 1997	December 31, 1998
Cash flows from operating activities:			
Net income	$ 84,712	$ 118,493	$ 103,917
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,615	8,809	15,768
Amortization of deferred compensation	2,488	23,247	3,626
Amortization of inventory step-up	—	—	21,600
Write-off of in-process research and development	—	—	13,600
Income applicable to minority interest	13,700	14,993	3,081
Changes in operating assets and liabilities:			
Accounts receivable	(5,939)	(614)	(900)
Related parties receivable	(4,097)	(2,726)	1,215
Inventories, net	(6,060)	(10,206)	(3,556)
Prepaid expenses and other	(10,132)	(24,641)	(7,248)
Other assets	(24,814)	(23,161)	(4,100)
Accounts payable	(1,682)	3,336	(8,767)
Accrued expenses and other liabilities	82,844	31,058	(8,973)
Related parties payable	1,733	(29,986)	(10,703)
Net cash provided by operating activities	142,368	108,602	118,560
Cash flows from investing activities:			
Purchase of property and equipment	(9,172)	(14,389)	(18,320)
Purchase of Pharmanex, net of cash acquired	—	—	(28,750)
Payments for lease deposits	(562)	(3,457)	(633)
Receipt of refundable lease deposits	98	120	1,650
Net cash used in investing activities	(9,636)	(17,726)	(46,053)
Cash flows from financing activities:			
Payments on long-term debt	—	—	(41,634)
Proceeds from capital contributions	1,570	11,358	—
Proceeds from long-term debt	—	—	181,538
Net proceeds from the Offerings (Note 1)	98,833	—	—
Dividends paid	(80,025)	(30,468)	—
Repurchase of shares of common stock	—	(20,262)	(10,549)
Excercise of distributor and employee stock options	—	—	1,961
Payment to stockholders for notes payable (Note 5)	(15,000)	(71,487)	(180,000)
Net cash provided by (used in) financing activities	5,378	(110,859)	(48,684)
Effect of exchange rate changes on cash	(7,287)	(20,540)	(9,296)
Net increase (decrease) in cash and cash equivalents	130,823	(40,523)	14,527
Cash and cash equivalents, beginning of period	84,000	214,823	174,300
Cash and cash equivalents, end of period	$ 214,823	$ 174,300	$ 188,827

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

Note 1.
The Company

Nu Skin Enterprises, Inc. (the "Company"), is a network marketing company involved in the distribution and sale of premium quality, innovative personal care and nutritional products. The Company distributes Nu Skin brand products in markets throughout the world. The Company's operations are divided into three segments: North Asia, which consists of Japan and South Korea; Southeast Asia, which consists of Taiwan, Thailand, Hong Kong (including Macau), the Philippines, Australia, and New Zealand; and Other Markets, which consists of the United Kingdom, Austria, Belgium, Denmark, France, Germany, Italy, Ireland, Poland, Portugal, Spain, Sweden, the Netherlands, Brazil (the Company's subsidiaries operating in these countries are collectively referred to as the "Subsidiaries") and product sales to and license fees from the Company's North American private affiliates.

The Company was incorporated on September 4, 1996 as a holding company and acquired certain of the Subsidiaries (the "Initial Subsidiaries") through a reorganization (the "Reorganization") which occurred November 20, 1996. On November 27, 1996, the Company completed its initial public offerings of 4,750,000 shares of Class A Common Stock and received net proceeds of $98.8 million (the "Offerings").

As discussed in Note 3, the Company completed the NSI Acquisition on March 27, 1998. Prior to the Reorganization and the NSI Acquisition, each of the Subsidiaries elected to be treated as an S corporation. In connection with the Reorganization, the Initial Subsidiaries' S corporation status was terminated on November 19, 1996, and the Company declared a distribution to the stockholders that included all of the Initial Subsidiaries' previously earned and undistributed taxable S corporation earnings totaling $86.5 million. In connection with the NSI Acquisition, the Acquired Entities' S corporation status was terminated, and the Acquired Entities declared distributions to the stockholders that included all of the Acquired Entities' previously earned and undistributed taxable S corporation earnings totaling $87.1 million in 1997 and $37.6 million in 1998 (the "S Distribution Notes").

Inasmuch as a portion of the Acquired Entities were under common control (Note 3), the Company's consolidated financial statements for 1996 and 1997 have been combined and restated as if the Company and the Acquired Entities had been combined during all periods presented.

Also in connection with the NSI Acquisition, on December 31, 1997, NSI carved-out and distributed the net assets of its USA division ("Nu Skin USA") to the NSI Stockholders. Immediately prior to this distribution, NSI declared a distribution to the NSI Stockholders that included all of Nu Skin USA's previously earned and undistributed taxable S corporation earnings totaling $49.1 million. This distribution and all other historical transactions of Nu Skin USA are excluded from the restatement of the Company's consolidated financial statements for 1996 and 1997.

As discussed in Note 4, the Company completed the Pharmanex Acquisition on October 16, 1998, which enhanced the Company's involvement with the distribution and sale of nutritional products.

As discussed in Note 18, in February 1999, the Company announced its intent to acquire Big Planet, Inc., an Internet-based company that offers Internet connectivity, e-commerce, telecommunications and other technology products and services to consumers in North America. The Company also announced its intent to acquire certain assets of Nu Skin USA, Inc. and to acquire the Company's remaining affiliates in Canada, Mexico and Guatemala.

Note 2.
Summary of Significant Accounting Policies

Consolidation The consolidated financial statements include the accounts of the Company and the Subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

Use of estimates The preparation of these financial statements in conformity with generally accepted accounting principles required management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include reserves for product returns, obsolete inventory and taxes. Actual results could differ from these estimates.

Cash and cash equivalents Cash equivalents are short-term, highly liquid instruments with original maturities of 90 days or less.

Inventories Inventories consist primarily of merchandise purchased for resale and are stated at the lower of cost, using the first-in, first-out method, or market. The Company had reserves for obsolete inventory totaling $11,000,000, $13,500,000 and $13,600,000 as of December 31, 1996, 1997 and 1998, respectively.

Property and equipment Property and equipment are recorded at cost and depreciated using the straight-line method over the following estimated useful lives:

Furniture and fixtures	5 - 7 years
Computers and equipment	3 - 5 years
Leasehold improvements	Shorter of estimated useful life or lease term
Vehicles	3 - 5 years

Expenditures for maintenance and repairs are charged to expense as incurred.

Other assets Other assets consist primarily of deferred tax assets, deposits for noncancelable operating leases, distribution rights, goodwill and long-term intangibles acquired in the NSI Acquisition (Note 3) and the Pharmanex Acquisition (Note 4). These intangibles are amortized on the straight-line basis over the estimated useful lives of the assets. The Company assesses the recoverability of long-lived assets by determining whether the amortization of the balance over its remaining life can be recovered through undiscounted future operating cash flows attributable to the assets.

Revenue recognition Revenue is recognized when products are shipped and title passes to independent distributors who are the Company's customers. A reserve for product returns is accrued based on historical experience. The Company generally requires cash or credit card payment at the point of sale. The Company has determined that no allowance for doubtful accounts is necessary. Amounts received prior to shipment and title passage to distributors are recorded as deferred revenue.

Research and development The Company's research and development activities are conducted primarily out of its research and development facility located in Shanghai, China. Research and development costs are expensed as incurred.

Income taxes The Company has adopted Statement of Financial Accounting Standards No. 109 ("SFAS 109"), Accounting for Income Taxes. Under SFAS 109, the liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Net income per share In 1997, the Company adopted Statement of Financial Accounting Standards No. 128 ("SFAS 128"), Earnings per Share. SFAS 128 specifies the computation, presentation and disclosure requirements for earnings per share data, and requires the restatement of earnings per share data in prior periods. SFAS 128 also requires the presentation of both basic and diluted earnings per share data for entities with complex capital structures. Diluted earnings per share data gives effect to all dilutive potential common shares that were outstanding during the periods presented. Net income per share for the year ended December 31, 1996 is computed assuming that the Company's Reorganization and the resultant issuance of Class B Common Stock occurred as of January 1, 1996.

Foreign currency translation Most of the Company's business operations occur outside of the United States. Each Subsidiary's local currency is considered the functional currency. Since a substantial portion of the Company's inventories are purchased with U.S. dollars in the United States and since the Company is incorporated in the United States, all assets and liabilities are translated into U.S. dollars at exchange rates existing at the balance sheet dates, revenues and expenses are translated at weighted average exchange rates, and stockholders' equity is recorded at historical exchange rates. The resulting foreign currency translation adjustments are recorded as a separate component of stockholders' equity in the consolidated balance sheets, and transaction gains and losses are included in other income and expense in the consolidated financial statements.

Fair value of financial instruments The fair value of financial instruments including cash and cash equivalents, accounts receivable, related parties receivable, accounts payable, related parties payable and notes payable approximate book values. The carrying amount of long-term debt approximates fair value because the applicable interest rates approximate current market rates. Fair value estimates are made at a specific point of time, based on relevant market information.

Stock-based compensation The Company measures compensation expense for its stock-based employee compensation plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 ("APB 25"), Accounting for Stock Issued to Employees, and provides pro forma disclosures of net income and net income per share as if the fair value based method prescribed by Statement of Financial Accounting Standards No. 123 ("SFAS 123"), Accounting for Stock-Based Compensation, had been applied in measuring compensation expense (Note 11).

REPORTING COMPREHENSIVE INCOME During the first quarter of 1998, the Company adopted Statement of Financial Accounting Standards No. 130 ("SFAS 130"), Reporting Comprehensive Income. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources, and it includes all changes in equity during a period except those resulting from investments by owners and distributions to owners.

ACCOUNTING FOR THE COSTS OF COMPUTER SOFTWARE DEVELOPED OR OBTAINED FOR INTERNAL USE In March 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1 ("SOP 98-1"), Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. The statement is effective for fiscal years beginning after December 15, 1998. Earlier application is encouraged in fiscal years for which annual financial statements have not been issued. The statement defines which costs of computer software developed or obtained for internal use are capital and which costs are expensed. The Company adopted SOP 98-1 effective January 1998. The adoption of SOP 98-1 does not materially affect the Company's consolidated financial statements.

REPORTING ON THE COSTS OF START-UP ACTIVITIES In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5 ("SOP 98-5"), Reporting on the Costs of Start-Up Activities. The statement is effective for fiscal years beginning after December 15, 1998. The statement requires costs of start-up activities and organization costs to be expensed as incurred. The Company will adopt SOP 98-5 for calendar year 1999. The adoption of SOP 98-5 will not materially affect the Company's consolidated financial statements.

ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), Accounting for Derivative Instruments and Hedging Activities. The statement requires companies to recognize all derivatives as either assets or liabilities, with the instruments measured at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on the intended use of the derivative and its resulting designation. The statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The Company will adopt SFAS 133 by January 1, 2000. The Company is currently evaluating the impact the adoption of SFAS 133 will have on its consolidated financial statements.

NOTE 3.
ACQUISITON OF NU SKIN INTERNATIONAL, INC. ("NSI") AND CERTAIN AFFILIATES

On March 27, 1998, the Company completed the acquisition (the "NSI Acquisition") of the capital stock of NSI, NSI affiliates in Europe, South America, Australia and New Zealand and certain other NSI affiliates (the "Acquired Entities") for $70.0 million in preferred stock and long-term notes payable to the stockholders of the Acquired Entities (the "NSI Stockholders") totaling approximately $6.2 million. In addition, contingent upon NSI and the Company meeting specific earnings growth targets, the Company may pay up to $25.0 million in cash per year over a four year period to the NSI Stockholders. Also, as part of the NSI Acquisition, the Company assumed approximately $171.3 million in S Distribution Notes and incurred acquisition costs totaling $3.0 million. The net assets acquired totaling $90.4 million include net deferred tax liabilities totaling $7.4 million recorded upon the conversion of the Acquired Entities from S to C corporations. All contingent consideration paid will be accounted for as an adjustment to the purchase price and allocated to the Acquired Entities' assets and liabilities.

The NSI Acquisition was accounted for by the purchase method of accounting, except for that portion of the Acquired Entities under common control of a group of stockholders, which portion was accounted for in a manner similar to a pooling of interests. The common control group is comprised of the NSI Stockholders who are immediate family members. The minority interest, which represents the ownership interests of the NSI Stockholders who are not immediate family members, was acquired during the NSI Acquisition. Prior to the NSI Acquisition, a portion of the Acquired Entities' net income, capital contributions and distributions (including cash dividends and S Distribution Notes) had been allocated to the minority interest.

For the portion of the NSI Acquisition accounted for by the purchase method, the Company recorded inventory step-up of $21.6 million and intangible assets of $34.8 million. During 1998, the inventory step-up was fully amortized and the Company recorded amortization of intangible assets totaling $1.6 million.

For the portion of the NSI Acquisition accounted for in a manner similar to a pooling of interests, the excess of purchase price paid over the book value of the net assets acquired was recorded as a reduction of stockholders' equity.

In connection with the restatement of the Company's consolidated financial statements for 1996 and 1997, the portion of the NSI Acquisition and the resulting Preferred Stock issued to the common control group is reflected as if such stock had been issued on the date of the Company's incorporation on September 4, 1996. On May 5, 1998, the stockholders of the Company approved the automatic conversion of the Preferred Stock issued in the NSI Acquisition into 2,986,663 shares of Class A Common Stock. Under the terms of the NSI Acquisition, the 2,986,663 shares of Class A Common Stock were adjusted down by 8,504 shares in June 1998.

Note 4.
Acquisition of Pharmanex, Inc.

On October 16, 1998, the Company completed the acquisition of privately-held Generation Health Holdings, Inc., the parent company of Pharmanex, Inc. (the "Pharmanex Acquisition"), for $77.6 million, which consisted of approximately 4.0 million shares of the Company's Class A Common Stock, including 261,008 shares issuable upon exercise of options assumed by the Company (Note 11). Contingent upon Pharmanex meeting specific revenue and other requirements, approximately 565,000 of the 4.0 million shares are being held in escrow and will be returned to the Company if such requirements are not met within one year from the date of the Pharmanex Acquisition. The contingent shares issued, if any, will be accounted for as an adjustment to the purchase price and allocated to the acquired assets and liabilities. Also, as part of the Pharmanex Acquisition, the Company assumed approximately $34.0 million in liabilities and incurred acquisition costs totaling $1.3 million. The net assets acquired totaling $3.6 million include net deferred tax assets totaling $0.8 million. In connection with the closing of the Pharmanex Acquisition, the Company paid approximately $29.0 million relating to the assumed liabilities.

The Pharmanex Acquisition was accounted for by the purchase method of accounting. The Company recorded inventory step-up of $3.7 million and intangible assets of $92.4 million. In addition, the Company allocated $13.6 million to purchased in-process research and development based on a discounted cash-flow method reflecting the stage of completion of the related projects. During 1998, the in-process research and development amount was fully written off and the Company recorded amortization of intangible assets totaling $1.3 million.

Pro forma results as if the Pharmanex Acquisition had occurred at January 1,1998 have not been presented because the results are not considered material.

Note 5.
Related Party Transactions

Scope of related party activity The Company has transactions with affiliated entities that are under common control. The entities are Nu Skin USA, Nu Skin Canada, Nu Skin Mexico and Nu Skin Guatemala. The transactions with these entities are as follows: (1) In addition to selling products to consumers in its geographic territories, the Company sells products and marketing materials to affiliated entities in geographic areas outside those held by the Company (primarily the USA, Canada, Mexico and Guatemala). (2) The Company collects trademark royalty fees on products bearing NSI trademarks and marketed outside the Company's geographic areas that are not purchased from NSI. (3) The Company enters into a distribution agreement with each independent distributor. (4) The Company collects license fees from affiliated entities outside its geographical regions for the right to use the distributors, and for the right to use the Company's distribution system and other related intangibles. (5) The Company operates a global commission plan whereby distributors' commissions are determined by aggregate worldwide purchases made by down-line distributors. Thus, commissions on purchases from the Company earned by distributors located in geographic areas outside those held by the Company are remitted to the Company, which then forwards these commissions to the distributors. (6) The Company collects fees for management and support services provided to affiliated entities outside its geographic areas.

The purchase prices paid by the affiliated entities for the purchase of product and marketing materials are determined pursuant to the Distribution Agreement between the Company and the affiliated entities. The selling prices to these affiliated entities of products and marketing materials are determined pursuant to the Wholesale Distribution Agreements between the Company and these affiliated entities. Trademark royalty fees and license fees are charged pursuant to the Trademark/Tradename License Agreement between the Company and these affiliated entities and the Licensing and Sales Agreement between the Company and these affiliated entities, respectively. The independent distributor commission program is managed by the Company. Charges to the affiliated entities are based on a worldwide commission fee of 42% of product revenue which covers commissions paid to distributors on a worldwide basis and the direct costs of administering the global compensation plan. Management and support services fees are billed to the affiliated entities pursuant to the Management Services Agreement between the Company and the affiliated entities and consist of all direct expenses incurred by the Company and indirect expenses allocated to the affiliated entities based on its net sales. The sales revenue, royalties, licenses and management fees charged to the affiliated entities are recorded as revenue in the consolidated statements of income and totaled $68,556,000, $53,135,000 and $72,691,000 for the years ended December 31, 1996, 1997 and 1998, respectively.

NOTES PAYABLE TO STOCKHOLDERS In connection with the Reorganization described in Note 1, the aggregate undistributed taxable S corporation earnings of the Initial Subsidiaries were $86.5 million. These earnings were distributed in the form of promissory notes bearing interest at 6.0% per annum. From proceeds from the Offerings, $15.0 million was used to pay a portion of the notes, and the remaining balance of $71.5 million with the related accrued interest of $1.6 million was paid on April 4, 1997.

In connection with the NSI Acquisition described in Notes 1 and 3, the Company assumed S Distribution Notes totaling $171.3 million and long-term notes payable to the NSI Stockholders totaling $6.2 million, both bearing interest at 6.0% per annum. These amounts were paid in full, including accrued interest of $3.3 million, during the second quarter of 1998. Prior to the NSI Acquisition, the Acquired Entities paid $2.5 million of the S Distribution Notes, plus accrued interest of $1.8 million

CERTAIN RELATIONSHIPS WITH STOCKHOLDER DISTRIBUTORS Two major stockholders of the Company have been independent distributors for the Company since 1984. These stockholders are partners in an entity which receives substantial commissions from the Company, including commissions relating to sales within the countries in which the Company operates. By agreement, the Company pays commissions to this partnership at the highest level of distributor compensation to allow the stockholders to use their expertise and reputations in network marketing to further develop the Company's distributor force, rather than focusing solely on their own distributor organizations. The commissions paid to this partnership relating to sales within the countries in which the Company operates were $1,200,000, $1,100,000 and $800,000 for the years ended December 31, 1996, 1997 and 1998, respectively.

LOAN TO STOCKHOLDER In December 1997, the Company loaned $5.0 million to a non-management stockholder. The loan is secured by 349,406 shares of Class B Common Stock, and matures in December 2000. Interest accrues at a rate of 6.0% per annum on this loan. The loan may be repaid by transferring to the Company the shares pledged to secure the loan. The loan balance, including accrued interest, totaled $5.0 million and $5.3 million at December 31, 1997 and 1998, respectively.

CONTINGENT PAYMENTS TO STOCKHOLDERS UNDER THE NSI ACQUISITION The Company and NSI met specific earnings growth targets for the year ended December 31, 1998 that resulted in $25.0 million of contingent consideration payable to the NSI Stockholders. The contingent consideration is payable in April 1999. In addition, contingent upon NSI and the Company meeting specific earnings growth targets, the Company may pay up to $25.0 million in cash per year over the next three years to the NSI Stockholders.

LEASE AGREEMENTS The Company leases corporate office and warehouse space from two affiliated entities. The Company then sub-leases a portion of the corporate office and warehouse space to Nu Skin USA, Inc. and Big Planet, Inc. These lease transactions between the Company and affiliated entities approximate fair market value.

Note 6.
Property and Equipment

Property and equipment are comprised of the following (U.S. dollars in thousands):	December 31, 1997	December 31, 1998
Furniture and fixtures	$ 25,587	$ 30,997
Computers and equipment	36,836	44,267
Leasehold improvements	8,068	13,874
Vehicles	745	1,153
	71,236	90,291
Less: accumulated depreciation	(44,090)	(48,073)
	$ 27,146	**$ 42,218**

Depreciation of property and equipment totaled $8,733,000, $8,060,000 and $11,543,000 for the years ended December 31, 1996, 1997, and 1998, respectively.

Note 7.
Other Assets

Other assets consist of the following (U.S. dollars in thousands):	December 31, 1997	December 31, 1998
Goodwill and intangibles	$ 7,563	$ 147,246
Deposits for noncancelable operating leases	9,127	10,282
Distribution rights	8,750	8,750
Deferred taxes	30,399	42,747
Other	7,815	6,023
	63,654	215,048
Less: accumulated amortization	(2,385)	(5,630)
	$ 61,269	**$ 209,418**

The goodwill and intangible assets are being amortized on a straight-line basis over their estimated useful lives ranging from 4 to 20 years. Amortization of goodwill and intangible assets totaled $726,000, $311,000 and $3,248,000 for the years ended December 31, 1996, 1997 and 1998, respectively. The distribution rights asset is being amortized on a straight-line basis over its estimated useful life of 20 years. Amortization of the distribution rights asset totaled $156,000, $438,000 and $438,000 for the years ended December 31, 1996, 1997 and 1998, respectively.

Note 8.
Accrued Expenses

Accrued expenses consist of the following (U.S. dollars in thousands):	December 31, 1997	December 31, 1998
Income taxes payable	$ 53,079	$ 40,726
Accrued commission payments to distributors	36,289	36,431
Other taxes payable	16,496	11,646
Other accruals	34,751	43,920
	$ 140,615	**$ 132,723**

Note 9.
Long-Term Debt

On May 8, 1998, the Company and its Japanese subsidiary Nu Skin Japan Co., Ltd. entered into a $180.0 million credit facility with a syndicate of financial institutions for which ABN-AMRO, N.V. acted as agent. This unsecured credit facility was used to satisfy Company liabilities which were assumed as part of the NSI Acquisition. The Company borrowed $110.0 million and Nu Skin Japan Co., Ltd. borrowed the Japanese yen equivalent of $70.0 million denominated in local currency. The outstanding balance on the credit facility was $153.3 million at December 31, 1998.

The U.S. portion of the credit facility bears interest at either a base rate as specified in the credit facility or the London Inter-Bank Offer Rate plus an applicable margin, in the borrower's discretion. The Japanese portion of the credit facility bears interest at either a base rate as specified in the credit facility or the Tokyo Inter-Bank Offer Rate plus an applicable margin, in the borrower's discretion. The maturity date for the credit facility is three years from the borrowing date, with a possible extension of the maturity date upon approval of the then outstanding lenders. Interest expense on the credit facility totaled $4.7 million for the year ended December 31,1998.

The credit facility contains other terms and conditions and affirmative and negative financial covenants customary for credit facilities of this type. As of December 31, 1998, the Company has continued to comply with all financial covenants under the credit facility.

During 1998, the Company entered into a $10.0 million revolving credit agreement with ABN-AMRO, N.V. Advances are available under the agreement through May 18, 1999. There were no outstanding balances under the credit facility at December 31, 1998. Maturities of long-term debt at December 31, 1998 are as follows (U.S. dollars in thousands):

Year ending December 31,	
1999	$ 14,545
2000	53,359
2001	85,375
Total	**$ 153,279**

Note 10.
Lease Obligations

The Company leases office space and computer hardware under noncancelable long-term operating leases. Most leases include renewal options of up to three years. Minimum future operating lease obligations at December 31, 1998 are as follows (U.S. dollars in thousands):

Year ending December 31,	
1999	$ 8,882
2000	6,821
2001	5,185
2002	5,017
2003	3,685
Total minimum lease payments	**$ 29,590**

Rental expense for operating leases totaled $12,558,000, $15,518,000 and $15,969,000 for the years ended December 31, 1996, 1997 and 1998, respectively.

Note 11.
Stockholders' Equity

The Company's capital stock consists of Preferred Stock, Class A Common Stock and Class B Common Stock. The shares of Class A Common Stock and Class B Common Stock are identical in all respects, except for voting rights and certain conversion rights and transfer restrictions, as follows: (1) each share of Class A Common Stock entitles the holder to one vote on matters submitted to a vote of the Company's stockholders and each share of Class B Common Stock entitles the holder to ten votes on each such matter; (2) stock dividends of Class A Common Stock may be paid only to holders of Class A Common Stock and stock dividends of Class B Common Stock may be paid only to holders of Class B Common Stock; (3) if a holder of Class B Common Stock transfers such shares to a person other than a permitted transferee, as defined in the Company's Certificate of Incorporation, such shares will be converted automatically into shares of Class A Common Stock; and (4) Class A Common Stock has no conversion rights; however, each share of Class B Common Stock is convertible into one share of Class A Common Stock, in whole or in part, at any time at the option of the holder.

EQUITY INCENTIVE PLANS Effective November 21, 1996, the Company implemented a one-time distributor equity incentive program. This program provided for grants of options to selected distributors for the purchase of 1,605,000 shares of the Company's previously issued Class A Common Stock. The number of options each distributor ultimately received was based on their performance and productivity through August 31, 1997. The options are exercisable at a price of $5.75 per share and vested on December 31, 1997. The related compensation expense was deferred in the Company's financial statements and was expensed to the statement of income as distributor stock expense ratably through December 31, 1997. As of December 31, 1998, 392,417 of the 1,605,000 stock options had been exercised.

The Company recorded compensation expense using the fair value method prescribed by SFAS 123 based upon the best available estimate of the number of shares that were expected to be issued to each distributor at the measurement date, revised as necessary if subsequent information indicated that actual forfeitures were likely to differ from initial estimates. Any options forfeited were reallocated and resulted in an additional compensation charge.

As a part of this program, 600,000 options were sold to affiliated entities at fair value in exchange for notes receivable totaling $12,351,000. As the number of distributor stock options to be issued to each distributor was revised through August 31, 1997, the options allocated to the affiliated entities were adjusted to 480,000 and the notes receivable were adjusted to $9,115,000. The affiliated entities are repaying these notes as distributors exercise their options. The notes receivable balance totaled $9,115,000 and $6,251,000 as of December 31, 1997 and 1998, respectively.

Prior to the Offerings, the Company's stockholders contributed 1,250,000 shares of the Company's Class A Common Stock to the Company and other affiliated entities held by them for issuance to employees of the Company and other affiliated entities as a part of an employee equity incentive plan. Equity incentives granted or awarded under this plan will vest over four years. Compensation expense related to equity incentives granted to employees of the Company and other Nu Skin entities who perform services on behalf of the Company will be recognized by the Company ratably over the vesting period.

Approximately 743,000 of the 1,250,000 shares were contributed to affiliated entities and the remaining 507,000 shares were contributed to the Company. In November 1996, the Company granted 462,791 shares to certain employees. The Company has recorded deferred compensation expense of $10,773,000 related to these stock awards and is recognizing such expense ratably over the vesting period. As of December 31, 1998, 217,606 of the stock awards had vested and 16,970 of the stock awards had been forfeited.

1996 STOCK INCENTIVE PLAN During the year ended December 31, 1996, the Company's Board of Directors adopted the Nu Skin Enterprises, Inc. 1996 Stock Incentive Plan (the "1996 Stock Incentive Plan"). The 1996 Stock Incentive Plan provides for granting of stock awards and options to purchase common stock to executives, other employees, independent consultants and directors of the Company and its Subsidiaries. A total of 7,500,000 shares of Class A Common Stock have been reserved for issuance under the 1996 Stock Incentive Plan.

In 1996, the Company granted stock awards to certain employees for an aggregate of 109,000 shares of Class A Common Stock and in 1997 the Company granted additional stock awards to certain employees and directors in the amount of 55,459 shares of Class A Common Stock. The Company has recorded deferred compensation expense of $3,780,000 related to these stock awards and is recognizing such expense ratably over the vesting period. As of December 31, 1998, 83,463 of the stock awards had vested and 34,378 of the stock awards had been forfeited.

In 1997, the Company granted options to purchase 298,500 shares of Class A Common Stock to certain employees and directors pursuant to the 1996 Stock Incentive Plan. Of the 298,500 options granted, 30,000 options vested in May 1997 and 265,500 options vest ratably over a period of four years. All options granted in 1997 will expire ten years from the date of grant. The exercise price of the options was set at $20.88 per share. The Company has recorded deferred compensation expense of $578,000 related to the options and is recognizing such expense ratably over the vesting periods. As of December 31, 1998, none of these 298,500 stock options had been exercised.

During 1998, the Company granted options to purchase 507,500 shares of Class A Common Stock to certain employees and directors of the Company pursuant to the 1996 Stock Incentive Plan. Of the 507,500 options granted, 500,000 options vest ratably over a period of four years and expire ten years from the date of grant and 7,500 vest in one year from the date of grant and expire in ten years or six months after termination from service as a director. The exercise price of the 500,000 options was set at $13.91 per share and the exercise price of the 7,500 options was set at $28.50 per share. No compensation expense has been recorded related to these options. As of December 31, 1998, none of these 507,500 stock options had been exercised.

Additionally in 1998, the Company granted options to purchase 1,080,000 shares of Class A Common Stock to certain employees pursuant to the 1996 Stock Incentive Plan. All of the 1,080,000 options vest seven years from the date of grant and expire ten years from the date of grant. Subject to the Company meeting certain revenue and profitability benchmarks, the vesting of these options may be accelerated over the three-year period ended December 31, 2001. The exercise price of the options was set at $17.00 per share. No compensation expense has been recorded related to these options. As of December 31, 1998, none of these 1,080,000 stock options had been exercised.

GENERATION HEALTH HOLDINGS, INC. 1996 STOCK OPTION PLAN In connection with the Pharmanex Acquisition (Note 4), the Company assumed the Generation Health Holdings, Inc. 1996 Stock Option Plan. Under this plan, the Company assumed options to purchase 261,008 shares of Class A Common Stock granted to certain employees of Pharmanex. In accordance with the terms of the plan, 173,785 of these options vested immediately due to the involuntary termination of certain employees. The value of these vested options was included as an acquisition cost in the Pharmanex Acquisition. The remaining 87,223 options vest ratably over periods ranging from 1 to 5 years. The exercise prices of the options range from $.92 to $10.03 per share. The Company has recorded deferred compensation expense of $859,000 related to the 87,223 unvested options and is recognizing such expense ratably over the vesting periods. As of December 31, 1998, 1,863 of these 261,008 stock options had been exercised.

SFAS 123 PRO FORMA DISCLOSURES The Company's pro forma net income would have been $118,413,000 and $103,023,000 for the years ended December 31, 1997 and 1998, respectively, if compensation expense had been measured under the fair value method prescribed by SFAS 123. The Company's pro forma basic and diluted net income per share for the year ended December 31, 1997 would not have changed had compensation expense been measured under the fair value method. The Company's pro forma basic and diluted net income per share for the year ended December 31, 1998 would have been $1.21 and $1.18, respectively, had compensation expense been measured under the fair value method.

The fair value of the options granted during 1997 was estimated at $10.55 per share as of the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 6%; expected life of 4 years; expected volatility of 46%; and expected dividend yield of 0%.

The fair values of the options granted during 1998 ranged from $13.51 to $22.16 per share, and were estimated as of the dates of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 4.5%; expected life of 2 to 4 years; expected volatility of 48%; and expected dividend yield of 0%.

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING The following is a reconciliation of the weighted average common shares outstanding for purposes of computing basic and diluted net income per share (in thousands):

Year Ended	December 31, 1996	December 31, 1997	December 31, 1998
Basic weighted average common shares outstanding	79,194	83,331	84,894
Effect of dilutive securities:			
Stock awards and options	3,807	3,981	2,124
Diluted weighted average common shares outstanding	83,001	87,312	87,018

REPURCHASE OF COMMON STOCK In December 1997, the Company repurchased 1,415,916 shares of Class A Common Stock from certain original stockholders for an aggregate price of approximately $20.3 million. Such shares were converted from Class B Common Stock to Class A Common Stock prior to or upon purchase, and were repurchased in connection with the entering into of an amended and restated stockholders agreement by the original stockholders providing for, among other things, a one-year extension of the original lock-up provisions applicable to such original stockholders.

During 1998, the Board of Directors authorized the Company to repurchase up to $20.0 million of the Company's outstanding shares of Class A Common Stock. As of December 31, 1998, the Company had repurchased 917,254 shares for an aggregate price of approximately $10.5 million.

CONVERSION OF COMMON STOCK In December 1998, the holders of the Class B Common Stock converted 15.0 million shares of Class B Common Stock to Class A Common Stock.

NOTE 12.
INCOME TAXES

Consolidated income before provision for income taxes consists of income earned primarily from international operations. The provision for current and deferred taxes for the years ended December 31, 1996, 1997 and 1998 consists of the following:

(U.S. dollars in thousands)	1996	1997	1998
Current			
Federal	$ 331	$ 3,332	$ 3,695
State	32	124	3,580
Foreign	56,929	76,553	72,317
	57,292	80,009	79,592
Deferred			
Federal	(1,929)	(24,317)	(10,712)
State	—	(30)	(48)
Foreign	(2,398)	45	947
Change in tax status	(3,439)	—	(6,939)
PROVISION FOR INCOME TAXES	**$49,526**	**$55,707**	**$62,840**

Prior to the Company's Reorganization and the NSI Acquisition described in Note 1, the Subsidiaries elected to be taxed as S corporations whereby the income tax effects of the Subsidiaries' activities accrued directly to their stockholders; therefore, adoption of SFAS 109 required no establishment of deferred income taxes since no material differences between financial reporting and tax bases of assets and liabilities existed. Concurrent with the Company's Reorganization and the NSI Acquisition, the Company terminated the S corporation elections of its Subsidiaries. As a result, deferred income taxes under the provisions of SFAS 109 were established.

The principal components of deferred tax assets are as follows:

(U.S. dollars in thousands)	December 31, 1997	December 31, 1998
Deferred tax assets:		
Inventory reserve	$ 1,773	$ 5,195
Foreign tax credit	19,268	33,969
Distributor stock options and employee stock awards	6,992	6,020
Capitalized legal and professional	—	5,990
Accrued expenses not deductible until paid	7,002	10,144
Withholding tax	5,692	7,291
Minimum tax credit	3,555	869
Net operating losses	—	12,621
TOTAL DEFERRED TAX ASSETS	**44,282**	**82,099**
Deferred tax liabilities:		
Withholding tax	5,692	8,871
Exchange gains and losses	1,679	3,032
NSI inventory step-up	—	11,176
Pharmanex intangibles step-up	—	11,445
Other	143	1,520
TOTAL DEFERRED TAX LIABILITIES	**7,514**	**36,044**
Valuation allowance	(4,700)	(12,166)
DEFERRED TAXES, NET	**$ 32,068**	**$ 33,889**

The valuation allowance primarily represents a reserve against a portion of the deferred tax asset related to foreign tax credits.

The consolidated statements of income include a pro forma presentation for income taxes, including the effect on minority interest, which would have been recorded if the Company's Subsidiaries had been taxed as C corporations for all periods presented. A reconciliation of the Company's pro forma effective tax rate for the years ended December 31, 1996, 1997 and 1998 compared to the statutory U.S. Federal tax rate is as follows:

Year ended	December 31, 1996	December 31, 1997	December 31, 1998
Income taxes at statutory rate	35.00%	35.00%	35.00%
Foreign tax credit limitation (benefit)	—	2.41	4.40
Cumulative effect of change in tax status	—	—	(4.09)
Pharmanex in-process research and development	—	—	2.80
Non-deductible expenses	.75	.15	.83
Other	1.26	.42	(1.94)
	37.01%	**37.98%**	**37.00%**

Note 13.
Employee Benefit Plan

The Company has a 401(k) defined contribution plan which permits participating employees to defer up to a maximum of 15% of their compensation, subject to limitations established by the Internal Revenue Code. Employees who work a minimum of 1,000 hours per year, who have completed at least one year of service and who are 21 years of age or older are qualified to participate in the plan. The Company matches 100% of the first 2% and 50% of the next 2% of each participant's contributions to the plan. Participant contributions are immediately vested. Company contributions vest based on the participant's years of service at 25% per year over four years. The Company's contribution totaled $454,000, $647,000 and $829,000 for the years ended December 31, 1996, 1997 and 1998, respectively.

Note 14.
Derivative Financial Statements

The Company's Subsidiaries enter into significant transactions with each other and third parties which may not be denominated in the respective Subsidiaries' functional currencies. The Company seeks to reduce its exposure to fluctuations in foreign exchange rates by creating offsetting positions through the use of foreign currency exchange contracts and through certain intercompany loans of foreign currency. The Company does not use such derivative financial instruments for trading or speculative purposes. The Company regularly monitors its foreign currency risks and periodically takes measures to reduce the impact of foreign exchange fluctuations on the Company's operating results. Gains and losses on foreign currency forward contracts and certain intercompany loans of foreign currency are recorded as other income and expense in the consolidated statements of income.

At December 31, 1997 and 1998, the Company held foreign currency forward contracts with notional amounts totaling approximately $51.0 million and $46.3 million, respectively, to hedge foreign currency items. These contracts do not qualify as hedging transactions and, accordingly, have been marked to market. The net gains on foreign currency forward contracts were $5.6 million and $2.6 million for the years ended December 31, 1997 and 1998, respectively. There were no significant gains or losses on foreign currency forward contracts for the year ended December 31, 1996. These contracts at December 31, 1998 have maturities through July 1999.

At December 31, 1997 and 1998, the intercompany loan from Nu Skin Japan to Nu Skin Hong Kong totaled approximately $92.5 million and $57.3 million, respectively. The Company recorded exchange gains totaling $7.8 million and $2.2 million resulting from this intercompany loan for the years ended December 31, 1997 and 1998, respectively.

At December 31, 1998, the intercompany loan from Nu Skin Japan to the Company totaled approximately $82.0 million. The Company recorded exchange gains totaling $2.8 million resulting from this intercompany loan for the year ended December 31, 1998. There was no loan at December 31, 1997 from Nu Skin Japan to the Company.

Note 15.
Supplemental Cash-Flow Information

Cash paid for interest totaled $84,000, $251,000 and $3,731,000 for the years ended December 31, 1996, 1997 and 1998, respectively. Cash paid for income taxes totaled $18,133,000, $73,905,000 and $77,271,000 for the years ended December 31, 1996, 1997 and 1998, respectively.

Noncash investing and financing activities For the year ended December 31, 1996, noncash investing and financing activities were as follows: (1) $86.5 million distribution to the stockholders of the Initial Subsidiaries (Note 1). (2) $1.2 million of additional paid-in capital contributed by the stockholders of the Initial Subsidiaries in exchange for shares of Class B Common Stock in connection with the termination of the Initial Subsidiaries' S corporation status. (3) $33.0 million of additional paid-in capital and $20.7 million of deferred compensation recorded related to the issuance of 1,605,000 options to distributors to purchase shares of Class A Common Stock. 600,000 of these options were sold to affiliated entities in exchange for notes receivable totaling $12.4 million (Note 11).

For the year ended December 31, 1997, noncash investing and financing activities were as follows: (1) $87.1 million distribution to the stockholders of the Acquired Entities (Note 1). (2) Adjustment to the distributor stock options to reallocate 120,000 options initially allocated to affiliated entities and a relat-ed reduction in the notes receivable of $3.2 million (Note 11).

For the year ended December 31, 1998, noncash investing and financing activities were as follows: (1) $37.6 million distribution to the stockholders of the Acquired Entities (Note 1). (2) Purchase of Acquired Entities for $70.0 million in Preferred Stock and $6.2 million in long-term notes payable. Net assets acquired totaled $90.4 million and assumed liabilities totaled $171.3 (Note 3). (3) $25.0 million in contingent consideration issued to the NSI Stockholders. $8.8 million of the contingent payment was recorded as an increase in intangible assets and $16.2 million of the contingent payment was recorded as a reduction of stockholders' equity (Notes 3 and 5). (4) Purchase of Pharmanex for $77.6 million in Class A Common Stock and $0.2 million in cash. Net assets acquired totaled $3.6 million and assumed liabilities totaled $34.0 million (Note 4).

Note 16.
Segment Information

During 1998, the Company adopted Statement of Financial Accounting Standards No. 131 ("SFAS 131"), Disclosures about Segments of an Enterprise and Related Information. As described in Note 1, the Company's operations throughout the world are divided into three reportable segments: North Asia, Southeast Asia and Other Markets. Segment data includes intersegment revenue, intersegment profit and operating expenses and intersegment receivables and payables. The Company evaluates the performance of its segments based on operating income. Information as to the operations of the Company in each of the three segments is set forth below (U.S. dollars in thousands):

Revenue — Year ended December 31,	1996	1997	1998
North Asia	$ 502,381	$ 673,582	$ 665,523
Southeast Asia	336,783	412,524	320,606
Other Markets	266,368	314,048	294,947
Eliminations	(343,894)	(446,732)	(367,582)
Totals	**$ 761,638**	**$ 953,422**	**$ 913,494**

Operating Income — Year ended December 31,	1996	1997	1998
North Asia	$ 88,347	$ 117,302	$ 89,075
Southeast Asia	52,224	46,195	19,385
Other Markets	4,134	19,684	46,994
Eliminations	(7,538)	(2,961)	785
Totals	**$ 137,167**	**$ 180,220**	**$ 156,239**

Total Assets — December 31,	1997	1998
North Asia	$ 104,488	$ 167,867
Southeast Asia	176,570	110,518
Other Markets	211,663	500,299
Eliminations	(87,717)	(172,251)
Totals	**$ 405,004**	**$ 606,433**

Information as to the Company's operation in different geographical areas is set forth below (U.S. dollars in thousands):

Revenue from the Company's operations in Japan totaled $380,044, $599,375 and $654,168 for the years ended December 31, 1996, 1997 and 1998, respectively. Revenue from the Company's operations in Taiwan totaled $154,564, $168,568 and $119,511 for the years ended December 31, 1996, 1997 and 1998, respectively. Revenue from the Company's operations in the United States (which includes intercompany revenue) totaled $252,111, $301,217 and $280,115 for the years ended December 31, 1996, 1997 and 1998, respectively.

Long-lived assets Long-lived assets in Japan were $11,001 and $20,242 as of December 31, 1997 and 1998, respectively. Long-lived assets in Taiwan were $3,087 and $2,466 as of December 31, 1997 and 1998, respectively. Long-lived assets in the United States were $55,557 and $213,856 as of December 31, 1997 and 1998, respectively.

Note 17.
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 authorities. These tax authorities regulate and restrict various corporate transactions, including intercompany transfers. The Company believes that the tax authorities in Japan and South Korea are particularly active in challenging the tax structures and intercompany transfers of foreign corporations. 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 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.

Note 18.
Subsequent Events

In February 1999, the Company announced its intent to acquire Big Planet, Inc., certain assets of Nu Skin USA, Inc. and the Company's remaining affiliates in Canada, Mexico and Guatemala for approximately $40.0 million in cash, $14.5 million in a three-year note and the assumption of certain liabilities. The assets to be acquired from Nu Skin USA, Inc. include approximately 620,000 shares of the Company's Class A Common Stock (Note 11). The Company concluded the Nu Skin USA, Inc. transaction in March 1999 and anticipates closing the remaining transactions within 90 days.

The acquisition of Big Planet, Inc. is expected to be accounted for by the purchase method of accounting. The acquisition of Nu Skin USA, Inc. and the Company's remaining affiliates in Canada, Mexico and Guatemala is expected to be accounted for by the purchase method of accounting, except for that portion of these affiliated entities under common control of a group of stockholders, which portion will be accounted for in a manner similar to a pooling of interests.

Report of Independent Accountants

To the Board of Directors and Stockholders of
Nu Skin Enterprises, Inc.

In our opinion, based upon our audits and the report of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Nu Skin Enterprises, Inc. and its subsidiaries at December 31, 1997 and 1998, and the results of their operations and their cash flows for the years ended December 31, 1996, 1997 and 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Acquired Entities (Note 3), which statements reflect total assets of $127.0 million at December 31, 1997, and total revenue of $265.0 million and $308.9 million for the years ended December 31, 1996 and 1997, respectively. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Acquired Entities, is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Salt Lake City, Utah
February 17, 1999

Market for Registrant's Common Equity and Related Stockholder Matters

Common Stock The Company's Class A Common Stock is listed on the New York Stock Exchange ("NYSE") and trades under the symbol "NUS." The following table is based upon information available to the Company and sets forth the range of the high and low sales prices for the Company's Class A Common Stock for the quarterly periods during 1997 and 1998 based upon quotations on the NYSE.

Quarter Ending	High	Low
March 31, 1997	$ 30.88	$ 23.00
June 30, 1997	28.25	23.63
September 30, 1997	27.19	19.31
December 31, 1997	24.44	16.00
Quarter Ending	**High**	**Low**
March 31, 1998	$ 25.75	$ 15.75
June 30, 1998	28.69	15.50
September 30, 1998	19.25	10.19
December 31, 1998	25.63	10.31

The market price of the Company's Class A Common Stock is subject to significant fluctuations in response to variations in the Company's quarterly operating results, general trends in the market for the Company's products and product candidates, economic and currency exchange issues in the foreign markets in which the Company operates and other factors, many of which are not within the control of the Company. In addition, broad market fluctuations, as well as general economic, business and political conditions, may adversely affect the market for the Company's Class A Common Stock, regardless of the Company's actual or projected performance.

The closing price of the Company's Class A Common Stock on March 5, 1999 was $18.50. The approximate number of holders of record of the Company's Class A Common Stock and Class B Common Stock as of March 5, 1999 was 949. This number does not represent the actual number of beneficial owners of shares of the Company's Class A Common Stock because shares are frequently held in "street name" by securities dealers and others for the benefit of individual owners who have the right to vote their shares.

The Company has not paid or declared any cash dividends on its Class A Common Stock and does not anticipate doing so in the foreseeable future. The Company currently anticipates that all of its earnings, if any, will be retained for use in the operation and expansion of its business. Any future determination as to cash dividends will depend upon the earnings and financial position of the Company and such other factors as the Company's Board of Directors may deem appropriate.

Board of Directors

Blake M. Roney
Chairman
Executive Committee Chair

Steven J. Lund
President and Chief Executive Officer
Executive Committee

Sandie N. Tillotson
Senior Vice President

Keith R. Halls, C.P.A.
Secretary
Senior Vice President
Executive Committee
Compensation Committee Chair

Daniel W. Campbell, C.P.A.
Managing General Partner
EsNet, Ltd.
Audit Committee Chair
Compensation Committee

E. J. "Jake" Garn
Vice Chairman
Huntsman Corporation
United States Senate, Retired
Audit Committee

Paula Hawkins
President
Paula Hawkins & Associates
United States Senate, Retired
Compensation Committee

Max L. Pinegar
Senior Vice President
Compensation Committee

Brooke B. Roney
Senior Vice President

Executive Management

Steven J. Lund
President and Chief Executive Officer

Renn M. Patch
Chief Operating Officer

Corey B. Lindley
Chief Financial Officer

M. Truman Hunt
Vice President, General Counsel

Michael D. Smith
Vice President, North Asia

Grant F. Pace
Vice President, Southeast Asia

Takashi Bamba
President, Nu Skin Japan Co., Ltd.

John Chou
President, Nu Skin Taiwan, Inc.

William E. McGlashan, Jr.
President, Pharmanex

Richard W. King
President, Big Planet

Corporate Information

Annual Meeting
Nu Skin Enterprises' annual stockholder meeting will be held at 4 p.m. on May 4, 1999, at:
Nu Skin Plaza
75 West Center Street
Provo, UT 84601
Telephone 801-345-6100
http://www.nuskin.com

Independent Accountants
The company is audited by PricewaterhouseCoopers LLP
36 South State Street, Suite 1700
Salt Lake City, UT 84111
Telephone: 801-328-2300

Transfer Agent
Inquiries regarding lost stock certificates, consolidation of accounts and changes in address, name or ownership should be addressed to:
American Stock Transfer & Trust Co.
40 Wall Street
New York, NY 10005
Telephone: 800-937-5449

Stock Listing
Nu Skin Enterprises' stock is listed on the New York Stock Exchange under the symbol: NUS

Corporate Headquarters
Nu Skin Enterprises, Inc.
Nu Skin Plaza
75 West Center Street
Provo, UT 84601

Additional Stockholder Information

Additional information and news about Nu Skin Enterprises are available from the following sources:

Nu Skin Information Line: 888-880-6727

News releases and media information can be found at Automated Fax: 800-758-5804, ext. 119638 and the Internet: http://www.prnewswire.com (company information is generally posted within one hour of its release and stored for 12 months).

For reports and filings (Annual, SEC, 10-K and 10-Q), call Investor Relations at 801-345-6100 or write Investor Relations at the corporate headquarters.

For investor information and inquiries, telephone the Director of Investor Relations at 801-345-6110, Fax: 801-345-3099 or write Investor Relations at the corporate headquarters.

For company history and up-to-date information, see the Nu Skin Corporate Home Page at http://www.nuskin.com.

Certain portions of the text of this annual report are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on management's current expectations and assessments of risks and uncertainties. The risks and uncertainties may include those factors discussed on the company's Form 10-K filed with the Securities and Exchange Commission.

Capitalized terms used in this annual report but not defined herein shall have the meanings set forth in the company's Form 10-K for the year ended December 31, 1998, filed with the Securities and Exchange Commission.

NU SKIN

NU SKIN ENTERPRISES, INC.
Nu Skin Plaza
75 West Center Street
Provo, UT 84601

http://www.nuskin.com