Nu Skin Enterprises, Inc.

Look Feel Think

1999 Annual Report

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.

Significant Events

- Completed the acquisition of Nu Skin USA and Big Planet, and consolidated all company operations
- Began introducing the divisional strategy outside of the United States by launching the Pharmanex business opportunity and products in Taiwan
- Nu Skin Japan successfully launched "Distributor Plaza" in September, a web site enhancement that has allowed distributors to order more than $20 million of products online
- Hosted a successful global distributor convention that provided the first opportunity to demonstrate the power and strength of the company's divisional strategy
- Nu Skin Enterprises and Pharmanex became Official Sponsors of the 2002 Olympic Winter Games
- Furthered efforts to commence operations in China by opening a retail branch outlet in Shanghai
- Established the Nu Skin Center for Dermatological Research at Stanford University School of Medicine, which provides research on potential and existing products
- A federal court ruled that Pharmanex's Cholestin™ is not a drug and can be legally sold as a dietary supplement under the Dietary Supplement Health and Education Act
- Big Planet's Internet service was ranked number one in user satisfaction by three independent media outlets: CNET.com, *Smart Computing*, and Deja.com

USA
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SALT LAKE 2002™
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Official Sponsors of the 2000–2004 U.S. Olympic Teams and the 2002 Olympic Winter Games

Financial Highlights

(U.S. dollars in millions, except per share amounts)	Dec. 31, 1996*	Dec. 31, 1997*	Dec. 31, 1998*	Dec. 31, 1999
Revenue	$ 761.6	$ 953.4	$ 913.5	$ 894.3
Gross profit	590.4	762.2	703.4	742.6
Operating income	137.1	180.2	156.2	129.8
Net income	$ 84.7	$ 118.5	$ 103.9	$ 86.7
Earnings per share				
Basic	$ 1.07	$ 1.42	$ 1.22	$ 1.00
Diluted	$ 1.02	$ 1.36	$ 1.19	$ 0.99
Weighted average common shares outstanding (000s)				
Basic	79,194	83,331	84,894	87,081
Diluted	83,001	87,312	87,018	87,893
Cash and cash equivalents	$ 214.8	$ 174.3	$ 188.8	$ 110.2
Working capital	143.3	123.2	164.6	74.6
Total assets	380.5	405.0	606.4	643.2
Stockholders' equity	$ 113.5	$ 94.9	$ 254.6	$ 309.4
Operating income as a percentage of revenue	18.0%	18.8%	17.1%	14.5%
Net income as a percentage of revenue	11.1%	12.4%	11.4%	9.7%
Active distributors	397,000	448,000	470,000	494,000
Executive distributors	21,500	22,700	22,800	21,000

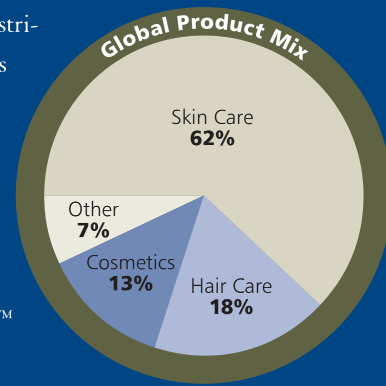
*Financial results include the results of the acquired entities for the years presented with nonrecurring expenses of $2.0 million, $17.9 million, and $35.2 million for 1996, 1997, and 1998 respectively.

Contents

NU SKIN®

Nu Skin is an emerging world leader in the creation and distribution of premium personal care products with an emphasis on special skin treatments. In 1999, we invested in the development of the Nu Skin 180°™ Anti-Aging Skin Therapy System, which has become our top selling product system. We have developed a U.S. in-home demonstration program based on Nu Skin 180° that educates customers about the benefits of our products and invites them to join the FountainClub™—a customer automatic-purchase program. As we implement the global roll-out of Nu Skin 180° in 2000, we expect to create a stronger sponsoring environment for distributors.

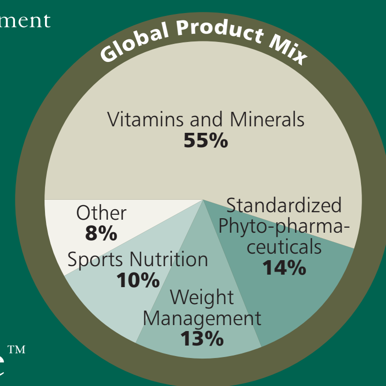
Extraordinary Results, Pure and Simple™



PHARMANEX®

Pharmanex is a leader in the research and development of phyto-pharmaceutical and nutritional products. With the guidance of 70 on-staff scientists and 150 affiliated scientists at academic institutions around the world, we produce proprietary products that set new industry standards. Our most popular product is LifePak,® a dominant global brand that generated $175 million in sales in 1999. During 1999, we improved our LifePak line by adding catechins—a powerful antioxidant that provides specialized cell protection from free radicals. Focusing on innovation and growth in 2000, we will continue to launch the Pharmanex business opportunity in our global markets, including Japan in February.

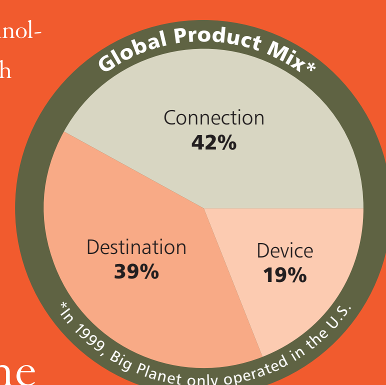
Provided by Nature, Proven by Science™



BigPlanet®

Big Planet is an innovative provider of communications and integrated technology products and services. We focus on making technology simple through our "Device, Connection, Destination" (DCD) business strategy. Our "Free to a Good Home" initiative, which gives an iPhone® web device free to customers in exchange for a three-year subscription to our Internet service, helped increase subscribers by 60 percent. In addition, our Internet service was ranked number one in user satisfaction by three independent media outlets. To expand our destinations, we added 25 new affiliate links to the Big Planet Mall. In 2000, we will enhance our customers' overall online experience and increase our consumer base by leveraging DCD initiatives and offering innovative products and services, including those provided by our new telecommunications partner I-Link.

Bringing Technology Home



®iPhone is a registered trademark of InfoGear Technology Corporation.

Dear Stockholders:

Our business model is based on a simple concept: to provide compelling business opportunities for entrepreneurs around the world. To meet this objective, we are constantly identifying and capitalizing on important demographic and business trends. This is why we implemented a strategy that included the formation of Nu Skin®, Pharmanex®, and Big Planet® as separate divisions of opportunity. Each of these opportunities leverages the direct sales expertise and financial strength of Nu Skin Enterprises. This divisional approach to direct selling is creating strong sponsoring environments for our distributors, enabling them to focus on the business they are passionate about while buying and selling across all divisions. By concentrating our development efforts on three distinct divisions, we offer distributors the most compelling suite of direct selling opportunities in the marketplace, each of which provides them the opportunity to earn a substantial financial return on time invested.

The most significant development that will drive our business in the future is the Internet. I firmly believe that the one-on-one, personal nature of direct selling will become a leading force in directing traffic in the crowded world of e-commerce. The Internet will dramatically strengthen our distributors' ability to attract and retain consumers by offering instant product information, providing interactive training tools, and simplifying the ordering process. And we are perfectly positioned to make this happen. We are adopting cutting-edge technological developments such as the iPhone® that will allow us to enjoy a significant "first mover" advantage. Five years from now, I envision 80 percent of our distributors' sales volume flowing over the Internet. We are committed to leading the direct selling industry in taking advantage of the Internet as we become the premier E-Direct Selling™ Company.

Five years from now, I envision 80 percent of our distributors' sales volume flowing over the Internet.

Facilitating our distributors' success is at the heart of everything we do. Distributors put their trust in us as they launch a direct selling business. We owe it to them to do all we can to preserve and enhance the viability of the opportunity they pursue. We will continue to provide innovative products and services, pioneering the science and technology behind them to increase the competitive strength of our business opportunities. As we enable our distributors to succeed and reach their goals, our stockholders will benefit from growth in revenue and earnings. By implementing our divisional model, we have laid the foundation for success. We are building on that foundation to enjoy renewed growth in 2000 and beyond.

Sincerely,

Blake M. Roney, Chairman

Dear Stockholders:

In 1999, we took dramatic steps to strengthen our business over the longterm by focusing our strategic energy on creating three divisions: Nu Skin®, Pharmanex®, and Big Planet®. This strategic change has taken time to develop as our distributors and customers have been uncertain how it would affect our business and product offerings. This uncertainty, combined with a weakened Asian economy, resulted in a decline in revenue in many of our major markets, particularly in Japan. The implementation of our divisional strategy, which has been the main focus of our recent acquisitions, also contributed to higher than usual selling, general, and administrative expenses as we invested in the future of each division. These factors combined to create a decline in earnings for the year, with net income of $86.7 million and earnings per share of $0.99, compared to $103.9 million in net income and $1.19 in earnings per share in 1998.

> As we introduce our divisional model globally, I'm confident we'll see positive results in our markets around the world.

Although the execution of our strategy proved challenging, as the year concluded we began to experience positive growth in the United States, where the divisional strategy was first launched. A turning point occurred for our distributor force at our global convention in October. By demonstrating leadership strengths in each division and solid marketing and product initiatives for 2000, we generated renewed enthusiasm and excitement. Distributors saw our commitment to the new strategy and the profitable impact multiple divisions of opportunity would have on their businesses. As a result, our revenue in the United States increased 20 percent on a year-over-year basis in the fourth quarter of 1999.

The success of our strategy in the United States was bolstered by our investments in new product technology within each division. For example, we developed the Nu Skin 180°™ Anti-Aging Skin Therapy System, which has become the division's number one selling product system. Pharmanex launched clinically tested new products including the reformulated LifePak® containing catechins—a nutritional breakthrough in protecting the body's cells from free radicals. And Big Planet introduced an updated iPhone®, helping to boost online subscribers by 60 percent. Keeping our product portfolio fresh has increased the viability of opportunities for our distributors. As we introduce our divisional model globally, complemented by our product innovations, I am confident we will see positive results in our markets around the world.

Our highest priority in 2000 is to revitalize our market in Japan. To accomplish this, we have begun rolling out our divisional model by launching the Pharmanex opportunity at the Japanese distributor convention in February 2000. To help ensure the success of the launch, we made a significant investment in print and broadcast advertising. This investment, coupled with the efforts of distributors, created great anticipation. The Pharmanex® opportunity will broaden our demographic reach and will help to stimulate growth. In addition, we project that Nu Skin® will retain its personal care market share in Japan with the launch of the Nu Skin 180° system and the introduction of several new products in 2000. The initiatives from Nu Skin and Pharmanex will help combat the decline in sales we have experienced in Japan by stimulating product sales and recruitment.

As we roll out our divisional strategy globally, we will continue to utilize the power of technology throughout our business. To date, we have invested more than $100 million in our technology infrastructure, half of which has been dedicated to Internet initiatives. This commitment to harnessing technological advancements sets us apart from our direct selling competitors and enables us to leverage the synergy between divisions.

> Our divisions will work closely together as we implement our vision of becoming the premier E-Direct Selling™ Company.

Part of this synergy stems from our ability to utilize the power of the Internet to strengthen our presence in the direct selling world. We are inventing a new model for direct selling that allows all three divisions to conduct business over the Internet. We'll offer one shopping basket for all three of our brands, allowing distributors to utilize our Internet service as they buy and sell from each of our divisions. Not only does the Internet allow us to bridge the gap between customer and company, but it also increases distributor retention. It creates efficiencies in the selling process, helps distributors market products more effectively, provides online interactive training tools, and enhances the overall sponsoring environment. Our divisions will work closely together on Internet initiatives as we implement our vision of becoming the premier E-Direct Selling™ Company.

While we are just beginning to introduce our divisional strategy around the world, the recent success we have experienced in the United States gives us confidence that we are on the right track to generate renewed growth in 2000. The goal of our strategy is to enable Nu Skin, Pharmanex, and Big Planet to grow into billion dollar enterprises. The strong foundation we have built—the appeal of our products, the potential of our business opportunities, and the capacity of the Internet to drive our business even further—sets a promising course for the future. We are committed to building on this foundation, increasing returns and value to you, our stockholders. I hope you will gain a sense of this commitment as you read the pages ahead.

Sincerely,

Steven J. Lund, President and CEO

The face of the direct selling world is changing. Evolving. At the forefront of this evolution is Nu Skin Enterprises. For 15 years we have helped shape progress in this industry, extending our products and business model around the globe. Leading the industry requires continuous, strategic innovation. That’s why we’ve built three distinct brands—Nu Skin,® Pharmanex,® and Big Planet®—to capitalize on a future rich in opportunity. Creating multiple branded opportunities for our distributors sets us apart from our direct selling competitors. It opens up new avenues, generates fresh energy, expands our breadth. From the technology of beautiful skin care and the science of healthy living to simplifying the Internet experience, Nu Skin Enterprises is ushering in a new era of direct sales. Together, our divisions form a powerful global business opportunity that increases the competitive strength and growth potential of the company. Each brand complements the other, creates broader appeal, stimulates a better sponsoring environment. Talk about synergy. These divisions work together to deliver the products and services that enrich the way our customers live—the way they

look, feel, and think.

NU SKIN® Pure. Clear. Radiant. Nu Skin customers all over the world enjoy healthier, more vibrant skin. They look beautiful. Unique. Just like the products they use. Commitment to product quality and innovation has always been Nu Skin's priority and strength, hence our slogan "Extraordinary Results, Pure and Simple.™" Combining advanced scientific research and exclusive ingredient technology, our scientists and skin care experts ensure that each product incorporates the most wholesome ingredients. Our prestigious product portfolio demonstrates this. We offer progressive choices in consumer-oriented products that perform beautifully.

As an emerging world leader in the creation and distribution of personal care products, Nu Skin has a strong international presence in 31 markets throughout the Asia Pacific region, the Americas, and Europe. Our target distributors are professionals who are educated and want to run a business from home. We've been successful in providing the high quality products customers desire to help them feel good about the way they look. In fact, during 1999 Nu Skin generated over $500 million in revenue in the global personal care industry.

From the beginning, Nu Skin has been dedicated to creating products that provide visible results, with an emphasis on the skin treatment category—the fastest growing segment of the industry. In 1999, we continued to demonstrate this commitment with the introduction of nine new performance-based products, including the revolutionary Nu Skin 180° Anti-Aging Skin Therapy System. Designed to reprogram skin to act and look younger, Nu Skin 180° has been clinically proven to combat the signs of aging and deliver smoother, softer skin in as few as seven days. Dr. Karol Bailey, a Nu Skin distributor from Long Beach, California, is a committed user. "I call it my miracle product," she says.

Nu Skin improves the way you look.

Years of research, patented exclusive ingredients, and advanced delivery systems make the Nu Skin 180°™ Anti-Aging Skin Therapy System a truly revolutionary skin treatment.

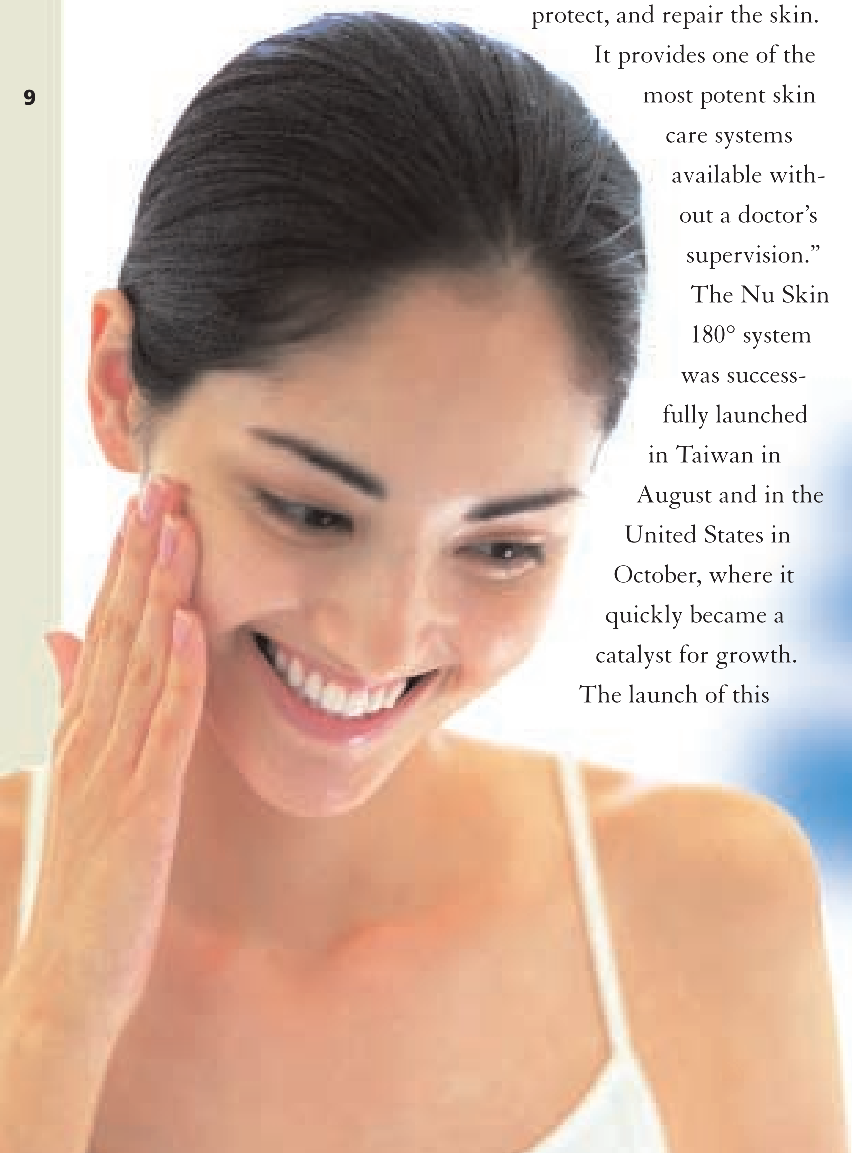
"To enhance growth, we have gone back to the roots of our success—implementing fundamental direct selling initiatives and strengthening our line of products to help people look their best."

—Grant Pace, President of Nu Skin

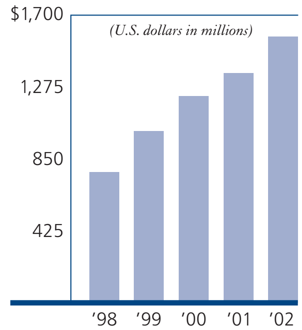
"I've noticed a difference all over my face—smoother skin, diminished wrinkles. It's an incredible skin treatment system that has proven to be extremely popular. All my customers on Nu Skin 180°™ are rebuying, making it my biggest seller."

Scott Whittier, senior director of research and development, explains that "Nu Skin 180° incorporates the very latest in skin technology. This system integrates five products designed to cleanse, tone, treat, protect, and repair the skin. It provides one of the most potent skin care systems available without a doctor's supervision."

The Nu Skin 180° system was successfully launched in Taiwan in August and in the United States in October, where it quickly became a catalyst for growth. The launch of this patented line has positively impacted revenue, and it continues to be our top selling product system within the division. In 2000, a specially formulated version of Nu Skin 180° will be launched in Japan. According to Takashi Bamba, president and general manager of Nu Skin Japan, "Nu Skin is a leader in the special treatments market in Japan. We have successfully entered into this market with products such as our Nu Skin® White system, which has been among our most popular personal care product systems since its introduction. The release of the 180°



U.S. Anti-Aging Skin Treatment Market



Source: Packaged Facts

In clinical studies, the Nu Skin White system demonstrated significant results in reducing the appearance of discoloration and improving the clarity of the skin.

Introduced in May 1999, Custom Colour has been a popular addition to our Nu Colour® cosmetics line, bringing versatility with a personalized makeup palette.

system in 2000 will enhance our image and solidify our position in the skin care category.”

We incorporated the success of Nu Skin 180°™ into a new marketing strategy in the United States. In October 1999, we introduced the FountainClub,™ an automatic-purchase program that has helped stimulate growth in sales and distributor enrollment. Through the FountainClub, members accumulate product credit and receive discounts and incentives for ordering with Nu Skin each month. Distributors invite customers to join the FountainClub by holding small in-home sessions to educate them about the benefits of the 180° system and other skin care products. Not only is the FountainClub promoting customer loyalty, it's also strengthening awareness of the Nu Skin opportunity.

To enhance these growth-oriented initiatives, Nu Skin took a major step in 1999 by launching a dynamic new web site, *www.nuskin.com*. As a result, increasing numbers are coming to the Nu Skin site to shop and to access up-to-date product information, beauty tips, company news, and promotions. The Internet also allows us to increase customer retention by strengthening the ties between the company, our distributors, and their customers.

Nu Skin's products and business opportunity empower distributors in the expanding beauty market. With strong leadership and powerful marketing strategies for 2000, it's no wonder that more and more people are choosing Nu Skin.

Above: In-home sessions enable distributors to educate new customers about our products.
Left: Nu Skin Japan sponsors the *Nippon Challenge* yacht in the 2000 America's Cup™ competition.

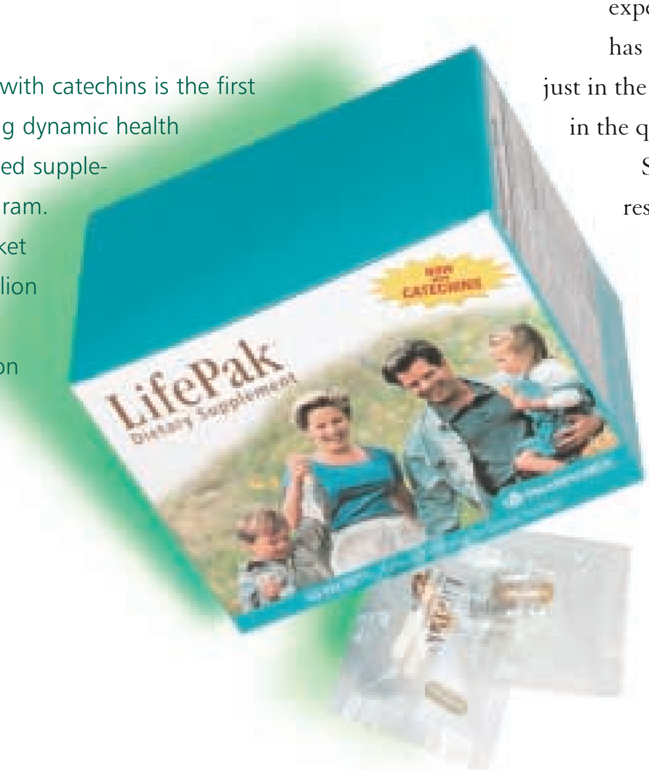
PHARMANEX®

Healthy. Fit. Vibrant. In a world where consumers are increasingly turning to self-care solutions, Pharmanex creates nutritional products based on sound scientific analysis and clinical studies using our development methodology called the 6S Quality Process.™ Our reputation has been built on our unique, pharmaceutical approach to natural health care and is evidenced in our slogan "Provided by Nature, Proven by Science.™" With 70 scientists on staff and 150 affiliated scientists at academic institutions around the world, our research engine produces proprietary products that enable us to set new industry standards. As the premier phyto-pharmaceutical company, we market products to educated, health-conscious men and women who desire premium nutritional products backed by science.

Pharmanex is committed to enhancing people's health through supplements that generate complete body wellness with products like LifePak—one of the top selling nutritional supplements worldwide. Formulated to meet the needs of specific age groups and genders, LifePak provides essential vitamins and minerals. In 1999, LifePak generated sales of $175 million. Hsiao Wen Huang, a Pharmanex representative from Taichung, Taiwan, has built an extensive sales organization, generating high sales volumes through his LifePak customers. "LifePak is the mainstay of my business," he says. "Many of my customers have become representatives because they experience positive results. LifePak has made an incredible impact not just in the quality of their health, but also in the quality of their lifestyles."

Scientific expertise and extensive research has enabled us to develop a new LifePak formula containing catechins. Providing specialized cell protection, catechins are found naturally in green tea—an ancient Chinese herbal drink. According to Dr. Lester Mitscher, professor of medicinal chemistry at the University of Kansas, the catechins contained in green tea "are

Pharmanex enhances the way you feel.



Taking LifePak® with catechins is the first step to achieving dynamic health in our customized supplementation program. The global market size is $11.3 billion and growing by roughly $1 billion per year.

"Pharmanex products are enhancing the way people feel every day. We have coupled our clinically proven and effective products with a direct sales business model to provide a solid foundation for growth in 2000."

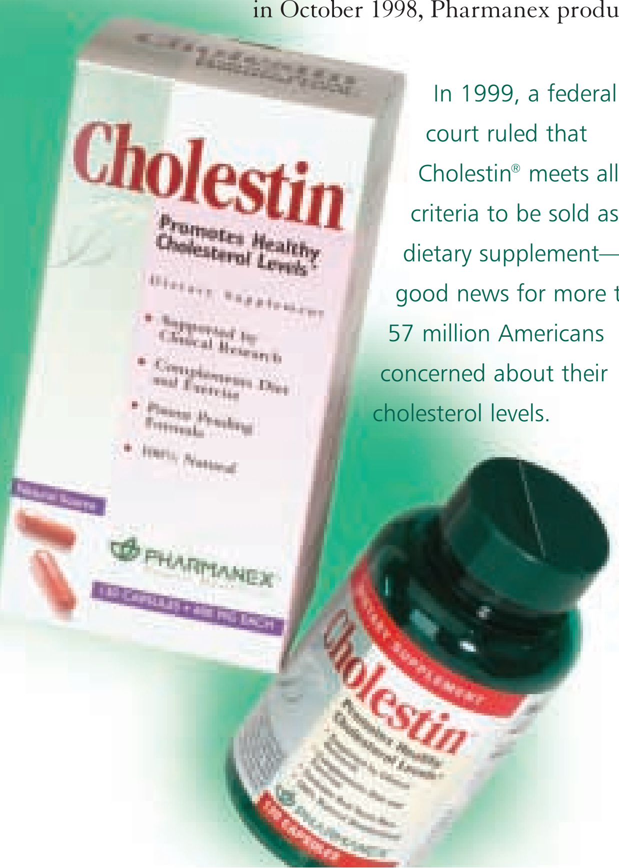
—William McGlashan Jr., President of Pharmanex

not found in other plants and are the most powerful naturally occurring antioxidants." Mitscher also explains that "by far green tea contains the highest concentrations of active EGCg—a catechin that's 100 times more effective at neutralizing free radicals than vitamin C, and 25 times more powerful than vitamin E." Taking LifePak® with catechins enables you to enjoy the health benefits of green tea without the caffeine, making it the most effective way to get protection from free radicals—molecules found in pollution, smoke, and radiation that are major factors in aging and faltering health.

Part of the strength of our nutritional supplement business in 1999 was due to the integration of the Pharmanex® product line into our distribution channel. When Nu Skin Enterprises purchased Pharmanex in October 1998, Pharmanex products were pulled out of 38,000 retail stores and began to be sold exclusively through our direct selling channel. As a result, global sales of these products soared to $40 million in 1999. We believe that Pharmanex's sound approach to supplementation will prove to be successful in the United States, Taiwan, and Japan, and will increase our broad network of distributors.

We expect our network to grow significantly in

We have engaged in a year-long research collaboration with Purdue University and renowned scientists Drs. Dorothy and James Morré using Tēgreen 97® to explore the impact of epigallocatechin gallate (EGCg) on cancer.



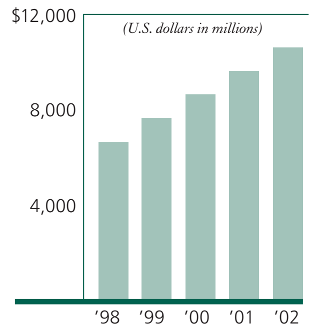
In 1999, a federal court ruled that Cholestin® meets all criteria to be sold as a dietary supplement—good news for more than 57 million Americans concerned about their cholesterol levels.

In October 1999, we announced our Official Olympic Sponsorship.

2000 with the launch of the Pharmanex® opportunity in Japan at our February convention. In 1999, we set initiatives in place to increase sponsorship in anticipation of this launch by establishing a "Founders Program." This program allowed representatives to become original leaders of the new business opportunity by giving them incentives to establish their representative base in the prelaunch phase. With just four core Pharmanex products available since July, $18 million in sales were generated. We expect the launch of the full product line and business opportunity in 2000 to help stimulate even greater growth.

To drive future business, we've developed several Internet initiatives that capitalize on the influx of people who are turning to the web for health information and product purchasing. Leveraging our Internet presence allows us to stimulate a better distributor sponsoring environment, increase representative and customer retention, and generate greater sales. We're using the web as a tool to educate and direct customers to our products. In addition to online shopping, *www.pharmanex.com* features a nutritional database for general health and nutrition information to keep consumers on the cutting-edge of healthy living. When it comes down to it, our motivation is simple—there's just something satisfying about helping people feel good.

U.S. Vitamin & Dietary Supplement Market



Source: Euromonitor

In 1999, Karl Malone, 11-time NBA All-Star and two-time NBA MVP, teamed up with us. "When I take supplements, I don't want to cheat myself. Pharmanex is willing to spend the dollars to get the best doctors and the best scientists and is constantly exploring new ideas."

BigPlanet

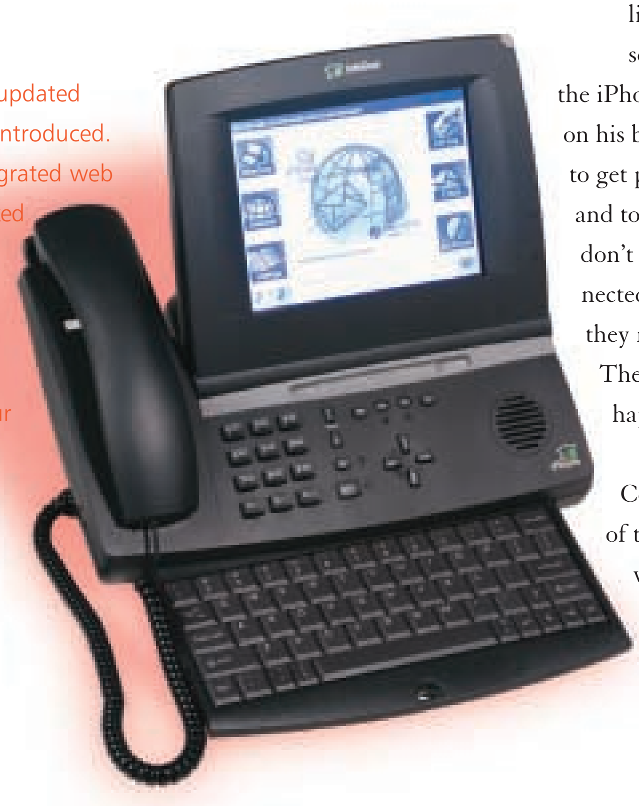
Smart. Connected. Simple. The Internet is changing the way people think. The way they experience life. As a provider of innovative technology solutions, Big Planet combines the power of direct selling with the power of the Internet. We offer our representatives the opportunity to build a business selling technology products and services that simplify their lives and the lives of their customers. We provide a completely integrated Internet experience through our "Device, Connection, Destination" strategy. Our approach attracts both newcomers to the Internet—people who recognize it's time to "get connected" but need help adapting to technology—and technology savvy entrepreneurs who want to capitalize on the Internet revolution.

Big Planet changes the way you think.

To drive the Device element of our strategy, Big Planet offered the iPhone—a web appliance with fully integrated telephone functionality that includes a full-size keyboard and a built-in touch screen for accessing the Internet. In September 1999, we introduced our "Free to a Good Home" initiative. In exchange for an iPhone, customers sign up for three years of Big Planet Internet service. Not surprisingly, the iPhone has become a popular Internet device, linking thousands of new customers to our world-class Internet service.

As we continue to implement our Device initiatives, we expect to significantly increase iPhone placements as well as overall sales and Internet subscribers. For distributors like Eric Karlen, a Big Planet representative from Las Vegas, Nevada, the iPhone is having an enormous impact on his business. "The iPhone makes it easy to get people connected to the Internet and to the Big Planet Mall. My customers don't need to buy computers to be connected because they have everything they need with this one simple device. The iPhone is the best thing that's happened to my business."

We've also strengthened our Connection capabilities. We have one of the largest nationwide networks, which allows local dial-up Internet service for 95 percent of the U.S.

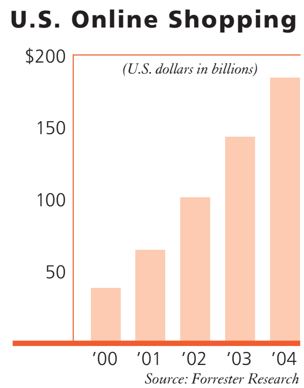


In 1999, the updated iPhone® was introduced. This fully integrated web device has linked thousands of new users to our Internet service and was key to our growth.

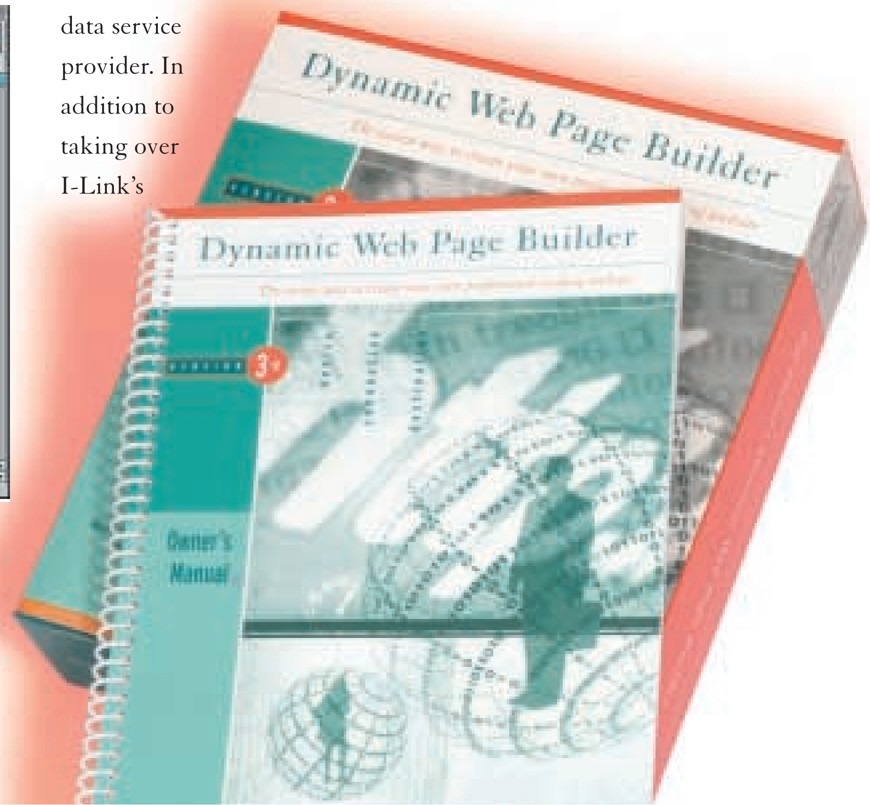
"We are committed to strengthening our business opportunity through strategic partnerships. Our relationship with I-Link enables us to enhance communications products and services for our representatives and customers."*—Richard King, President of Big Planet*

population. In 1999, CNET.com and Deja.com readers rated Big Planet as one of the best Internet Service Providers (ISPs) in the United States. Ranking above more than 4,000 other ISPs, we were highly rated in support, reliability, value, options, and overall satisfaction. *Smart Computing's* January 2000 issue also ranked Big Planet as the top nationwide ISP in its reader survey. While this is significant recognition, we are not complacent. We will continue to improve the Connection element for Big Planet representatives and extend these benefits to distributors in other Nu Skin Enterprises divisions—encouraging them to utilize our Internet service.

To make our service more attractive, we are constantly expanding our Destinations. Our online shopping network enables consumers to buy products from Big Planet, Pharmanex®, Nu Skin®, and a broad range of quality merchants. Representatives build their sales volumes as customers purchase products from any of these online shopping locations. Last year we announced 25 new affiliate partners including Borders.com and Outpost.com. Scott Schwerdt, chief operating officer of Big Planet, says, "Giving our customers access to these and other high profile storefronts encourages them to redirect their spending to the Big Planet Mall. In 2000, we will expand our Destination capability to include services such as entertainment, banking, travel, and chat rooms. This is another step toward our goal of making technology simple while increasing our customer base." We also entered a strategic partnership with I-Link—an enhanced voice and data service provider. In addition to taking over I-Link's



Above: Shop at more than 30 affiliate stores at the Big Planet Mall. Right: Dynamic Web Page Builder™ has been used to develop more than 12,000 web sites hosted by Big Planet®

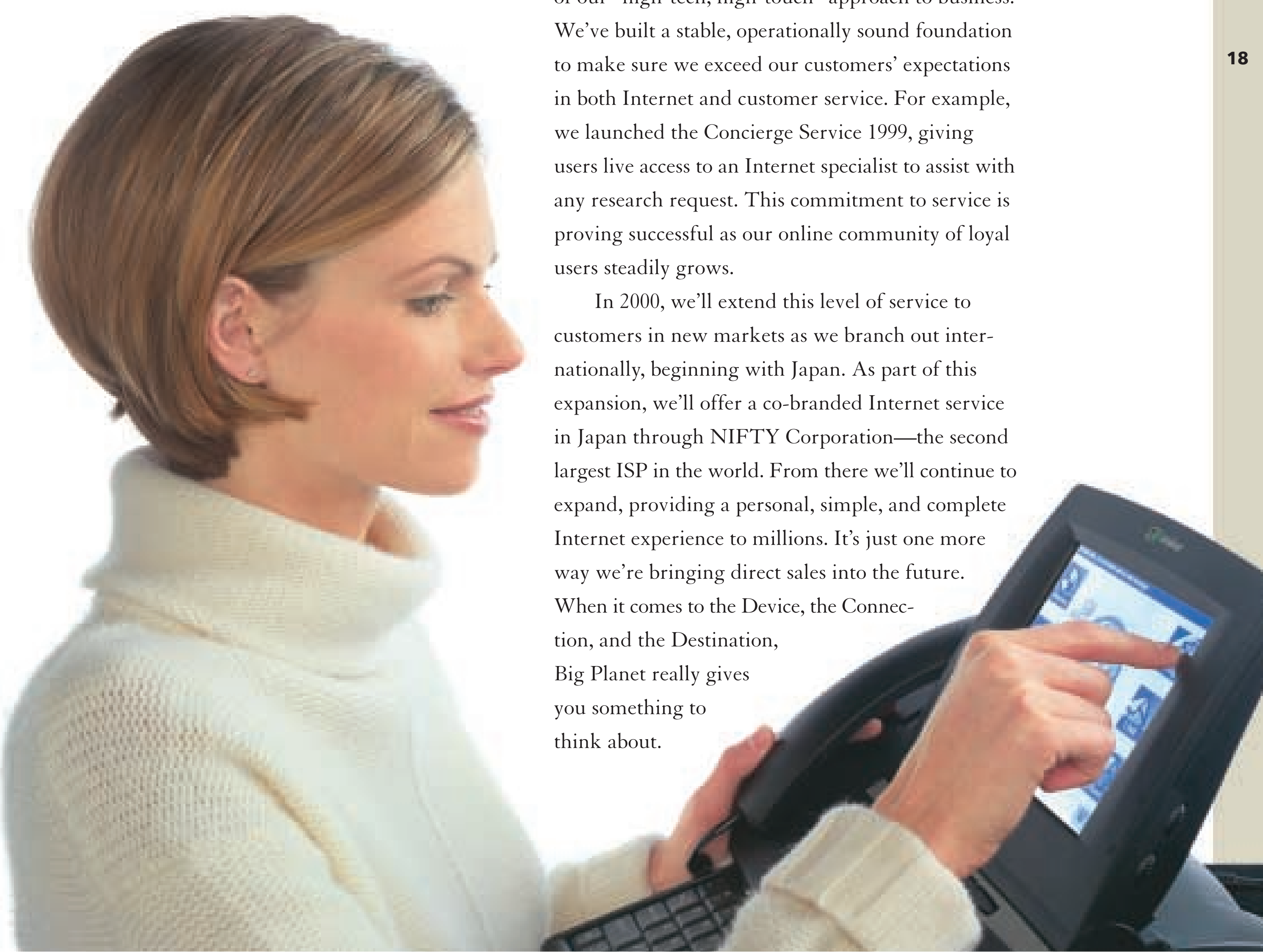


We offer award-winning Internet access with flexible plans to suit any individual. We also provide long distance calling plans, wireless paging and phone services, calling cards, and a full-featured, personalized portal to the Internet.

direct sales force and their customers, we obtained exclusive network marketing rights to their products and services. We anticipate a substantial increase in revenue as I-Link's core communications product—a service that offers IP telephony—is introduced to Big Planet® and Nu Skin Enterprises' distributors and representatives.

Big Planet focuses on providing personalized customer service. We're proud of our "high-tech, high-touch" approach to business. We've built a stable, operationally sound foundation to make sure we exceed our customers' expectations in both Internet and customer service. For example, we launched the Concierge Service 1999, giving users live access to an Internet specialist to assist with any research request. This commitment to service is proving successful as our online community of loyal users steadily grows.

In 2000, we'll extend this level of service to customers in new markets as we branch out internationally, beginning with Japan. As part of this expansion, we'll offer a co-branded Internet service in Japan through NIFTY Corporation—the second largest ISP in the world. From there we'll continue to expand, providing a personal, simple, and complete Internet experience to millions. It's just one more way we're bringing direct sales into the future. When it comes to the Device, the Connection, and the Destination, Big Planet really gives you something to think about.



Nu Skin Enterprises enriches the way you live. We are driven by a simple philosophy: to act as a force for good throughout the world. We do this by creating products that improve the appearance, health, and lifestyle of our consumers, and by enabling distributors to benefit financially as they build independent businesses. We also take an active role in our local and global communities—from sponsoring the 2002 Olympic Winter Games in Salt Lake City to protecting the rainforests in Western Samoa. Because we believe in making a difference in the lives of people everywhere, distributors recognize that we're a company with integrity and values. This, in turn, enables us to attract exceptional distributors who uphold high standards and are proud of the company they represent.

Top: President and CEO Steve Lund announces our Olympic Sponsorship. Bottom: Dr. Paul Cox, chairman of the Seacology Foundation, conducts field research in Western Samoa, where we are helping to save the rainforest.

As a company, we value excellence and believe in helping people achieve their best. That's why in October 1999, Nu Skin Enterprises and Pharmanex became Official Sponsors of the 2002 Olympic Winter Games in Salt Lake City and the 2000–2004 U.S.

"We are constantly looking for ways we can leverage the tremendous talent that comes together in Nu Skin Enterprises to do good in the world. The Force for Good Foundation is our effort to do that."—*Steven J. Lund, President and CEO*

Olympic Teams. By supporting world-class athletes and promoting the unifying spirit of this competition, we are aligning ourselves with excellence.

We also make a difference through our Force for Good® Foundation. This effort enables employees, distributors, and customers to contribute money and services to environmental and humanitarian causes. Through the foundation, we help fund research to find a cure for epidermolysis bullosa (EB)—a disabling and life-threatening skin disease that primarily affects children. And the foundation continues to contribute to organizations such as the Seacology Foundation to help preserve ecosystems and indigenous cultures around the world. These efforts reinforce our objective to be a socially conscious company. To make the world a better place, we continually strive to meet this goal. It's what we live by; it enriches the way we

Top: EB patients welcome Nu Skin Enterprises corporate executives at Stanford University School of Medicine.
Bottom: The Force for Good Foundation and Nu Skin Japan help the Hunger Project provide communities with lasting solutions.

look, feel, and think.

Financial Review

Selected Consolidated Financial Data

The following selected consolidated financial data as of December 31, 1997, 1998, and 1999 and for the years ended December 31, 1996, 1997, 1998, and 1999 have been derived from the audited consolidated financial statements. The financial data as of December 31, 1995 and 1996 and for the year ended 1995 are unaudited but, in management's opinion, include all necessary information to present fairly the information included therein. The Company's consolidated financial statements for all periods presented before December 31, 1998 have been combined and restated for the acquisition of Nu Skin International, Inc. ("NSI") and certain other related affiliates in March 1998 (the "NSI Acquisition").

Income Statement Data (U.S. dollars in thousands, except per share data) Year ended	December 31, 1995	December 31, 1996	December 31, 1997	December 31, 1998	December 31, 1999[2]
Revenue	**$ 435,855**	**$ 761,638**	**$ 953,422**	**$ 913,494**	**$ 894,249**
Cost of sales	101,474	171,187	191,218	188,457	151,681
Cost of sales—amortization of inventory step-up	—	—	—	21,600	—
Gross profit	**334,381**	**590,451**	**762,204**	**703,437**	**742,568**
Operating expenses:					
Distributor incentives	139,495	282,588	362,195	331,448	346,951
Selling, general, and administrative	115,950	168,706	201,880	202,150	265,770
Distributor stock expense	—	1,990	17,909	—	—
In-process research and development	—	—	—	13,600	—
Total operating expenses	255,445	453,284	581,984	547,198	612,721
Operating income	**78,936**	**137,167**	**180,220**	**156,239**	**129,847**
Other income (expense), net	650	10,771	8,973	13,599	(1,411)
Income before provision for income taxes and minority interest	79,586	147,938	189,193	169,838	128,436
Provision for income taxes	19,141	49,526	55,707	62,840	41,742
Minority interest[1]	10,498	13,700	14,993	3,081	—
Net income	**$ 49,947**	**$ 84,712**	**$ 118,493**	**$ 103,917**	**$ 86,694**
Net income per share:					
Basic	$ 0.63	$ 1.07	$ 1.42	$ 1.22	$ 1.00
Diluted	$ 0.61	$ 1.02	$ 1.36	$ 1.19	$ 0.99
Weighted average common shares outstanding (000s):					
Basic	78,660	79,194	83,331	84,894	87,081
Diluted	82,459	83,001	87,312	87,018	87,893

Balance Sheet Data (U.S. dollars in thousands) As of	December 31, 1995	December 31, 1996	December 31, 1997	December 31, 1998	December 31, 1999[2]
Cash and cash equivalents	$ 84,000	$ 214,823	$ 174,300	$ 188,827	$ 110,162
Working capital	56,801	143,308	123,220	164,597	74,561
Total assets	182,154	380,482	405,004	606,433	643,215
Short-term notes payable to stockholders	—	71,487	19,457	—	—
Long-term notes payable to stockholders	—	—	116,743	—	—
Short-term debt	—	—	—	14,545	55,889
Long-term debt	—	—	—	138,734	89,419
Stockholders' equity	68,363	113,495	94,892	254,642	309,379

Other Operating Data[3] As of	December 31, 1995	December 31, 1996	December 31, 1997	December 31, 1998	December 31, 1999
Number of active distributors	260,000	397,000	448,000	470,000	494,000
Number of executive distributors	8,173	21,479	22,689	22,781	21,005

(1) Minority interest represents the ownership interest of NSI held by individuals who are not immediate family members. The minority interest was purchased as part of the NSI Acquisition on March 26, 1998.
(2) 1999 results include transactions during the year which are discussed in detail in Management's Discussion and Analysis of Financial Condition and Results of Operations.
(3) Active distributors are those distributors who were resident in the countries in which the Company operated and purchased products during the three months ended as of the date indicated. An executive distributor is an active distributor who has achieved required personal and group sales volumes. The increase in the number of active distributors from 1999 is primarily due to the inclusion of distributors formerly licensed to the Company's affiliate Nu Skin USA, Inc.

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 Annual Report to Stockholders.

General

Nu Skin Enterprises, Inc. (the "Company"), is a leading, global direct selling company that develops and distributes premium-quality, innovative personal care and nutritional products and technology, Internet and telecommunications products and services. In 1999, the Company began implementing a divisional strategy which created three distinct divisions based on product lines, each offering a separate and distinct business opportunity.

The Company's revenue is dependent upon the number and productivity of independent distributors who purchase products and sales materials from the Company in their local currency for resale to their customers or for personal use. 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 5.0% of gross sales. Distributor incentives are paid to several levels of distributors on each product sale. The amount of the incentive varies depending on the purchaser's position within the Company's Global Distributor 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, 1997	December 31, 1998	December 31, 1999
North Asia		$ 673.6	$ 665.5	$ 619.3
Southeast Asia		225.3	159.7	140.1
Other Markets		54.5	88.3	134.9
Totals		**$ 953.4**	**$ 913.5**	**$ 894.3**

Revenue generated in North Asia represented 69% of total revenue generated during the year ended December 31, 1999. The Company's operations in Japan generated 97% of the North Asia revenue during the same period. Revenue from Southeast Asia operations represented 16% of total revenue generated during the year ended December 31, 1999. The Company's operations in Taiwan generated 74% of the Southeast Asia revenue during that period. Revenue generated in Other Markets represented the remaining 15% of total revenue generated during the year ended December 31, 1999. Operations in North America generated 84% of the Other Markets revenue during the year ended December 31, 1999. A portion of the Other Markets revenue during the year ended December 31, 1999 was generated from sales to and license fees from the Company's North American private affiliates, which the Company has now acquired.

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.

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 of approximately 500,000 active distributors, the fluctuation in the overall payout is relatively small. The overall payout averages from 39% to 42% of global product sales. Sales materials and starter kits are not subject to distributor incentives. In addition, a portion of the sales to the Company's recently acquired North American private affiliates were not subject to distributor incentives. Distributor incentives include the cost of computing and paying commissions as well as the cost of incentive programs for distributors including an annual trip for the Company's leading distributors. These additional costs average approximately 1% of revenue.

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 nonrecurring 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, professional fees and other operating expenses.

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, 30.1% in South Korea and 53.2% in Japan. The Company operates a regional business center in Hong Kong, which bears inventory obsolescence and currency exchange risks. 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 United States for the amount of foreign taxes actually paid in a given period, which are utilized to reduce taxes in the United States to the extent allowed.

In March 1998, the Company completed the acquisition (the "NSI Acquisition") of the capital stock of Nu Skin International, Inc. ("NSI") and the Company's other previously privately-held affiliates in Europe, Australia and New Zealand (collectively 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. The Company allocated $43.6 million of the purchase price to goodwill, intellectual property and other intangible assets.

Minority interest represents the ownership interest of NSI held by individuals who are not immediate family members of the majority-interest holders. The minority interest was purchased as part of the NSI Acquisition.

In October 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 connection with the Pharmanex Acquisition, the Company allocated $92.4 million to goodwill, intellectual property and other intangible assets and $13.6 million to purchased in-process research and development. During 1998, the Company fully wrote off the in-process research and development amount.

In March 1999, NSI terminated its distribution license and various other license agreements and other intercompany agreements with Nu Skin USA, Inc. ("Nu Skin USA") and paid Nu Skin USA a $10.0 million termination fee. The Company also acquired selected assets of Nu Skin USA in March 1999 through a newly formed wholly owned subsidiary and assumed approximately $8.0 million of Nu Skin USA liabilities. In May 1999, the Company completed the acquisition of its affiliates in Canada, Mexico and Guatemala.

In July 1999, the Company completed the acquisition (the "Big Planet Acquisition") of Big Planet, Inc. ("Big Planet"). In connection with the Big Planet Acquisition, the Company loaned Big Planet approximately $4.5 million to redeem the option holders and certain management stockholders of Big Planet.

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

Results of Operations

(U.S. dollars in millions)

Year ended	December 31, 1997	December 31, 1998	December 31, 1999
Revenue	**$ 953.4**	**$ 913.5**	**$ 894.3**
Cost of sales	191.2	188.5	151.7
Cost of sales—amortization of inventory step-up	—	21.6	—
Gross profit	**762.2**	**703.4**	**742.6**
Operating expenses:			
Distributor incentives	362.2	331.4	347.0
Selling, general, and administrative	201.9	202.2	265.8
Distributor stock expense	17.9	—	—
In-process research and development	—	13.6	—
Total operating expenses	582.0	547.2	612.8
Operating income	**180.2**	**156.2**	**129.8**
Other income (expense), net	9.0	13.6	(1.4)
Income before provision for income taxes and minority interest	189.2	169.8	128.4
Provision for income taxes	55.7	62.8	41.7
Minority interest	15.0	3.1	—
Net income	**$ 118.5**	**$ 103.9**	**$ 86.7**
Unaudited supplemental data[1]:			
Income before pro forma provision for income taxes and minority interest	$ 189.2	$ 169.8	
Pro forma provision for income taxes	71.9	66.0	
Pro forma minority interest	9.3	1.9	
Pro forma net income	**$ 108.0**	**$ 101.9**	

Year ended	December 31, 1997	December 31, 1998	December 31, 1999
Revenue	**100.0%**	**100.0%**	**100.0%**
Cost of sales	20.1	20.6	17.0
Cost of sales—amortization of inventory step-up	—	2.4	—
Gross profit	**79.9**	**77.0**	**83.0**
Operating expenses:			
Distributor incentives	38.0	36.3	38.8
Selling, general, and administrative	21.2	22.1	29.7
Distributor stock expense	1.9	—	—
In-process research and development	—	1.5	—
Total operating expenses	61.1	59.9	68.5
Operating income	**18.8**	**17.1**	**14.5**
Other income (expense), net	.9	1.5	(.1)
Income before provision for income taxes and minority interest	19.7	18.6	14.4
Provision for income taxes	5.8	6.9	4.7
Minority interest	1.5	.3	—
Net income	**12.4%**	**11.4%**	**9.7%**
Unaudited supplemental data[1]:			
Income before pro forma provision for income taxes and minority interest	19.7%	18.6%	
Pro forma provision for income taxes	7.5	7.2	
Pro forma minority interest	.9	.2	
Pro forma net income	**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, 1997 and 1998.

1999 Compared to 1998

Revenue decreased 2.1% to $894.3 million from $913.5 million for the years ended December 31, 1999 and 1998, respectively. The decrease in revenue resulted primarily from a significant decline in local currency revenue in Japan and was somewhat offset by favorable comparative exchange rates and the addition of revenue from Big Planet after the Big Planet Acquisition in July 1999 and the Company's operations in the United States after the termination of the Company's license agreement with Nu Skin USA in March 1999.

Revenue in North Asia, which consists of Japan and South Korea, decreased 6.9% to $619.3 million from $665.5 million for the years ended December 31, 1999 and 1998, respectively. This decline in revenue was a result of revenue in Japan decreasing $51.8 million or 7.9% to $602.4 million in 1999 from $654.2 million in the prior year. Revenue in Japan in U.S. dollar terms for 1999 benefitted from a 12.7% increase in the strength of the Japanese yen relative to the U.S. dollar. In local currency, revenue in Japan decreased 19.7% in 1999 versus 1998. Sales activity in Japan was affected negatively during 1999 by distributor uncertainty concerning the implementation of the Company's divisional model and other issues associated with compensation plan requirements and the Company's effort to enforce distributor policies and procedures. In addition, competitive conditions and weakness in consumer confidence also significantly impacted revenue in Japan. The decline in revenue in Japan was somewhat offset by increases in revenue in South Korea.

Revenue in Southeast Asia, which consists of Taiwan, Thailand, Hong Kong, the Philippines, Australia and New Zealand, totaled $140.1 million for the year ended December 31, 1999, down from revenue of $159.7 million for the year ended December 31, 1998, a decrease of $19.6 million. This decline in revenue was primarily a result of revenue in Taiwan decreasing to $103.6 million in 1999 from $119.5 million in the prior year. During 1999, the Company's operations in Taiwan suffered the impact of a devastating earthquake, which occurred during the third quarter of 1999. In addition, operations in Taiwan have continued to suffer the impact of increased competition and an overall decline in sales in the direct selling industry in Taiwan, which management believes is largely due to the uncertainty of the viability of direct selling activities in the People's Republic of China as well as economic concerns throughout Southeast Asia.

Revenue in the Company's other markets, which include the United Kingdom, Austria, Belgium, Denmark, France, Germany, Iceland, Italy, Ireland, Luxemburg, Norway, Poland, Portugal, Spain, Sweden, the Netherlands, Brazil, Canada, Mexico, Guatemala and the United States increased 52.8% to $134.9 million from $88.3 million for the years ended December 31, 1999 and 1998, respectively. This increase in revenue was primarily due to the additional revenue stream of $83.8 million from sales in the United States resulting from the termination of the Company's license agreement with Nu Skin USA, which occurred in March 1999, and the additional revenue of $11.4 million resulting from the Big Planet Acquisition, which occurred in July 1999. This additional revenue more than offset the elimination of revenue from sales to the Company's former affiliates in these markets, which revenue is now eliminated in consolidation.

Gross profit as a percentage of revenue was 83.0% for the year ended December 31, 1999 compared to 77.0% for the year ended December 31, 1998. The increase in the gross profit as a percentage of revenue for 1999 resulted from the strengthening of the Japanese yen and other Asian currencies relative to the U.S. dollar, higher margin sales to distributors in the United States following the termination of the Company's license agreement with Nu Skin USA, increased local manufacturing efforts and reduced duty rates. In addition, in 1998, the Company recorded amortization of inventory step-up related to the NSI Acquisition of $21.6 million, which did not recur in 1999. The Company's gross margin was negatively impacted by the Big Planet Acquisition, which includes the sale of lower margin technology products and services. The Company purchases a significant majority of goods in U.S. dollars and recognizes revenue in local currency and is consequently subject to exchange rate risks in its gross margins.

Distributor incentives as a percentage of revenue increased to 38.8% for the year ended December 31, 1999 from 36.3% for the year ended December 31, 1998. The primary reason for the increase in 1999 was the termination of the Company's license agreement with Nu Skin USA which resulted in the Company beginning to sell products to distributors in the United States and paying the requisite commissions related to those sales. In addition, the Company recently restructured its compensation plan, adding short-term, division-focused incentives, which increased compensation to the Company's entry-level distributors in the later part of 1999.

Selling, general, and administrative expenses as a percentage of revenue increased to 29.7% for the year ended December 31, 1999 from 22.1% for the year ended December

31, 1998. In U.S. dollar terms, selling, general, and administrative expenses increased to $265.8 million for the year ended December 31, 1999 from $202.2 million in 1998. This increase was due to stronger foreign currencies in 1999, primarily the Japanese yen, which resulted in higher expenses of approximately $14.2 million in Japan. In addition, selling, general, and administrative expenses increased due to $29.5 million in additional overhead expenses relating to the operations in North America following the acquisition of certain assets from Nu Skin USA in March 1999 and operations in Canada, Mexico and Guatemala in May 1999, an additional $14.9 million in 1999 of amortization expense resulting from the Company's acquisitions of NSI, Pharmanex and Big Planet, and an additional $14.1 million of selling, general, and administrative expenses relating to the Big Planet Acquisition.

Operating income decreased to $129.8 million for the year ended December 31, 1999 from $156.2 million in 1998 and operating margin decreased to 14.5% for the year ended December 31, 1999 from 17.1% in 1998. Operating income and margin decreased due to the declines in local currency revenue in Japan and the increases in distributor incentives and selling, general and administrative expenses, which more than offset the improvements in gross margins and the expenses recorded in 1998 relating to in-process research and development, which did not recur in 1999.

Other income decreased to an expense of $1.4 million for the year ended December 31, 1999 from income of $13.6 million in 1998. This decrease in other income was primarily due to the significant hedging gains recorded in 1998 from forward contracts and intercompany loans resulting from a stronger Japanese yen in relation to the U.S. dollar, which did not recur in 1999.

Provision for income taxes decreased to $41.7 million for the year ended December 31, 1999 from $62.8 million in 1998. This decrease is due to a reduced effective tax rate from 37.0% in 1998 to 32.5% in 1999. This significant decrease in the effective tax rate in 1999 is related to the Company's ability to utilize foreign tax credits as a result of the Company's global tax planning. The pro forma provision for income taxes presents income taxes as if NSI and its affiliates had been taxed as C corporations rather than as S corporations for the years ended December 31, 1998 and 1997.

Net income decreased to $86.7 million for the year ended December 31, 1999 from $103.9 million in 1998 and net income as a percentage of revenue decreased to 9.7% for the year ended December 31, 1999 from 11.4% in 1998. Net income decreased primarily because of the factors noted above in "operating income" and "other income" and was somewhat offset by the factors noted in "provision for income taxes" above.

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 recession in Asia, particularly in South Korea and Thailand. These factors 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 1.2% to $665.5 million from $673.6 million for the years ended December 31, 1998 and 1997, respectively. The economic recession 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 partially 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 U.S. dollar terms, the increase in revenue in Japan was 9.1% and was 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.

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 suffered the impact of increased competition, currency devaluation and the People's Republic of China's temporary ban on direct selling, where many Taiwanese distributors had hoped to expand their businesses, 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 were impacted negatively by Thailand's economic recession 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 included the United Kingdom, Germany, Italy, the Netherlands, France, Belgium, Spain, Portugal, Ireland, Austria, Poland, Denmark, Sweden, and Brazil and product sales to and license fees from the Company's 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 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 during the second and third quarters for the year ended December 31, 1998. Without this nonrecurring 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, primarily due 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 was 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 as a percentage of revenue was primarily due to weakened Asian currencies and continued U.S. dollar-based selling, general, and administrative expenses. In dollar terms, selling, general, and administrative expenses increased slightly from \$201.9 million in 1997 to \$202.2 million in 1998.

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 nonrecurring 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 nonrecurring 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 nonrecurring 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 to \$13.6 million for the year ended December 31, 1998 from \$9.0 million for the year ended December 31, 1997. The increase was primarily caused by Japanese 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% in 1997 to 37.0% in 1998, 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 represents the ownership interest of NSI held by individuals who are not immediate family members. The minority interest was purchased as part of the NSI Acquisition on March 26, 1998.

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 primarily due 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.

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 operations in 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 and third quarters 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 these quarters. During the year ended December 31, 1999, the Company generated $30.3 million from operations compared to $118.6 million generated during the year ended December 31, 1998. This decrease in cash generated from operations is due in large part to reduced net income in 1999 compared to 1998 (excluding amortization of the NSI and Pharmanex acquisitions). In addition, due to the Company's 1999 operations and global tax planning, approximately $66.2 million of future tax assets and reduced tax liabilities have been generated as of December 31, 1999.

As of December 31, 1999, working capital was $74.6 million compared to $164.6 million as of December 31, 1998. This decrease is primarily due to the increase at December 31, 1999 in the current portion of long-term debt, reduced cash generated from operations in 1999, and cash payments and accrued payables relating to the Big Planet Acquisition. Cash and cash equivalents at December 31, 1999 and December 31, 1998 were $110.2 million and $188.8 million, respectively. The significant decrease in cash and cash equivalents at December 31, 1999 relates to the factors noted above that resulted in decreases in cash generated from operations in 1999. In addition, decreases in cash also related to $26.9 million in payments for repurchases of shares of the Company's Class A common stock and $25.0 million in payments during 1999 to stockholders in accordance with the terms of the NSI Acquisition.

Capital expenditures, primarily for equipment, computer systems and software, office furniture and leasehold improvements, were $29.7 million and $18.3 million for the years ended December 31, 1999 and 1998, respectively. In addition, the Company anticipates capital expenditures in 2000 of approximately $35.0 million to further enhance its infrastructure, including enhancements to computer systems and software and call-center facilities.

In March 1998, the Company completed the NSI Acquisition. Pursuant to the terms of the NSI Acquisition, NSI and the Company met earnings growth targets in 1998 resulting in a contingent payment to the stockholders of NSI (the "NSI Stockholders") of $25.0 million. The Company and NSI did not meet specific earnings growth targets for the year ended December 31, 1999. However, contingent upon NSI and the Company meeting earnings growth targets over the next two years, the Company may pay up to $75.0 million in cash over the next two years to the NSI Stockholders. The contingent consideration of $25.0 million earned in 1998 was paid in the second quarter of 1999 and has been accounted for as an adjustment to the purchase price and allocated to the assets and liabilities of the Acquired Entities. Any additional contingent consideration paid over the next two 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 (the "Credit Facility") with a syndicate of financial institutions for which ABN-AMRO, N.V. acted as agent. The Credit Facility was used to satisfy 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 and payments totaling $14.5 million were made during the first quarter of 1999 relating to the Credit Facility. As of December 31, 1999, the balance relating to the Credit Facility totaled $145.3 million of which approximately $55.9 million is due in 2000 and approximately $89.4 million is due in 2001. The U.S. portion of the Credit Facility bears interest at either a base rate as specified in the Credit Facility plus an applicable margin, or the London Inter-Bank Offer Rate plus an applicable margin, in the Company's discretion. The Japanese portion of the Credit Facility bears interest at the applicable Tokyo Inter-Bank Offer Rate plus an applicable margin. The maturity date of the Credit Facility is three years from the borrowing date, with a possible extension upon receipt of lender approval. The Credit Facility provides that the amounts borrowed are to be used for general corporate purposes. The Company is currently in compliance with all financial and other covenants under the Credit Facility except for a covenant requiring the Company to maintain a fixed charge coverage ratio of 3.0 times. The Company obtained a waiver of this default for the quarter ended December 31, 1999.

During 1999, the Company renewed a $10.0 million revolving credit agreement with ABN-AMRO, N.V. Advances are available under the agreement through May 18, 2000 with a possible extension upon approval of the lender. There were no outstanding balances under this credit facility at December 31, 1999.

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 and in July 1999, the board of directors authorized the Company to repurchase up to an additional $10.0 million of the Company's Class A common stock. The repurchases are used primarily to fund the Company's equity incentive plans. For the years ended December 31, 1999 and 1998, the Company had repurchased 1,364,218 shares and 917,254 shares for an aggregate price of approximately $17.1 million and $10.5 million, respectively. In addition, in March 1999, the board of directors separately authorized and the Company completed the purchase of approximately 700,000 shares of the Company's Class A common stock from Nu Skin USA and certain stockholders for approximately $10.0 million. In February 2000, the board of directors authorized the Company to repurchase up to an additional $10.0 million of the Company's Class A common stock.

As part of the Pharmanex Acquisition, the Company assumed approximately $34.0 million in liabilities and incurred acquisition costs totaling $1.3 million. The acquired net assets of $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 assumed liabilities.

In March 1999, NSI terminated its distribution license and various other license agreements and other intercompany agreements with Nu Skin USA and paid Nu Skin USA a $10.0 million termination fee. The Company also, through a newly formed wholly owned subsidiary, acquired selected assets of Nu Skin USA and assumed approximately $8.0 million of Nu Skin USA's liabilities in March 1999. In May 1999, the Company completed the acquisition of its private affiliates in Canada, Mexico, and Guatemala for approximately $2.0 million (inclusive of cash distributed by the acquired entities prior to closing) in cash and assumed net liabilities of approximately $4.0 million.

In July 1999, the Company completed the Big Planet Acquisition for an aggregate of approximately $29.2 million, of which approximately $14.6 million was paid in the form of a promissory note and approximately $14.6 million was paid in cash. In connection with the closing of the Big Planet Acquisition, the Company loaned Big Planet approximately $4.5 million to redeem the option holders and management stockholders of Big Planet. In addition, the Company loaned Big Planet approximately $10.3 million to fund Big Planet operations through the closing of the acquisition. Big Planet incurred operating losses of approximately $22.0 million in 1998, approximately $22.8 million from the period January 1, 1999 through July 12, 1999 and approximately $13.7 million from the period July 13, 1999 through December 31, 1999. The Company anticipates Big Planet will continue to incur operating losses for the next several years. Management believes that the Company's cash flows from current operations will be able to fund such Big Planet losses. Big Planet has agreed to purchase technology, Internet and telecommunications products, services and equipment from several suppliers. If Big Planet does not satisfy the terms of its commitments under these agreements, the total aggregate termination penalty could be approximately $24.7 million. The largest of these purchase commitments is for long distance telecommunications services. At the current level of long distance service provided to Big Planet customers and assuming reasonable growth, management believes that Big

Planet will be able to satisfy the majority of this purchase commitment. Big Planet is currently renegotiating the terms of this agreement.

The Company had related party payables of $15.1 million and $25.0 million at December 31, 1999 and 1998, respectively. In addition, the Company had related party receivables of $16.4 million and $22.3 million, respectively, at those dates. Related party balances outstanding in excess of 60 days beyond the date they become due and payable bear interest at a rate of 2% above the U.S. prime rate. As of December 31, 1999, no material related party payables or receivables had been outstanding for more than 60 days beyond the date they became due and payable.

The Company leases office space and computer hardware under noncancellable longterm operating leases. The Company had minimum future operating lease obligations at December 31, 1999 of $29.5 million and has minimum obligations for 2000 of $8.5 million.

Management considers the Company to be sufficiently liquid to be able to meet its obligations on both a short and longterm 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.

Seasonality

In addition to general economic factors, the direct selling industry is impacted by seasonal factors and 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 our 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.

Distributor Information

The following table provides information concerning the number of active and executive distributors as of the dates indicated.

		December 31, 1997		December 31, 1998		December 31, 1999[1]	
Region	As of	Active	Executive	Active	Executive	Active	Executive
North Asia		318,000	16,654	331,000	17,311	311,000	14,601
Southeast Asia		121,000	5,642	120,000	5,091	113,000	3,419
Other Markets		9,000	393	19,000	379	70,000	2,985
Totals		**448,000**	**22,689**	**470,000**	**22,781**	**494,000**	**21,005**

(1) The increase in the number of active and executive distributors is primarily due to the inclusion of distributors formerly licensed to Nu Skin USA.

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) 1998	1st Quarter	2nd Quarter	3rd Quarter	4th 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

(U.S. dollars in millions, except per share amounts) 1999	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenue	$ 233.8	$ 211.3	$ 220.1	$ 229.1
Gross profit	192.8	175.3	182.5	192.0
Operating income	47.1	32.4	30.4	19.9
Net income	30.8	22.0	21.1	12.8
Net income per share:				
Basic	0.35	0.25	0.25	0.15
Diluted	0.35	0.25	0.24	0.15

Currency Risk and Exchange Rate Information

A majority of the Company's revenue and many of the Company's 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 subsidiary'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 the Company's 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 the Company's 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 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, 1999, the primary currency for which the Company had net underlying foreign currency exchange rate exposure was the Japanese yen. Based on the Company's foreign exchange contracts at December 31, 1999 as discussed in Note 16 of the notes to the 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 US $1 into local currency for each of the Company's markets in which revenue exceeded US $5.0 million for at least one of the quarters listed:

Quarterly Exchange Rates

1997	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Japan	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

1998	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Japan	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

1999	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Japan	116.8	120.8	112.4	104.1
Taiwan	32.6	32.7	32.0	31.7
Hong Kong	7.8	7.8	7.8	7.8
South Korea	1,197.6	1,189.4	1,195.2	1,170.9

Outlook

Management's outlook for the year 2000 and beyond is contingent upon the success of its strategy of dividing the Company's historical business into three distinct divisions of products and opportunities: Nu Skin (personal care products), Pharmanex (nutritional products), and Big Planet (technology, Internet, and telecommunications products and services). Each of these divisions is supported by Nu Skin Enterprises' resources, expertise and knowledge of direct selling. During 1999, the divisional strategy was implemented or announced in major markets. While implementation caused some disruption in the distributor force, management believes that its strategy is beginning to generate signs of growth, particularly in the United States, where the strategy has been developing since mid-1998. Revenue growth in the year 2000 and for the next several years, will depend upon the successful execution of this strategy in the Company's international markets, particularly Japan, Taiwan, and South Korea. Management believes that this strategy, which was launched in Asia in late 1999 and early 2000, will take more time to develop.

Gross margins are anticipated to remain strong as the Company continues to focus on selling differentiated, high margin goods. As Big Planet becomes a more significant part of the Company's overall business, gross margins will decrease due to the lower margin goods and services provided by Big Planet. Distributor incentives are anticipated to continue at historical rates. Selling, general, and administrative costs are anticipated to slightly increase during 2000 from 1999 as the Company continues to spend on promotional and other initiatives to generate revenue growth. While the Company experienced reduced tax rates in 1999, management believes that its corporate tax rates will return to historical levels in the year 2000.

Note Regarding Forward-Looking Statements

With the exception of historical facts, the statements contained in this Annual Report and Management's Discussion and Analysis of Financial Condition and Results of Operations, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the"Reform Act") which reflect the Company's current expectations and beliefs regarding the future results of operations, performance, and achievements of the Company. These statements are subject to risks and uncertainties and are based upon assumptions and beliefs that may not materialize. These forward-looking statements include, but are not limited to, statements concerning: (1) the Company's belief that existing cash and cash flow from operations will be adequate to fund cash needs; (2) management's belief that the Company's divisional strategy is beginning to generate signs of growth particularly in the United States; (3) management's belief that the divisional strategy will take more time to develop; (4) management's anticipation that gross margins will remain strong, distributor incentives will generally continue at historical rates, selling, general and administrative expenses will be slightly higher in 2000, and that tax rates will return to historical levels; (5) the Company's plan to implement forward contracts and other hedging strategies to manage foreign currency risks; and (6) management's belief that Big Planet will be able to satisfy the majority of its purchase commitment and the related renegotiation. In addition, when used in this report, the words or phrases, "will likely result," "expects," "anticipates," "will continue," "intends," "plans," "believes," "the Company or management believes," and similar expressions are intended to help identify forward looking statements.

The Company wishes to caution readers that the risks and uncertainties set forth below, and the other risks and factors described herein and in the Company's other filings with the Securities and Exchange Commission (which contain a more detailed discussion of the risks and uncertainties related to the Company's business) could cause (and in some cases in the past have caused) the Company's actual results and outcomes to differ materially from those discussed or anticipated. The Company also wishes to advise readers that it is not obligated to update or revise these forward looking statements to reflect new events or circumstances. Important factors and risks that might cause actual results to differ from those anticipated include, but are not limited to, the factors described below.

(a) Management's ability to successfully integrate the business of Pharmanex and Big Planet with the Company's existing operations and shift to a product-based divisional structure, which is subject to risks including continued or renewed confusion or uncertainty among the Company's distributors which the Company believes has adversely affected the productivity of the Company's distributors during the last few quarters, and potential unforeseen expenses or difficulties in shifting to a divisional strategy;

(b) The risk that the improved fourth quarter results in the United States will not be sustained in future quarters and may not be indicative of the rollout of divisions in Japan or the future strength of the Company's divisional plans.

(c) The ability of the Company to retain its key and executive level distributors. The Company has experienced a reduction in the number of active and executive distributors. Because the Company's products are distributed exclusively through its distributors, the Company's divisional strategy and its operating results could be adversely affected if the Company's existing and new business opportunities and products do not generate sufficient economic incentive to retain its existing distributors or to sponsor new distributors, or if the Company receives adverse publicity;

(d) Because a substantial majority of the Company's sales are generated from the Asian region, particularly Japan and Taiwan, significant variations in operating results including revenue, gross margin and earnings from those expected could be caused by (i) renewed or sustained weakness of Asian economies or consumer confidence, or (ii) any weakening of foreign currencies, particularly the yen, which has recently strengthened significantly and helped offset the effects of the decline in local currency revenue in Japan, and the risk that the Company will not be able to favorably implement forward contracts and other hedging strategies to manage foreign currency risk.

(e) Adverse business or political conditions, continued competitive pressure, the maturity of the direct sales channel in certain of the Company's markets, adverse publicity, or changes in laws and regulations (including any increased government regulation of direct selling activities and products in existing and future markets such as the People's Republic of China's restrictions on direct selling or changes in U.S. or foreign tax regulations), unanticipated increases in expenses, the Company's reliance on outside manufacturers, and general business risks that could adversely affect the Company's ability to sell products and expand or maintain its existing distributor force or otherwise adversely affect its operating results; and

(f) Risks associated with the Company's new business opportunities, new product offerings and new markets, including: any legal or regulatory restrictions, particularly those applicable to nutritional products and the products and services offered by Big Planet, that might delay or prevent the Company from introducing such opportunities and products into all of its markets or limit the ability of the Company to effectively market such products, the risk that such opportunities and products will not gain market acceptance or meet the Company's expectations as a result of increased competition, any lack of market acceptance by consumers or the Company's distributors, and the risk that sales from such new business opportunities and product offerings could reduce sales of existing products and not generate significant incremental revenue growth.

Consolidated Balance Sheets

(U.S. dollars in thousands, except share amounts)	December 31, 1998	December 31, 1999
Assets		
Current assets		
Cash and cash equivalents	$ 188,827	$ 110,162
Accounts receivable	13,777	18,160
Related parties receivable	22,255	16,424
Inventories, net	79,463	85,751
Prepaid expenses and other	50,475	52,388
	354,797	282,885
Property and equipment, net	42,218	57,948
Other assets, net	209,418	302,382
Total assets	**$ 606,433**	**$ 643,215**
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 17,903	$ 22,685
Accrued expenses	132,723	114,691
Related parties payable	25,029	15,059
Current portion of long-term debt	14,545	55,889
	190,200	208,324
Long-term debt, less current portion	138,734	89,419
Other liabilities	22,857	36,093
Total liabilities	351,791	333,836
Commitments and contingencies (Notes 12 and 19)		
Stockholders' equity		
Preferred stock—25,000,000 shares authorized, $.001 par value, no shares issued and outstanding	—	—
Class A common stock—500,000,000 shares authorized, $.001 par value, 33,709,251 and 32,002,158 share issued and outstanding	34	32
Class B common stock—100,000,000 shares authorized, $.001 par value, 54,606,905 shares issued and outstanding	55	55
Additional paid-in capital	146,781	119,652
Accumulated other comprehensive income	(43,604)	(48,220)
Retained earnings	158,064	244,758
Deferred compensation	(6,688)	(6,898)
	254,642	309,379
Total liabilities and stockholders' equity	**$ 606,433**	**$ 643,215**

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, 1997	December 31, 1998	December 31, 1999
Revenue	**$ 953,422**	**$ 913,494**	**$ 894,249**
Cost of sales	191,218	188,457	151,681
Cost of sales—amortization of inventory step-up (Note 3)	—	21,600	—
Gross profit	**762,204**	**703,437**	**742,568**
Operating expenses:			
Distributor incentives	362,195	331,448	346,951
Selling, general and administrative	201,880	202,150	265,770
Distributor stock expense	17,909	—	—
In-process research and development (Note 4)	—	13,600	—
Total operating expenses	581,984	547,198	612,721
Operating income	**180,220**	**156,239**	**129,847**
Other income (expense), net	8,973	13,599	(1,411)
Income before provision for income taxes and minority interest	189,193	169,838	128,436
Provision for income taxes (Note 14)	55,707	62,840	41,742
Minority interest	14,993	3,081	—
Net income	**$ 118,493**	**$ 103,917**	**$ 86,694**
Net income per share (Note 2):			
Basic	$ 1.42	$ 1.22	$ 1.00
Diluted	1.36	1.19	0.99
Weighted average common shares outstanding (000s):			
Basic	83,331	84,894	87,081
Diluted	87,312	87,018	87,893
Unaudited pro forma data (Note 14):			
Income before pro forma provision for income taxes and minority interest	$ 189,193	$ 169,838	
Pro forma provision for income taxes	71,856	65,998	
Pro forma minority interest	9,299	1,947	
Pro forma net income	**$ 108,038**	**$ 101,893**	
Pro forma net income per share:			
Basic	$ 1.30	$ 1.20	
Diluted	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, except share amounts)	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, 1997	$ 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 1,416,000 shares of Class A common stock (Note 13)	—	(2)	—	(20,260)	—	—	—	(20,262)
Adjustment to distributor stock options (Note 13)	—	—	—	(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
Repurchase of 917,000 shares of Class A common stock (Note 13)	—	—	—	(10,549)	—	—	—	(10,549)
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
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 7)	—	—	—	(16,250)	—	—	—	(16,250)
Balance at December 31, 1998	**—**	**34**	**55**	**146,781**	**(43,604)**	**158,064**	**(6,688)**	**254,642**
Net income	—	—	—	—	—	86,694	—	86,694
Foreign currency translation adjustments	—	—	—	—	(4,616)	—	—	(4,616)
Total comprehensive income								82,078
Repurchase of 1,985,000 shares of Class A common stock (Note 13)	—	(2)	—	(26,860)	—	—	—	(26,862)
Amortization of deferred compensation	—	—	—	—	—	—	3,692	3,692
Termination of Nu Skin USA license fee (Note 5)	—	—	—	(6,444)	—	—	(650)	(7,094)
Issuance of employee stock awards and options	—	—	—	3,252	—	—	(3,252)	—
Exercise of distributor and employee stock options	—	—	—	2,923	—	—	—	2,923
Balance at December 31, 1999	**$ —**	**$ 32**	**$ 55**	**$ 119,652**	**$ (48,220)**	**$ 244,758**	**$ (6,898)**	**$ 309,379**

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, 1997	December 31, 1998	December 31, 1999
Cash flows from operating activities:			
Net income	$ 118,493	$ 103,917	$ 86,694
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,809	15,768	29,515
Amortization of deferred compensation	23,247	3,626	3,692
Amortization of inventory step-up	—	21,600	—
Write-off of in-process research and development	—	13,600	—
Income applicable to minority interest	14,993	3,081	—
Changes in operating assets and liabilities:			
Accounts receivable	(614)	(900)	(3,776)
Related parties receivable	(2,726)	1,215	(4,441)
Inventories, net	(10,206)	(3,556)	(2,133)
Prepaid expenses and other	(24,641)	(7,248)	1,033
Other assets	(23,161)	(4,100)	(57,169)
Accounts payable	3,336	(8,767)	4,068
Accrued expenses and other liabilities	31,058	(8,973)	(40,868)
Related parties payable	(29,986)	(10,703)	448
Other liabilities	—	—	13,236
Net cash provided by operating activities	108,602	118,560	30,299
Cash flows from investing activities:			
Purchase of property and equipment	(14,389)	(18,320)	(29,719)
Purchase of Big Planet, net of cash acquired (Note 6)	—	—	(13,571)
Purchase of Pharmanex, net of cash acquired (Note 4)	—	(28,750)	—
Payments for lease deposits	(3,457)	(633)	(2,206)
Receipt of refundable lease deposits	120	1,650	1,508
Net cash used in investing activities	(17,726)	(46,053)	(43,988)
Cash flows from financing activities:			
Payments on long-term debt	—	(41,634)	(14,545)
Termination of Nu Skin USA license fee (Note 5)	—	—	(10,000)
Payment to stockholders under the NSI Acquisition	—	—	(25,000)
Proceeds from capital contributions	11,358	—	—
Proceeds from long-term debt	—	181,538	—
Dividends paid	(30,468)	—	—
Repurchase of shares of common stock	(20,262)	(10,549)	(26,862)
Exercise of distributor and employee stock options	—	1,961	2,923
Payment to stockholders for notes payable (Note 7)	(71,487)	(180,000)	—
Net cash used in financing activities	(110,859)	(48,684)	(73,484)
Effect of exchange rate changes on cash	(20,540)	(9,296)	8,508
Net increase (decrease) in cash and cash equivalents	(40,523)	14,527	(78,665)
Cash and cash equivalents, beginning of period	214,823	174,300	188,827
Cash and cash equivalents, end of period	$ 174,300	$ 188,827	$ 110,162

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

Note 1. The Company

Nu Skin Enterprises, Inc. (the "Company") is a leading, global direct selling company that develops and distributes premium-quality, innovative personal care and nutritional products and technology, Internet and telecommunications products and services. 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 People's Republic of China, the Philippines, Australia, and New Zealand; and Other Markets, which consists of the United Kingdom, Austria, Belgium, Denmark, France, Germany, Iceland, Italy, Ireland, Luxemburg, Norway, Poland, Portugal, Spain, Sweden, the Netherlands, Brazil, Canada, Mexico, Guatemala and the United States (the Company's subsidiaries operating in these countries are collectively referred to as the "Subsidiaries").

As discussed in Note 3, the Company completed the NSI Acquisition on March 26, 1998. Prior to the NSI Acquisition, each of the acquired entities elected to be treated as an S corporation.

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 5, on March 8, 1999, Nu Skin International, Inc. ("NSI"), a subsidiary of the Company, terminated its distribution license and various other license agreements and other intercompany agreements with Nu Skin USA, Inc. ("Nu Skin USA"). Also, in March 1999, through a newly formed, wholly owned subsidiary, the Company acquired selected assets of Nu Skin USA. In May 1999, the Company acquired Nu Skin Canada, Inc., Nu Skin Mexico, Inc. and Nu Skin Guatemala, Inc. (collectively, the "North American Affiliates").

As discussed in Note 6, the Company completed the Big Planet Acquisition on July 13, 1999, which enabled the Company to provide marketing and distribution of technology, Internet and telecommunications products and services.

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 $13,500,000, $13,600,000 and $7,200,000 as of December 31, 1997, 1998, and 1999, 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), the Pharmanex Acquisition

(Note 4) and the Big Planet Acquisition (Note 6). 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 through its Pharmanex division. 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 The Company computes earnings per share under 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. 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.

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 13).

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 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 did 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 requires costs of start-up activities and organization costs to be expensed as incurred. The Company has adopted SOP 98-5 for calendar year 1999. The adoption of SOP 98-5 did 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, 2000. The Company will adopt SFAS 133 by January 1, 2001. The Company is currently evaluating the impact the adoption of SFAS 133 will have on its consolidated financial statements.

Note 3. Acquisition of NSI and Certain Affiliates

On March 26, 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 agreed to pay up to $100.0 million in cash during the subsequent four year period to the NSI Stockholders. Also, as part of 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 (the "S Distribution Notes"). The S Distribution Notes assumed as part of the NSI Acquisition totaled approximately $171.3 million and, in addition, the Company 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 and $2.6 million during 1998 and 1999, respectively.

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 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 2,978,159 shares of Class A common stock.

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 13). Contingent upon Pharmanex meeting specific revenue and other requirements, approximately 565,000 of the 4.0 million shares were held in escrow to be returned to the Company if such requirements were not met within one year from the date of the Pharmanex Acquisition. Approximately 130,959 shares were returned to the Company following the first year anniversary. The Company entered into a mutual release of claims and modifications agreement which was accepted by former stockholders of Generation Health Holdings, Inc. holding approximately 88% of the consideration received pursuant to which the Company agreed to release 134,038 shares from escrow and agreed to extend the period in which Pharmanex could meet specific revenue requirements. 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 purchase 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 and $6.9 million during 1998 and 1999, respectively. The Company recorded amortization of inventory step up of $0.4 million and $3.3 million during 1998 and 1999, respectively.

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. Acquisition of Certain Assets of Nu Skin USA, Inc.

On March 8, 1999, NSI terminated its distribution license and various other license agreements and other intercompany agreements with Nu Skin USA, Inc. ("Nu Skin USA") and paid Nu Skin USA a $10.0 million termination fee. Also, on that same date, through a newly formed wholly-owned subsidiary, the Company acquired selected assets of Nu Skin USA and assumed approximately $8.0 million of Nu Skin USA liabilities.

The acquisition of the selected assets and assumption of liabilities and the termination of these agreements has been recorded for the consideration paid, except for the portion of Nu Skin USA which is under common control of a group of stockholders, which portion has been recorded at predecessor basis.

Note 6. Acquisition of Big Planet, Inc.

On July 13, 1999, the Company completed the acquisition of Big Planet, Inc. ("Big Planet") for $29.2 million, which consisted of a cash payment of $14.6 million and a note payable of $14.6 million (the "Big Planet Acquisition"). In addition, the Company loaned approximately $4.5 million in connection with the closing to redeem the option holders and certain management stockholders of Big Planet.

The Big Planet Acquisition was accounted for by the purchase method of accounting. The Company recorded intangible assets of $47.0 million which will be amortized over a period of 20 years. During 1999, the Company recorded amortization on the intangible assets relating to the Big Planet Acquisition of $1.1 million. Big Planet incurred operating losses of approximately $22.0 million in 1998 and approximately $22.8 million from the period January 1, 1999 through July 12, 1999.

Big Planet has agreed to purchase technology, Internet, and telecommunications products, services, and equipment from several suppliers. If Big Planet does not satisfy the terms of its commitments under these agreements, the total aggregate termination penalty could be approximately $24.7 million. The largest of these purchase commitments is for long distance telecommunications services. At the current level of long distance service provided to Big Planet customers and assuming reasonable growth, management believes that Big Planet will be able to satisfy the majority of this purchase commitment. Big Planet is currently renegotiating the terms of this agreement.

Note 7. Related Party Transactions

Scope of related party activity Prior to the acquisition of certain assets of Nu Skin USA (see Note 5) and the acquisition of the North American Affiliates in 1999, the Company had transactions with these affiliated entities. The transactions with these entities were as follows: (1) the Company sold products and marketing materials; (2) the Company collected trademark royalty fees from these entities on products bearing NSI trademarks that are not purchased from NSI; (3) the Company entered into a distribution agreement with each independent distributor; (4) the Company collected license fees from these entities 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 were remitted to the Company, which then forwarded these commissions to the distributors and (6) the Company collected fees for management and support services provided to these entities.

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 were determined pursuant to the Wholesale Distribution Agreements between the Company and these affiliated entities. Trademark royalty fees and license fees were charged pursuant to the Trademark/Trade name 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 were 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 were billed to the affiliated entities pursuant to the Management Services Agreement between the Company and the affiliated entities and consisted of all direct expenses incurred by the Company and indirect expenses allocated to the affiliated entities based on the entities' net sales. The sales revenue, royalties, licenses and management fees charged to the affiliated entities were recorded as revenue in the consolidated statements of income and totaled $53,135,000, $72,691,000, and $13,610,000 for the years ended December 31, 1997, 1998, and 1999, respectively.

Notes payable to stockholders The aggregate undistributed taxable S corporation earnings of the initial companies that were reorganized to form the Company (the "Reorganization") were $86.5 million. These earnings were distributed prior to the Reorganization in the form of promissory notes bearing interest at 6.0% per annum. From proceeds from the initial public offerings (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 in 1998.

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 $1,100,000, $800,000, and $2,048,000 for the years ended December 31, 1997, 1998, and 1999, respectively. The increase in the 1999 commissions paid to this partnership reflects the amounts paid relating to sales in 1999 within the North American countries and Big Planet, which were not included in the amounts in 1997 and 1998.

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 balance, including accrued interest, totaled $5.3 million and $5.6 million at December 31, 1998 and 1999, 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 a payment of $25.0 million of contingent consideration to the NSI Stockholders on April 1, 1999. The Company and NSI did not meet specific earnings growth targets for the year ended December 31, 1999. However, contingent upon NSI and the Company meeting specific earnings growth targets, the Company may pay up to $75.0 million in cash over the next two years to the NSI Stockholders.

Lease agreements The Company leases corporate office and warehouse space from two affiliated entities. Total lease payments to these two affiliated entities were $2.8 million, $3.0 million and $2.8 million for the years ended December 31, 1997, 1998, and 1999 respectively.

Note 8. Property and Equipment

Property and equipment are comprised of the following (U.S. dollars in thousands):	December 31, 1998	December 31, 1999
Furniture and fixtures	$ 30,997	$ 33,598
Computers and equipment	44,267	64,588
Leasehold improvements	13,874	25,057
Vehicles	1,153	1,414
	90,291	124,657
Less: accumulated depreciation	(48,073)	(66,709)
	$ 42,218	**$ 57,948**

Depreciation of property and equipment totaled $8,060,000, $11,543,000, and $14,148,000 for the years ended December 31, 1997, 1998, and 1999, respectively.

Note 9. Other Assets

Other assets consist of the following (U.S. dollars in thousands):	December 31, 1998	December 31, 1999
Goodwill and intangibles	$ 147,246	$ 198,450
Deposits for noncancelable operating leases	10,282	10,179
Distribution rights	8,750	8,687
Deferred taxes	42,747	86,341
Other	6,023	15,749
	215,048	319,406
Less: accumulated amortization	(5,630)	(17,024)
	$ 209,418	**$ 302,382**

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 $311,000, $3,248,000, and $14,929,000 for the years ended December 31, 1997, 1998, and 1999, 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 $438,000 for each of the years ended December 31, 1997, 1998, and 1999.

Note 10. Accrued Expenses

Accrued expenses consist of the following (U.S. dollars in thousands):	December 31, 1998	December 31, 1999
Income taxes payable	$ 40,726	$ 18,121
Accrued commission payments to distributors	36,431	39,857
Other taxes payable	11,646	9,385
Other accruals	43,920	47,328
	$ 132,723	**$ 114,691**

Note 11. Long-Term Debt

On May 8, 1998, the Company and its Japanese subsidiary Nu Skin Japan Co., Ltd. (“Nu Skin Japan”) 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 borrowed the Japanese yen equivalent of $70.0 million denominated in local currency. The outstanding balance on the credit facility was $153.3 million and $145.3 million at December 31, 1998, and 1999, respectively.

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 Company’s discretion. The Japanese portion of the credit facility bears interest at the applicable 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 and $5.7 million for the years ended December 31, 1998 and 1999, respectively.

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 and 1999, the Company has continued to comply with all financial covenants under the credit facility except for a covenant requiring the Company to maintain a fixed charge coverage ratio of 3.0 times. The Company obtained a waiver of this default for the quarter ended December 31, 1999.

During 1999, the Company renewed a $10.0 million revolving credit agreement with ABN-AMRO, N.V. Advances are available under the agreement through May 18, 2000, with a possible extension upon approval of the lender. There were no outstanding balances under this credit facility at December 31, 1999.

Maturities of long-term debt at December 31, 1999 are as follows (U.S. dollars in thousands):

Year ending December 31,	
2000	$ 55,889
2001	89,419
Total	**$ 145,308**

Note 12. 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, 1999 are as follows (U.S. dollars in thousands):

Year ending December 31,	
2000	$ 8,488
2001	8,016
2002	5,943
2003	3,755
2004	3,324
Total minimum lease payments	**$ 29,526**

Rental expense for operating leases totaled $15,518,000, $15,969,000, and $18,354,000 for the years ended December 31, 1997, 1998, and 1999, respectively.

Note 13. 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, 1999, 636,818 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 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 $6,251,000 and $6,122,000 as of December 31, 1998 and 1999, 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 the Subsidiaries held by them for issuance to employees of the Company and the Subsidiaries 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.

In November 1996, the Company and the Subsidiaries granted 617,335 shares to certain employees. The Company recorded deferred compensation expense related to these stock awards and is recognizing such expense ratably over the vesting period. The deferred compensation relating to these stock awards totaled $5,137,000 as of December 31, 1999. Additionally, as of December 31, 1999, 418,732 stock awards had vested and 66,049 of the stock awards had 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, 1999, 110,057 of the stock awards had vested and 43,179 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, 1999, 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, 1999, 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, 1999, none of these 1,080,000 stock options had been exercised.

During 1999, the Company granted options to purchase 1,071,200 shares of Class A common stock to certain employees, directors and members of the Pharmanex scientific advisory board pursuant to the second amended and restated 1996 Stock Incentive Plan. Of the 1,071,200 options granted, 971,200 vest ratably over a period of four years and expire ten years from the date of grant, 80,000 vest ratably over a period of five years and expire ten years from the date of grant, while the remaining 20,000 vest one year from the date of grant and expire ten years or six months after termination from service as a director. Of the 1,071,200 options granted, the exercise prices range from $11.00 per share to $20.80 per share. As of December 31, 1999, none of the 1,071,200 stock options had been exercised. In addition, during 1999, the Company granted stock awards to certain employees for an aggregate of 166,210 shares of Class A common stock. The Company has recorded deferred compensation expense of $3,251,000 related to these stock awards and is recognizing such expense ratably over the vesting period. As of December 31, 1999, none of the stock awards had vested and none of the stock awards had been forfeited.

Additionally in 1999, the Company granted options to purchase 820,000 shares of Class A common stock to certain employees pursuant to the 1996 Stock Incentive Plan. All of the 820,000 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, 2002. The exercise price of the options was set at $20.80 per share. No compensation expense has been recorded related to these options. As of December 31, 1999, none of these 820,000 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, 1999, 167,672 of these 261,008 stock options had been exercised.

SFAS 123 pro forma disclosures The Company's pro forma net income would have been $103,023,000 and $84,456,000 for the years ended December 31, 1998 and 1999, 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, 1998 would have been $1.21 and $1.18, respectively, 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, 1999 would have been $0.97 had compensation expense been measured under the fair value method. 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%.

The fair values of the options granted during 1999 ranged from $8.18 to $12.12 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 6.75%; expected life of 4 years; expected volatility of 80%; 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, 1997	December 31, 1998	December 31, 1999
Basic weighted average common share outstanding	83,331	84,894	87,081
Effect of dilutive securities:			
Stock awards and options	3,981	2,124	812
Diluted weighted average common shares outstanding	87,312	87,018	87,893

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 and in July 1999, the board of directors authorized the Company to repurchase up to an additional $10.0 million of the Company's Class A common stock. For the years ended December 31, 1999 and 1998, the Company had repurchased 1,364,218 shares and 917,254 shares for an aggregate price of approximately $17.1 million and $10.5 million, respectively. In addition, in March 1999, the board of directors separately authorized and the Company completed the purchase of approximately 700,000 shares of the Company's Class A common stock from Nu Skin USA and certain stockholders for approximately $10.0 million as part of the asset purchase agreement (Note 5).

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 14. 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, 1997, 1998 and 1999 consists of the following:

(U.S. dollars in thousands)	1997	1998	1999
Current			
Federal	$ 3,332	$ 3,695	$ 3,030
State	124	3,580	3,030
Foreign	76,553	72,317	56,165
	80,009	79,592	62,225
Deferred			
Federal	(24,317)	(10,712)	(19,008)
State	(30)	(48)	(215)
Foreign	45	947	(1,260)
Change in tax status	—	(6,939)	—
Provision for income taxes	**$ 55,707**	**$ 62,840**	**$ 41,742**

Prior to the Company's Reorganization and the NSI Acquisition described in Notes 3 and 7, 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, 1998	December 31, 1999
Deferred tax assets:		
Inventory differences	$ 7,349	$ 12,224
Foreign tax credit	33,969	40,503
Distributor stock options and employee stock awards	6,020	5,261
Capitalized legal and professional	5,990	2,570
Accrued expenses not deductible until paid	7,990	12,632
Withholding tax	7,291	8,897
Minimum tax credit	869	10,264
Net operating losses	12,621	11,017
Total deferred tax assets	**82,099**	**103,368**
Deferred tax liabilities:		
Foreign deferred tax	8,871	11,657
Exchange gains and losses	3,032	3,566
NSI inventory step-up	11,176	—
Pharmanex intangibles step-up	11,445	21,116
Other	1,520	4,067
Total deferred tax liabilities	**36,044**	**40,406**
Valuation allowance	(12,166)	—
Deferred taxes, net	**$ 33,889**	**$ 62,962**

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, 1997 and 1998 and the actual tax rate for the year ended December 31, 1999 compared to the statutory U.S. Federal tax rate is as follows:

Year ended	December 31, 1997	December 31, 1998	December 31, 1999
Income taxes at statutory rate	35.00%	35.00%	35.00%
Foreign tax credit limitation (benefit)	2.41	4.40	(7.77)
Cumulative effect of change in tax status	—	(4.09)	—
Pharmanex in-process research and development	—	2.80	—
Non-deductible expenses	.15	.83	1.72
Branch remittance gains and losses	(.48)	(1.38)	3.78
Other	.90	(.56)	(.23)
	37.98%	**37.00%**	**32.50%**

Note 15. 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 $647,000, $829,000, and $910,000 for the years ended December 31, 1997, 1998, and 1999, respectively.

Note 16 Derivative Financial Instruments

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, 1998 and 1999, the Company held foreign currency forward contracts with notional amounts totaling approximately $46.3 million and $31.1 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, and the net loss on foreign currency forward contracts was $0.3 million for the year ended December 31, 1999. These contracts at December 31, 1999 have maturities through August 2000.

At December 31, 1998 and 1999, the intercompany loan from Nu Skin Japan to Nu Skin Hong Kong, Inc. totaled approximately $57.3 million and $44.1 million, respectively. The Company recorded exchange gains totaling $2.2 million and $0.4 million resulting from this intercompany loan for the years ended December 31, 1998 and 1999, respectively.

At December 31, 1998 and 1999, the intercompany loan from Nu Skin Japan to the Company totaled approximately $82.0 million and $91.1 million, respectively. The Company recorded exchange gains totaling $2.8 million resulting from this intercompany loan for the year ended December 31, 1998. There were no exchange gains or losses resulting from this intercompany loan for the year ended December 31, 1999.

Note 17. Supplemental Cash Flow Information

Cash paid for interest totaled $251,000, $3,731,000, and $5,714,000 for the years ended December 31, 1997, 1998 and 1999, respectively. Cash paid for income taxes totaled $73,905,000, $77,271,000, and $76,596,000 for the years ended December 31, 1997, 1998, and 1999, respectively.

Noncash investing and financing activities
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 7); (2) adjustment to the distributor stock options to reallocate 120,000 options initially allocated to affiliated entities and a related reduction in the notes receivable of $3.2 million (Note 13).

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 3); (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 7); (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).

For the year ended December 31, 1999, noncash investing and financing activities included the purchase of Big Planet for $29.2 million of which $14.6 million consisted of a note payable (Note 6).

Note 18. 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,	1997	1998	1999
North Asia	$ 673,582	$ 665,523	$ 619,283
Southeast Asia	412,524	320,606	265,604
Other Markets	314,048	294,947	337,590
Eliminations	(446,732)	(367,582)	(328,228)
Totals	**$ 953,422**	**$ 913,494**	**$ 894,249**

Operating income Year ended December 31,	1997	1998	1999
North Asia	$ 117,302	$ 89,075	$ 84,396
Southeast Asia	46,195	19,385	31,922
Other Markets	19,684	46,994	5,533
Eliminations	(2,961)	785	7,996
Totals	**$ 180,220**	**$ 156,239**	**$ 129,847**

Total assets As of December 31,	1998	1999
North Asia	$ 167,867	$ 116,918
Southeast Asia	110,518	111,204
Other Markets	500,299	520,832
Eliminations	(172,251)	(105,739)
Totals	**$ 606,433**	**$ 643,215**

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

Revenue Revenue from the Company's operations in Japan totaled $599,375, $654,168, and $602,411 for the years ended December 31, 1997, 1998, and 1999. Revenue from the Company's operations in Taiwan totaled $168,568, $119,511 and $103,581 for the years ended December 31, 1997, 1998 and 1999, respectively. Revenue from the Company's operations in the United States (which includes intercompany revenue) totaled $301,217, $280,115, and $316,128 for the years ended December 31, 1997, 1998, and 1999, respectively.

Long-lived assets Long-lived assets in Japan were $20,242 and $29,314 as of December 31, 1998 and 1999, respectively. Long-lived assets in Taiwan were $2,466 and $3,381 as of December 31, 1998 and 1999, respectively. Long-lived assets in the United States were $213,856 and $310,255 as of December 31, 1998 and 1999, respectively.

Note 19. 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. 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 20. Subsequent Events

In January 2000, a derivative lawsuit was filed against the Company's board of directors alleging a breach of fiduciary duty and self-dealing in connection with the NSI Acquisition, the Nu Skin USA transaction, and the Big Planet Acquisition. The Company's board of directors has appointed a special litigation committee to investigate the validity of the complaint.

Report of Independent Accountants

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

In our opinion, based on our audits and the report of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Nu Skin Enterprises, Inc. and its subsidiaries at December 31, 1998 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. 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 revenue of $308.9 million for the year ended December 31, 1997. 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 auditing standards generally accepted in the United States, 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
March 3, 2000

Additional Information

The Securities and Exchange Commission requires the Company to provide you with certain additional information as part of this Annual Report, including information on the market for the Company's Class A common stock and certain information concerning the Company's sales. The following information is being provided pursuant to such requirements.

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 Company's Class B common stock has no established trading market. 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 1998 and 1999 based upon quotations on the NYSE.

Quarter Ended	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
Quarter Ended	**High**	**Low**
March 31, 1999	$ 25.25	$ 17.75
June 30, 1999	22.88	15.50
September 30, 1999	22.00	10.69
December 31, 1999	14.63	8.50

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 6, 2000 was $9.3125. The approximate number of holders of record of the Company's Class A common stock and Class B common stock as of March 6, 2000 was 997 and 69, respectively. This number of record holders 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 or Class B common stock. 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.

Foreign and Domestic Sales

Information on the Company's foreign and domestic sales is contained in Note 18 to the Financial Statements.

Sales by Product Class

The following table sets forth the percentage of sales for each of the last three years for the two classes of similar products (personal care and related products and nutritional supplements and related products) that accounted for more than 10% of sales during 1999.

Class of Product	Year Ended December 31,	1997	1998	1999
Personal Care		67.0%	61.4%	56.3%
Nutritional Supplements		33.0	38.6	42.4

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

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

E. J. "Jake" Garn
United States Senate, Retired
Vice Chairman,
Huntsman Corporation
Managing Director,
Summit Ventures
Audit Committee
Compensation Committee

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

Max L. Pinegar
Senior Vice President

Brooke B. Roney
Senior Vice President

Andrew D. Lipman
Vice Chairman
Swidler Berlin Shereff Friedman
Audit Committee
Compensation Committee

Executive Management

Steven J. Lund
President and
Chief Executive Officer

Corey B. Lindley, C.P.A.
Executive Vice President and
Chief Financial Officer

M. Truman Hunt
Executive Vice President and
General Counsel

William E. McGlashan Jr.
Executive Vice President and
President, Pharmanex

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

John Chou
President,
Nu Skin Taiwan, Inc.

Grant F. Pace
President, Nu Skin

Richard W. King
Chief Information Officer and
President, Big Planet

Corporate Information

Annual Meeting
Nu Skin Enterprises' annual stockholder meeting will be held at 4 p.m. on May 11, 2000, at:
Nu Skin Plaza
75 West Center Street
Provo, Utah 84601

Independent Accountants
The Company is audited by
PricewaterhouseCoopers LLP
36 South State Street, Suite 1700
Salt Lake City, Utah 84111
Telephone: (801) 531-9666

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

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, New York 10005
Telephone: 1-800-937-5449

Corporate Headquarters
Nu Skin Enterprises, Inc.
75 West Center Street
Provo, Utah 84601
Telephone (801) 345-6100
www.nuskinenterprises.com

Division Web Sites
www.nuskin.com, www.pharmanex.com, www.bigplanet.com

Additional Stockholder Information

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

Nu Skin Information Line: 1-888-880-6727

News releases and media information can be found at Automated Fax: 1-800-758-5804, ext. 119638 and the Internet: *www.prnewswire.com* (company information is generally posted within one hour of its release and stored for 12 months).

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

For company history and up-to-date information, see the Nu Skin Enterprises corporate home page at *www.nuskinenterprises.com*.

Certain portions of the text of this annual report are "forward-looking statements" and are based on management's current expectations and assessments of risks and uncertainties. The risks and uncertainties may include those factors discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations under the heading "Note Regarding Forward Looking Statements" and in the Company's Form 10-K filed with the Securities and Exchange Commission.

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