

SECURITIES AND EXCHANGE COMMISSION  
 Washington, D.C. 20549  
 FORM 10-K

- Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 1999 or
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

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 NU SKIN ENTERPRISES, INC.  
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(Exact name of registrant as specified in its charter)

Delaware	001-12421	87-0565309
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(State or other jurisdiction of incorporation)	(Commission File No.)	(IRS Employer Identification No.)

75 West Center Street  
 Provo, Utah 84601

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 (Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (801) 345-6100

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
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Class A Common Stock, \$.001 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

Based on the closing sales price of the Class A Common Stock on the New York Stock Exchange on March 10, 2000, the aggregate market value of the voting stock (Class A and Class B Common Stock) held by non-affiliates of the Registrant was \$304,050,000. For purposes of this calculation, voting stock held by officers, directors, and stockholders holding more than 10% of the voting stock has been excluded.

As of March 10, 2000, 32,003,086 shares of the Registrant's Class A Common Stock, \$.001 par value per share, and 54,606,905 shares of the Registrant's Class B Common Stock, \$.001 par value per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE. Portions of the Registrant's 1999 Annual Report to Stockholders to be furnished to the stockholders of the Registrant pursuant to Rule 14a-3(b) in connection with Registrant's 2000 Annual Meeting of Stockholders are attached hereto as Exhibit 13 and are incorporated herein by reference into Parts II and IV of this Form. Portions of the Registrant's definitive Proxy Statement for the Registrant's 2000 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the Registrant's fiscal year end are incorporated by reference in Part III of this report.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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TABLE OF CONTENTS

PART I .....	1
ITEM 1. Business .....	1
General .....	1
Operating Divisions .....	2
Nu Skin .....	2
Pharmanex .....	4
Big Planet .....	8
Regional Profiles .....	10
Distribution System .....	11
Competition .....	16
Intellectual Property .....	17
Government Regulation .....	17
Employees .....	21
Risk Factors .....	21
ITEM 2. Properties .....	28
ITEM 3. Legal Proceedings .....	28
ITEM 4. Submission of Matters to a Vote of Security Holders .....	29
PART II .....	31

ITEM 5.	Market for Registrant's Common Equity and Related Stockholder Matters .....	31
ITEM 6.	Selected Financial Data .....	31
ITEM 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations .....	31
ITEM 7A.	Quantitative and Qualitative Disclosures About Market Risk ...	31
ITEM 8.	Financial Statements and Supplementary Data .....	31
ITEM 9.	Changes In and Disagreements With Accountants on Accounting and Financial Disclosure .....	31
PART III	.....	31
PART IV	.....	31
ITEM 14.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K .....	31
Signatures	.....	44

## FORWARD LOOKING STATEMENTS

THIS ANNUAL REPORT ON FORM 10-K, IN PARTICULAR "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" AND "ITEM 1. BUSINESS," INCLUDE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THESE STATEMENTS REPRESENT THE COMPANY'S EXPECTATIONS OR BELIEFS CONCERNING, AMONG OTHER THINGS, FUTURE REVENUE, EARNINGS, AND OTHER FINANCIAL RESULTS, NEW PRODUCTS, FUTURE OPERATIONS AND OPERATING RESULTS, AND FUTURE BUSINESS AND MARKET OPPORTUNITIES. THE COMPANY WISHES TO CAUTION AND ADVISE READERS THAT THESE STATEMENTS INVOLVE RISK AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THE EXPECTATIONS AND BELIEFS CONTAINED HEREIN. FOR A SUMMARY OF CERTAIN RISKS RELATED TO THE COMPANY'S BUSINESS, SEE "ITEM 1. BUSINESS -- RISK FACTORS" BEGINNING ON PAGE 22.

UNLESS THE CONTEXT REQUIRES OTHERWISE, REFERENCES TO THE COMPANY ARE TO NU SKIN ENTERPRISES, INC. AND ITS SUBSIDIARIES. IN THIS ANNUAL REPORT ON FORM 10-K, REFERENCES TO "DOLLARS" AND "\$" ARE TO UNITED STATES DOLLARS. NU SKIN, PHARMANEX, INTERIOR DESIGN NUTRITIONALS, "6S QUALITY PROCESS", BIG PLANET AND IDN ARE TRADEMARKS OF THE COMPANY. THE ITALICIZED PRODUCT NAMES USED IN THIS ANNUAL REPORT ON FORM 10-K ARE PRODUCT NAMES AND ALSO, IN CERTAIN CASES, TRADEMARKS OF THE COMPANY. "IPHONE" IS A TRADEMARK OF INFOGEAR TECHNOLOGY CORPORATION.

## PART I

### ITEM 1. BUSINESS

#### GENERAL

Nu Skin Enterprises ("Nu Skin Enterprises" or the "Company") is a leading, global direct selling company that develops and distributes premium-quality, innovative personal care and nutritional products. The Company also markets and distributes technology, Internet and telecommunications services and products. Nu Skin Enterprises is one of the largest direct selling companies in the world and currently operates in 31 countries throughout Asia, North and South America and Europe. The Company distributes its products exclusively through a network marketing system. The Company currently has a network of approximately 500,000 active distributors located throughout its markets that purchase products for resale to consumers and for personal consumption.

In March 1999, the Company terminated its exclusive license and distribution agreements with the Company's privately owned affiliate, Nu Skin USA, Inc., and commenced operations in the United States through a new wholly owned subsidiary. In May 1999, the Company acquired its other privately owned affiliates operating in Canada, Mexico and Guatemala. As a result of these transactions, the Company now owns all of the Nu Skin entities operating everywhere in the world and the right to expand into all future markets. In July 1999, the Company completed the acquisition of Big Planet, Inc., a privately owned direct selling affiliate engaged in the marketing and distribution of technology, Internet and telecommunications services and products. In connection with these transactions and the acquisition of Pharmanex, Inc., a developer and distributor of nutritional supplements, in October 1998, the Company began transitioning from managing its business based on a geographic model to managing its business based on product lines. Each of the Company's product-based divisions offers a distinct business opportunity for the Company's distributors. Each division is also managed and directed by a distinct management team. The Company first implemented its divisional strategy in the United States in early 1999 and currently has three operating divisions there. The Company has subsequently introduced its divisional strategy into certain Asian markets by launching the Pharmanex business opportunity through its Pharmanex division, most recently in Japan in February 2000.

OPERATING DIVISIONS

Nu Skin Enterprises currently has three operating divisions: Nu Skin, which offers personal care products; Pharmanex, which offers nutritional supplements; and Big Planet, which offers technology, Internet and telecommunications products and services. Presented below are the dollar amount and percentage of revenue from the sale of Nu Skin products, Pharmanex products and Big Planet products and services for each of the years ended December 31, 1997, 1998 and 1999. This table should be read together with the information presented in "Management's Discussion and Analysis of Financial Condition and Results of Operations," contained in the Company's 1999 Annual Report to Stockholders, which is incorporated by reference into this Form 10-K and which discusses the costs associated with generating the aggregate revenue presented.

Revenue by Product Category  
(Dollar Amounts in Thousands)

Product Category	Year Ended December 31, 1997		Year Ended December 31, 1998		Year Ended December 31, 1999	
	\$	%	\$	%	\$	%
Nu Skin	\$ 638,956	67.0%	\$ 560,976	61.4%	\$ 503,570	56.3%
Pharmanex (1)	314,466	33.0	352,518	38.6	379,241	42.4
Big Planet (2)	--	--	--	--	11,438	1.3
<b>Total</b>	<b>\$ 953,422</b>	<b>100.0%</b>	<b>\$ 913,494</b>	<b>100.0%</b>	<b>\$ 894,249</b>	<b>100.0%</b>

(1) The Company acquired Pharmanex in October 1998 and formally launched its products in the United States and other markets in 1999. Accordingly, the nutritional supplement revenue reflected in this table for 1997 and 1998 is primarily from sales of the Company's IDN nutritional supplement line, which constituted the Company's nutritional product offering prior to the Pharmanex acquisition.

(2) The Company acquired Big Planet in July 1999. Accordingly, the table above only reflects revenue for the period during which the Company owned Big Planet (i.e., July 17, 1999 to December 31, 1999). Big Planet's revenue for the year ended December 31, 1998 was \$14.7 million and its revenue for the year ended December 31, 1999 was \$21.8 million.

NU SKIN

OVERVIEW. Nu Skin is the Company's original product line and business opportunity and currently consists of premium-quality lines of over 100 personal care products. Nu Skin's strategy is to distribute high quality personal care products and treatments that utilize advanced, innovative formulas. For example, Nu Skin was one of the first companies to market topical applications of various vitamins including Vitamins A, C and E. Other examples include the NU SKIN 180 ANTI-AGING SKIN THERAPY system, a scientifically advanced skin care system designed to fight the signs of aging, and TRUFACE, an innovative skin treatment using a liquid crystal retinol delivery system. In 1999, Nu Skin entered into a nine-year contract with Stanford University for directed research on skin care products and established the Nu Skin Center for Dermatological Research at Stanford University's School of Medicine. Nu Skin seeks to take advantage of its educated distributor force to provide consumers with a high level of information and instruction about its products and guidelines for using them effectively.

NU SKIN PRODUCTS. Nu Skin's current personal care products are divided into the following lines: face care, body care, hair care, color cosmetics, sun protection, oral hygiene, fragrance, and specialty products. Nu Skin offers products individually and in product sets that include a variety of products in each product line. The

product sets are especially popular during the opening phase of a new market, when distributors and consumers are anxious to purchase a variety of products, and during holiday and gift giving seasons in each market.

The following is a brief description of each product line within the Nu Skin division:

**Face Care.** The face care line is Nu Skin's premier line of personal care products and consists of 20 different cleansers, moisturizers and special treatments. Nu Skin's cleansers and moisturizers allow users to cleanse thoroughly without causing dryness and to moisturize with effective humectants. These products include: TRUFACE, an innovative skin treatment using a liquid crystal retinol delivery system; REJUVENATING CREAM, a facial moisturizer and one of Nu Skin's most popular personal care products; and PH BALANCE FACIAL TONER, a product combining aloe vera and other ingredients designed to prepare the skin for effective moisturization. Nu Skin's specialized treatment products utilize advanced formulas and ingredients designed for specific skin care conditions. Special treatment products include the scientifically advanced NU SKIN 180 ANTI-AGING SKIN THERAPY system of products, which was introduced in 1999. These products utilize unparalleled levels of lactic acids to help fight the signs of aging while limiting the potential for irritation. Specialty treatments include a variety of other products including NU SKIN WHITE, a line of pigment lighteners, and SKIN BRIGHTENING COMPLEX, which is designed to lighten skin color and diminish the appearance of discoloration caused by sun exposure and aging.

**Body Care.** Nu Skin's line of body care products incorporates premium-quality ingredients to cleanse and condition skin. The body care product line consists of 12 different cleansers, moisturizers and special treatments. The cleansers are formulated without soaps, which dry the skin, and include BODY BAR, a non-soap cleansing bar. Nu Skin's moisturizers contain light but effective humectants and emollients. Body care special treatments include DERMATIC EFFECTS, a body contouring lotion containing extracts of hibiscus and malvaceae that has been clinically demonstrated to aid in preventing the appearance of cellulite and aging skin, and MHA REVITALIZING BODY LOTION, which combines multiple hydroxy acids. Other popular products in this line include BODY SMOOTHER, a moisturizing lotion, and BODY CLEANSING GEL.

**Hair Care.** Nu Skin has designed its hair care line, HAIRFITNESS, to meet the needs of people with all types of hair and hair problems. Focusing on the condition of the scalp and its impact on hair quality, Nu Skin's hair care products use water-soluble conditioners like panthenol to reduce build-up on the scalp and to promote healthy hair. HAIRFITNESS includes 12 products featuring CEREGEN, an innovative wheat-based complex of conditioning molecules designed to enhance hair repair. In April 1999, Nu Skin introduced a hair care line, KANURE, specifically designed and formulated for the Brazilian market to address the natural properties of severely dry and curly hair.

**Color Cosmetics.** Nu Skin's color cosmetics line, NU COLOUR, consists of 13 talc-free products with over 150 SKU's including eye shadow, lipliner, lipsticks, mascara, blush and finishing powder. Nu Skin relaunched a new and revised NU COLOUR line in 1999 with new packaging and new shades.

**Sun Protection.** Nu Skin designed its line of SUNRIGHT products to provide sun screen protection with non-irritating and non-greasy ingredients. The sun protection line includes two sun screen products and a sun screen lip balm.

**Oral Hygiene.** Nu Skin has an exclusive license to offer for sale in the direct selling channel a line of oral health care products under the trademark AP-24. AP-24 incorporates anti-plaque technology designed to help prevent plaque build-up 24 hours a day. The product line includes various oral health care products including toothpaste, mouthwash and floss.

**Fragrance.** Nu Skin offers fragrances under the trademarks SAFIRO and BELIEVE.

**Specialty Products.** EPOCH is a line of ethnobotanical personal care products created in cooperation with well known ethnobotanists. These products unite natural compounds used by indigenous cultures with advanced scientific ingredients. This product line consists of various products including GLACIAL MARINE MUD, a revitalizing

clay mask containing beneficial sea botanicals, EPOCH ANTISEPTIC HAND SANITIZER, a product containing lavender that disinfects hands, and FIREWALKER FOOT CREAM, created specifically to soothe and rejuvenate tired, aching feet.

NUTRIOL is another line of specialty products that Nu Skin is licensed to sell in the direct selling channel. The NUTRIOL product line is manufactured in Europe and consists of two hair care products that incorporate mucopolysaccharide, a proprietary ingredient. NUTRIOL products are designed to replenish vital minerals and elements.

NU SKIN PRODUCT DEVELOPMENT. The product development philosophy for Nu Skin is represented by its marketing slogan: "All of the Good and None of the Bad." Nu Skin products do not contain soaps and other harsh cleansers that can dry and irritate skin, undesirable oils such as lanolin, elements known to be irritating and pore clogging, and conditioning agents that leave heavy residues. Nu Skin is also committed to continuously improving its evolving personal care product formulations to incorporate innovative and proven ingredients into its product line. A recent example of Nu Skin's product development capability is the NU SKIN 180 ANTI-AGING SKIN THERAPY system, one of the first products to utilize significantly higher levels of alpha and beta hydroxy acids for topical application while minimizing the risk of irritation.

For product development support in personal care, Nu Skin relies on an advisory board comprised of recognized authorities in various disciplines. Nu Skin utilizes its directed-research agreement with Stanford University Medical Center's Department of Dermatology for directed research and clinical trials of Nu Skin products or materials. Nu Skin also evaluates a significant number of product ideas presented by distributors, vendors, and other outside sources. Nu Skin utilizes its strategic relationships with vendors for directed research and development work.

NU SKIN SOURCING AND PRODUCTION. In order to maintain high product quality, Nu Skin acquires its ingredients and products from reliable and reputable suppliers that Nu Skin considers to be superior sources of such ingredients and products. For approximately eight years, Nu Skin has acquired ingredients and products from a supplier that currently manufactures 53% of its personal care products. Nu Skin's current contract with this supplier expires this year, but Nu Skin expects to renew the contract for an additional term. Nu Skin also has ongoing relationships with secondary and tertiary suppliers who supply remaining products and ingredients. Nu Skin believes that in the event it is unable to source any products or ingredients from its major supplier it could produce or replace such products or substitute ingredients without great difficulty or significant increases in the cost of goods sold from its other secondary and tertiary suppliers.

#### PHARMANEX

OVERVIEW. Following the acquisition of Pharmanex in October 1998, the Company consolidated its existing Interior Design Nutritionals, or IDN, product line with the Pharmanex product line of nutritional supplements. The Company believes that combining Pharmanex's research and development capabilities and its nutritional and botanical supplements with the Company's existing product development resources and vitamin and mineral products, including its flagship product, LIFEPAK, helps position the new Pharmanex division to penetrate further the growing nutritional supplement market. The new Pharmanex division currently offers over 60 nutritional supplements and nutri-food products. The separate Pharmanex business opportunity has been launched in the United States, Japan, Taiwan, Hong Kong and South Korea.

Pharmanex believes that the nutritional supplement market is expanding globally because of changing dietary patterns, an increasingly health-conscious population and a growing amount of scientific evidence supporting the benefits of using vitamin and natural self-care products and supplements. Pharmanex also believes that its scientifically-substantiated nutritional supplements are particularly well-suited to network marketing because the average consumer is often uneducated or confused about nutritional supplements, particularly the importance of scientific substantiation. The direct selling channel can be a more effective method than traditional retailing channels to educate consumers about the benefits of nutritional supplements and to differentiate the quality and benefits of its products from those offered by competitors.

In January 1999, Pharmanex discontinued selling its products in traditional retail channels where they had been distributed before the Company acquired Pharmanex. Pharmanex nutritional and botanical supplements are now available exclusively through the Company's distributor network, which Pharmanex believes can educate consumers more effectively about these products on a person-to-person basis. Consistent with this personal selling approach, Pharmanex also allows small, independent pharmacies to retail its products because these pharmacies tend to provide personalized service and accommodate the flow of information to consumers on a person-to-person basis.

PHARMANEX PRODUCTS. Pharmanex's nutritional supplements are currently distributed under the brand names Pharmanex and IDN. As the Pharmanex business opportunity and the Company's divisional strategy are rolled out to markets outside of the United States, and as new versions of IDN products are introduced, Pharmanex anticipates that a number of products currently distributed under the IDN brand will be distributed under the Pharmanex brand name.

Pharmanex's nutritional supplements currently include the LIFEPAK line of multivitamin, mineral and phytonutrient supplements and a line of self-care nutritional supplements. Pharmanex also offers nutritional products in the following lines: weight-management, nutritious foods and snacks, and sports and fitness products. Pharmanex also sells a water filtration system. Pharmanex has designed its nutritional products to promote healthy, active lifestyles and general well-being when used in conjunction with proper diet and exercise. In 1999, many of the nutritional and botanical supplements acquired in the Pharmanex acquisition were introduced in the United States and selected Asian markets.

Pharmanex must often reformulate its nutritional products to satisfy strict regulatory requirements in many of the Company's different markets. While each product's concept and positioning are generally the same, regulatory differences between markets result in some product ingredient differences. For example, Japanese regulations and consumer preferences mandate the use of tablets instead of gelatin capsules that are typically used in the United States. See "-- Government Regulation" for more information about government regulation of Pharmanex's nutritional products.

The following is a brief description of each of the nutritional product lines within the Pharmanex division:

Multivitamin/Mineral Supplements. This product line consists of various vitamin, mineral and antioxidant supplements, including LIFEPAK. The LIFEPAK family of products, the core Pharmanex nutritional supplement, is designed to provide a beneficial mix of nutrients including vitamins, minerals, antioxidants and phytonutrients, which are nutrient extracts from plants. The introduction of LIFEPAK in the United States in 1992 and Japan in 1995 resulted in a significant increase in the Company's revenue. Sales of LIFEPAK accounted for approximately 20% of the Company's total revenue in 1999. Pharmanex currently sells LIFEPAK in 14 markets, including the United States, Japan and Taiwan. Pharmanex offers LIFEPAK in different formulations to meet the unique needs of adults generally, women, seniors, teenagers and pregnant women. LIFEPAK was recently reformulated to include catechins derived from TEGREEN 97, a Pharmanex product containing high levels of green tea polyphenols.

Self-Care Nutritional Supplements. Pharmanex currently offers a line of self-care natural nutritional supplements which are nutritional products designed to meet the personalized needs of the user in the following areas:

- \* Energy/Stamina
- \* Heart Health
- \* Antioxidant Protection
- \* Relaxation
- \* Immune System Support
- \* Women's Health
- \* Special Needs

These self-care dietary supplements are designed to provide consumers with a specific, consistent level of the desired dosage of the important components of the supplement. In addition, Pharmanex implements quality control processes designed to enhance its ability to keep products free from contaminants.

The principal products in this line include CHOLESTIN, CORDYMAX CS-4, TEGREEN 97 and BIOGINKGO 27/7. CHOLESTIN is a nutritional supplement derived from the fermentation of a strain of red yeast on rice substrate. A recent double-blind, placebo-controlled study conducted at the UCLA Center for Human Nutrition and published in the February 1999 issue of the AMERICAN JOURNAL OF CLINICAL NUTRITION demonstrated the effectiveness of CHOLESTIN in helping to promote healthy cholesterol levels. In February 1999, a Federal District Court judge ruled that CHOLESTIN could be legally sold as a nutritional supplement under the Dietary Supplement Health and Education Act of 1994. The Food and Drug Administration (the "FDA") had previously challenged the status of CHOLESTIN as a dietary supplement, claiming it was a drug and could not be marketed without FDA approval. The FDA has appealed the decision that CHOLESTIN can be sold as a nutritional supplement.

CORDYMAX CS-4 is a nutritional supplement designed to help reduce fatigue. Several clinical trials have been conducted on this product which have demonstrated that CORDYMAX CS-4 can help reduce fatigue. CORDYMAX CS-4 is offered as a stand-alone product and in a combination product with St. John's Wort, a positive mood enhancer, distributed under the trademark BIO ST. JOHN'S. In addition, Pharmanex offers BIOGINKGO 27/7, a ginkgo biloba extract that promotes blood circulation to the brain, arms and legs, and TEGREEN 97, a supplement that contains a concentrated level of decaffeinated green tea polyphenols, potent antioxidants found in green tea.

In 1999, Pharmanex also introduced VENIX, a product designed to promote sexual well-being, and REISHI, a popular botanical supplement in the Company's Asian markets, particularly Taiwan. This product line also includes a line of other standardized botanical and dietary supplements including PANAX GINSENG, KAVA KAVA, ECHINACEA, GARLIC, HAWTHORN, OPTIMUM OMEGA and others that similarly have been formulated to meet a broad range of health needs.

Nutritious and Healthy Snacks. As part of its mission to promote a healthy lifestyle and long-term wellness, Pharmanex's NUTRI-FOODS product line includes nutritional drinks such as ALOE FOUNTAIN, which contains organically grown aloe vera, and SPLASH C with aloe vera, a healthy beverage providing significant amounts of Vitamins C and E as well as calcium in each serving. This product line also includes meal supplements such as nutritious snack bars.

Sports and Fitness Products. The SPORTRITION line of sports and fitness products caters to health conscious individuals with active lifestyles. This product line consists of a packaged group of nutritional supplements offering a comprehensive, flexible program for individuals who desire to improve athletic performance. Products in the SPORTRITION line include OVERDRIVE, a sports supplement that features antioxidants, B vitamins and chromium chelate, and PROGRAM-16 protein bars, designed to provide nutritional support for individuals involved in strenuous exercise.

Weight Management. The HEALTHTRIM 2000 weight management program includes a line of nutritional products designed to provide nutritional support to weight conscious individuals. These products include fiber supplements marketed under the product names FIBRENET and FIBRENET PLUS, LIFEPAK TRIM and other related products.

Image Solutions. In 1999, Pharmanex introduced a line of nutritional supplements designed to create outward beauty from within. These products include HAIR FORMULA, designed to promote and maintain healthy hair and VEIN FORMULA, designed to promote circulatory and leg vein health.

Specialty Products. In the fourth quarter of 1998, the Company introduced a high-performance home water filtration system in Japan. The water filtration system was subsequently introduced in other Asian markets. The FOUNTAIN FRESH filtration system was designed by and is being manufactured exclusively for the Company by CUNO Incorporated, a worldwide manufacturer of home and industrial filtration systems.



PHARMANEX PRODUCT DEVELOPMENT. Pharmanex is committed to providing high quality, standardized and substantiated nutritional supplements. This philosophy has led to Pharmanex's commitment to avoid stimulants and any ingredients that are reported to have any long-term addictive or harmful effects, even if the short-term effects may be desirable. Pharmanex believes that it is one of the few nutritional supplement companies in the United States that has a research and development program modeled after the pharmaceutical industry. Pharmanex believes that this research and development capability provides it with an important competitive advantage in the industry. Moreover, because a substantial portion of Pharmanex's research and development activities are conducted in the Peoples' Republic of China (The "PRC"), it believes that it is able to conduct quality research and development work as well as initial clinical trials in higher numbers due to the significantly lower cost than would be incurred if Pharmanex conducted comparable work in the United States.

Pharmanex utilizes its "6S Quality Process" in its development activities, which is designed to provide a precise, standardized, recommended dosage of each beneficial natural ingredient in every capsule. The 6S Quality Process generally involves the following steps:

- \* SELECTION. Conducting a scientific review of research and databases in connection with the selection of potential products and ingredients, and determining the authenticity, usefulness and safety standards for such potential products and ingredients.
- \* SOURCING. Investigating potential sources, evaluating the quality of such sources and performing botanical and chemical evaluations where appropriate.
- \* STRUCTURE. Determining the structural profile of natural compounds and active ingredients.
- \* STANDARDIZATION. Standardizing the product to at least one biologically relevant active ingredient.
- \* SAFETY. Assessing safety from available research, and, where necessary, performing additional tests such as microbial tests and chemical analyses for toxins and heavy metals.
- \* SUBSTANTIATION. Reviewing documented pre-clinical and clinical trials, and, where necessary and appropriate, initiating studies and clinical trials sponsored by Pharmanex.

Pharmanex employs approximately 50 scientists at its dedicated research and development center in Shanghai, the PRC, and at its Provo, Utah and San Francisco, California offices. Pharmanex also has working relationships with 150 other independent scientists including an advisory board comprised of recognized authorities in related disciplines. In addition, Pharmanex evaluates a significant number of product ideas presented to it by distributors and other outside sources. Pharmanex has established collaborative agreements with three prominent universities and research institutions in the PRC: Shanghai Medical University, Beijing Medical University and the Institute of Materia Medica. The staffs of these institutions include scientists with expertise in natural product chemistry, biochemistry, pharmacology and clinical studies. Pharmanex's research and development center in Shanghai coordinates and validates Pharmanex's collaborative efforts with these institutions. Pharmanex also currently has collaborative research and clinical study programs with several major university research centers in the United States, including UCLA, the Rippe Center for Clinical Lifestyle Research, Columbia University, the University of Kansas, and internationally with the University of Hong Kong School of Medicine. The Company's research and development expenditures have increased substantially following the acquisition of Pharmanex, but still do not represent a material portion of the Company's selling, general, and administrative expenses on a consolidated basis.

PHARMANEX SOURCING AND PRODUCTION. Substantially all of Pharmanex's nutritional supplements and ingredients, including LIFEPAK, are produced or provided by third-party suppliers that Pharmanex considers to be among the best suppliers of such products and/or ingredients. Pharmanex currently relies on two unaffiliated suppliers for approximately 50% of its nutritional supplements. Pharmanex believes that, in the event it were unable to source any products or ingredients from these suppliers or its other current suppliers other than as described below, it could produce or replace such products or substitute ingredients without great difficulty or

significant increases in the cost of goods sold. CORDYMAX CS-4, a nutritional supplement, is sourced from a sole supplier in the PRC pursuant to a contract expiring in 2006. CHOLESTIN is currently sourced from a supplier pursuant to a contract that expires in 2016. The Company recently amended a contract with an additional supplier to obtain a perpetual license to purchase a red yeast strain that can be used to make CHOLESTIN. This contract is valid for all markets outside of the PRC and will allow the Company to utilize other suppliers to manufacture CHOLESTIN if necessary. Pharmanex also maintains an extraction and purification facility located in Huzhou, Zhejiang Province, the PRC, where it currently produces the extracts for BIOGINKGO 27/7 and TEGREEN 97 products.

Pharmanex has contract cultivation areas in the PRC. Because some of Pharmanex's natural and botanical products such as BIO ST. JOHN'S and BIOGINKGO 27/7 come from crops that can only be harvested once a year, problems with such crops could limit Pharmanex's ability to produce such products. In addition, as these products can only be produced once a year, Pharmanex must rely on the accuracy of its estimates of product requirements in sourcing these products. If Pharmanex underestimates its product requirements, it may not be able to re-stock such product until the next growing season. To help mitigate this problem, Pharmanex continues to work on sourcing raw materials in both the Northern and Southern hemispheres to provide for two separate growing seasons.

#### BIG PLANET

OVERVIEW. The Internet is rapidly emerging as a global medium for communications and electronic commerce. The recent growth of the Internet and electronic commerce is effecting significant changes in traditional methods of information delivery and product purchasing. In addition, deregulation of telecommunications and the growth in wireless communications have resulted in changes and opportunities in the telecommunications markets. In 1999, Nu Skin Enterprises acquired Big Planet, Inc., a privately owned affiliate of the Company that began operations in the United States in April 1998. This acquisition provided Nu Skin Enterprises with a new business opportunity involving technology, Internet and telecommunications products and services allowing Nu Skin Enterprises to:

- \* Take advantage of the opportunities provided by the rapid growth of the technology, Internet and telecommunications markets,
- \* Appeal to a broader base of customers and distributors,
- \* Utilize the strength and competitive advantages of its distribution system to reach new segments of the marketplace, and
- \* Leverage Big Planet's expertise in the Internet to better leverage the Internet and Web with the Nu Skin and Pharmanex divisions.

Big Planet's core strategy is to be an "InterNetworking" company that combines the global Internet revolution with the power of network marketing. The Company believes that technology, Internet and telecommunications products are highly compatible with its distribution system and that Big Planet provides a compelling business opportunity for technology-oriented entrepreneurs desiring to participate in the Internet revolution. Big Planet leverages the direct selling expertise of the Company's distributor force to provide high levels of service to its customers in a product area that is often confusing to consumers. Big Planet trains its distributors to educate consumers as needed to help them understand and take advantage of the latest technology products.

Big Planet's current business model is based on a three-pronged strategy:

- \* Introducing convenient and simple-to-use devices to access the Internet;

- \* Connecting customers to the Internet as an Internet Service Provider ("ISP") and offering various long distance and other Internet and telecommunications products and services; and
- \* Offering a destination, or Internet community, for its customers once they are online where they can conveniently shop and gain access to other services and information.

**BIG PLANET PRODUCTS.** Big Planet's product offering is structured around its three-pronged objective of providing devices, connections and destinations. Big Planet has invested significantly in local infrastructure for its Internet and operation support facilities. Big Planet also has entered into contractual relationships with several industry-leading technology companies, including Qwest Communications, AT&T Wireless, UUNet, SkyTel, IBM, I-Link, Incorporated, and other key vendors, to provide convenient and reliable technology, Internet and telecommunications products and services. Big Planet's distributors receive commissions based on Big Planet's gross margin on each sale of products or services, including monthly recurring service charges, or based on the commission received by Big Planet with respect to products sold directly by third-party vendors to Big Planet's customers.

**Devices.** Big Planet has chosen the IPHONE as an introductory product, which suits the needs and experience levels of its users. The IPHONE is a technologically-advanced telephone that provides simple and convenient Internet access via a touch screen and pull-out keyboard and supports hypertext markup language ("HTML"). The phone also includes speaker, speed-dial, directory, caller-identification and voicemail features. The IPHONE was developed by InfoGear Technology Corporation. Big Planet has licensed the exclusive right to market the IPHONE in the multi-level marketing sales channel in the United States. In September 1999, Big Planet launched a free IPHONE campaign, which allows a customer to obtain an IPHONE free of charge with a three-year subscription to Big Planet's Internet and long-distance services. Big Planet is currently evaluating options for an IPHONE-like device for its Japan market.

**Connections.** Big Planet provides dial-up Internet access to its customers through three separate access plans designed to cover the needs of a broad demographic group of consumers. As with many other Internet service providers, Big Planet outsources Internet access through a nationwide backbone network of more than 2,900 dial up access sites, or "POPS," in cities throughout the United States, which Big Planet believes is currently one of the largest network of POPS in the United States. Big Planet currently has approximately 40,000 Internet service customers. The Internet Service includes easy to use, reliable and competitively priced Internet access, electronic mail and content filtration for distributors and consumers. Big Planet also provides a powerful, yet easy-to-use tool for creating and maintaining sophisticated Web sites which is designed for the small business segment of the Internet, including Big Planet representatives. Big Planet currently hosts approximately 15,000 Web sites primarily for individuals and small businesses.

Big Planet currently offers domestic and international long distance, prepaid calling cards, paging products and services and personal 800 numbers. Big Planet offers both residential and business long distance services through its relationship with Qwest Communications. As of December 31, 1999, approximately 30,000 customers were subscribed for long-distance service through this relationship. In February 2000, Big Planet contracted with I-Link, Incorporated ("I-Link"), an enhanced voice and data communications company, to obtain the exclusive global network marketing channel distribution rights for I-Link's products and services. Under the agreement, I-Link's existing network marketing representatives, together with their existing customers and sales volume, were transitioned to Big Planet and Big Planet began buying products and services from I-Link on a wholesale basis. The primary product is I-Link's "V-Link" which provides enhanced communications capabilities to customers including unified messaging of voicemail, e-mail and fax, and "find-me, follow me" features that allow a single phone call to ring to various different telephone devices such as cell, office and home. Big Planet has also entered into agreements to offer wireless telecommunications services through AT&T Wireless and through the Sprint PCS network. Big Planet also has a business relationship with SkyTel, which allows Big Planet to sell SkyTel's prepaid paging products, including SkyTel's BEEPWEARPRO pager watch.

Destination. The Big Planet online store, [www.bpstore.com](http://www.bpstore.com), provides an online shopping environment to Big Planet distributors and their customers. The Big Planet store was initially opened in September 1998 and currently offers access to a wide selection of products and services from numerous different vendors in addition to Nu Skin and Pharmanex products. Big Planet has entered into agreements which link the Big Planet online store to Web sites of over 150 online retailers such as [OnlineOfficeSupplies.com](http://OnlineOfficeSupplies.com), [ToysRus.com](http://ToysRus.com), [Borders.com](http://Borders.com), [Outpost.com](http://Outpost.com), [DVExpress.com](http://DVExpress.com) and [Flowerclub.com](http://Flowerclub.com). Distributors earn commissions on purchases by their customers through the online store and these affiliate sites. The Big Planet portal, [my.bigplanet.com](http://my.bigplanet.com), completes the Internet community that Big Planet provides, offering customers various sources of information such as weather forecasts, stock quotes and other services, including a concierge service. The concierge service allows Big Planet customers to utilize a live-operator and Internet-search service that offers a personalized alternative to today's traditional Web-based search engines.

**BIG PLANET PRODUCT DEVELOPMENT.** To date, Big Planet's product development has focused on developing its Internet facilities and operational systems in order to develop operational and support platforms necessary to ensure consistent services and provide for the introduction of new products and services. Big Planet continues to identify and secure contractual relationships with various vendors and suppliers that will enable Big Planet to sell competitively-priced technology, Internet and telecommunications products and services through its distribution channel. In addition, Big Planet is committed to identifying and securing contractual relationships with various vendors and suppliers for a wide selection of products for sale through its online store. Big Planet is evaluating the next generation of Internet devices including set top boxes, Internet appliances, cellular phones and wireless personal assistant devices that connect to the Internet.

**BIG PLANET SOURCING AND PRODUCTION.** Because the Internet is the key component of Big Planet's business and strategy of controlling its customer relationships, Big Planet has made a significant investment in building a state-of-the-art network operations center which serves as the central platform for its U.S.-based Internet services, Web site hosting services and its online store. Similar to other ISPs, Big Planet outsources dial-up Internet access through a nationwide telecommunications network of approximately 2,900 POPS in cities throughout the United States with a contract with UUNet and other key backbone providers. Big Planet also has contractual relationships with leading technology companies such as Cisco Systems, EMC Corporation and Sun Microsystems, which provide additional reliability and support for its ISP business. Except for its Internet services, Web hosting and online shopping platform, substantially all of the services and products offered by Big Planet are contracted or sourced from unaffiliated third parties pursuant to contractual arrangements. For example, Big Planet has contracted with Qwest Communications to provide long distance phone services and Encore Telecommunications, LLC to provide wireless communications through the Sprint PCS network. By acting on an agency basis for these services, Big Planet is able to avoid the large capital deployment and investment that would be required to build the infrastructure necessary to provide such services. However, Big Planet's profit margins and its ability to deliver quality service at competitive prices depend upon its ability to negotiate and maintain favorable terms with such third-party providers. Big Planet also contracts with or enters into various business relationships with various unaffiliated parties to acquire the right to distribute unique and innovative products, such as the iPhone, through its online store.

#### REGIONAL PROFILES

For information on revenue for each of the geographic regions in which Nu Skin Enterprises operated for the years ended December 31, 1997, 1998 and 1999, reference is made to "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 18 to the consolidated financial statements contained in the 1999 Annual Report to Stockholders and incorporated herein by reference.

**NORTH ASIA.** The North Asia region currently consists of Nu Skin Enterprises' markets in Japan and South Korea. Japan is the Company's largest market with approximately \$602.4 million in revenue in 1999. According to the World Federation of Direct Selling Associations, the direct selling channel in Japan generated sales of approximately \$28.4 billion of goods and services in 1998, making Japan the largest direct selling market in the world. As of December 31, 1999, virtually all of Nu Skin's personal care products and nearly one-third of Pharmanex's nutritional supplements, including LIFEPAK, the Company's leading multi-vitamin and mineral

supplement, were available in the Japanese market. In 1999, selected Pharmanex products acquired in the Pharmanex acquisition, including TEGREEN 97, CHOLESTIN, BIOGINKGO 27/7 and CORDYMAX CS-4, were introduced into Japan. In February 2000, the Company's divisional strategy was implemented in Japan with the introduction of the separate Pharmanex business opportunity. In addition, Big Planet is in the process of working with the Japanese market to make dial-up access service available to customers in Japan through the @nifty Internet service provided by Nifty Corporation, one of the largest ISPs in Japan. Under this arrangement, distributors will receive commissions for each monthly subscription fee paid by a customer that signs up for the "Big Planet powered by @nifty" account. Nu Skin currently offers the majority of its personal care products and Pharmanex currently offers approximately 20% of its nutritional supplements in South Korea. The Pharmanex business opportunity and certain of the natural nutritional supplements acquired in the Pharmanex acquisition were introduced into South Korea in January 2000.

**SOUTHEAST ASIA.** The Company's Southeast Asia region currently consists of the markets in Taiwan, Hong Kong, Thailand, the Philippines, New Zealand, Australia and a small retail operation in the PRC. This region has been significantly affected by the Asian economic recession, which has severely curtailed consumer spending. Taiwan is the largest market in this region with revenue of \$103.6 million in 1999. The Company is one of the largest direct selling companies in Taiwan. According to the World Federation of Direct Selling Associations, the direct selling channel in Taiwan generated approximately \$1.2 billion in sales of goods and services in 1998. Management believes that the direct selling industry in Taiwan contracted during 1998 and 1999 due in part to the economic recession in the region and the PRC's ban on direct selling where many Taiwanese distributors had hoped to expand their businesses. Approximately 2.8 million people, which is about 10% of the population, are estimated to be involved in direct selling. Taiwan's government strictly regulates direct selling activities. For example, Taiwan's government has enacted tax legislation aimed to ensure proper tax payments by distributors on product sales to consumers. As of December 31, 1999, Nu Skin offered most of its personal care products and Pharmanex offered approximately one-half of its nutritional supplements in Taiwan. In August 1999, Pharmanex introduced its separate business opportunity and certain of the natural nutritional supplements acquired in the Pharmanex acquisition into Taiwan. Big Planet currently does not distribute any products or services in the Southeast Asia markets.

**OTHER MARKETS.** The Other Markets region currently consists of the markets in Europe, the North American markets (which until 1999 had been operated by private affiliates) and Brazil. In March 1999, the Company terminated its license agreement with its affiliate Nu Skin USA which, prior to this termination, had the exclusive right to sell the Company's products within the United States. Accordingly, the only revenue the Company recognized in 1998 from sales in the United States related to license fees paid to the Company for use of the Company's trademarks and trade names and revenue from sales of the Company's products to Nu Skin USA. These fees and revenue accounted for a majority of the revenue in Other Markets in 1998. As of March 1999, the Company has recognized all revenue and associated expenses from sales of products in the United States. According to the World Federation of Direct Selling Associations, the direct selling channel in the United States generated sales of approximately \$23 billion of goods and services in 1998, making the United States the second largest direct selling market in the world. In February 1999, Nu Skin Enterprises introduced its divisional strategy into the United States, the first market in which this strategy was implemented. Substantially all of Nu Skin's personal care products and Pharmanex's nutritional supplements and all of Big Planet's products and services are available in the United States.

The European markets first opened in 1995 with the opening of the United Kingdom, Belgium, the Netherlands, France and Germany. Since that initial opening, an additional ten markets have been opened in Europe, including Iceland and Norway in 1999. Approximately 75 of Nu Skin's personal care products are sold in Europe. Pharmanex has introduced several IDN products into a limited number of the European markets. Big Planet currently does not offer any products in the European market.

In November 1998, the Company opened the Brazilian market, which is the Company's first market in South America. According to the World Federation of Direct Selling Associations, the direct selling channel in Brazil generated sales of approximately \$3.1 billion of goods and services in 1998, prior to the recent currency devaluation, making Brazil the third largest direct selling market in the world. Approximately 25% of Nu Skin's

personal care products have been introduced in Brazil, along with 15 locally produced products. Neither Big Planet nor Pharmanex has introduced any of their products into the Brazil market.

#### DISTRIBUTION SYSTEM

OVERVIEW OF DISTRIBUTION SYSTEM. The foundation of the Company's sales philosophy and distribution system is network marketing. Under most network marketing systems, distributors purchase products for resale to consumers and for personal consumption. Pursuant to the Company's Global Compensation Plan, the Company currently sells products exclusively through independent distributors who are not the Company's employees. The Company's network marketing program differs from many other network marketing programs in several respects.

- \* The Global Compensation Plan is among the most financially rewarding plans offered to distributors by network marketing companies and can result in commissions to distributors aggregating up to 58% of a personal care or nutritional product's wholesale price. On a global basis, commissions have averaged approximately 39 to 42% of revenue from commissionable sales over the last eight years.
- \* The Company was among the first to allow distributors to be compensated for product sales of downline-sponsored distributors around the world, and the Company believes it is now the first major network marketing company to allow distributors to be fully compensated for product sales of downline-sponsored distributors globally across all operating divisions.
- \* The Company's order and fulfillment systems eliminate the need for distributors to carry significant levels of inventory.

Network marketing is an effective vehicle to distribute the Company's products because:

- \* Consumers can learn about products in person from distributors, which the Company believes is more effective for premium-quality products than using television and print advertisements,
- \* Direct sales allow for actual product testing by potential customers,
- \* There is greater opportunity for distributor and customer testimonials, and
- \* As compared to other distribution methods, distributors can give customers higher levels of service and attention by, among other things, following up on sales to ensure proper product usage and customer satisfaction and to encourage repeat purchases.

Direct selling as a distribution channel has been enhanced in the past decade by advancements in communications, including telecommunications and Internet connectivity, and the proliferation of the use of videos and other electronic devices. For this reason, the Company maintains an in-house staff of creative and video production personnel for timely and cost-effective production of sales materials. In addition, the Company has recently reorganized its Information Technology department in order to, among other things, leverage Big Planet's existing Internet resources and expertise to implement effective Internet strategies in each of the Company's product divisions. The Company believes that the Internet will become an increasingly important business factor as more and more consumers purchase products over the Internet as opposed to traditional retail and direct sales channels. As a result, the Company expects that direct sellers will need to adapt their business models to integrate the Internet into their operations to remain successful. Management is committed to fully utilizing current and future technological advances to continue enhancing the effectiveness of direct selling. The Company's divisions in the United States currently maintain web sites where products may be ordered. In Japan, the Company's largest market, the Company set up an Internet order process in 1999. Since the introduction of the service in September 1999, more than 40,000 Japanese distributors have registered to use such service and have used it to place over \$25 million in sales.

Because of the nature of Big Planet's products and services, Big Planet distributors do not buy products for resale but act as independent sales representatives of Big Planet. These representatives can earn a commission on sales through the Big Planet online store by their customers. Big Planet does not pay commissions on the wholesale price but on the gross margins from sales of services and products. If products and services are purchased directly by distributors or customers from third parties with contractual relationships with Big Planet, the commission is based on the commission that Big Planet receives from such third parties with respect to such sales.

The Company's revenue depends directly upon the number and productivity of its distributors. Growth in sales volume requires an increase in the productivity of distributors and/or growth in the total number of distributors. Over the last year, the Company has experienced a decline in the number of its distributors. The Company cannot assure stockholders that the productivity or number of distributors will be sustained at current levels or increased in the future. Furthermore, the Company estimates that, as of December 31, 1999, approximately 300 distributorships worldwide maintained Hawaiian Blue Diamond or Blue Diamond executive distributor levels, which are the Company's two highest executive distributor levels, and, together with their extensive downline networks, account for substantially all of the Company's revenue. Consequently, the loss of a high-level distributor, together with a group of leading distributors in such distributor's downline network, or the loss of a significant number of distributors for any reason, could harm the Company's business.

**SPONSORING.** The Company relies on its distributors to sponsor new distributors. While the Company provides, at cost, product samples, brochures, magazines and other sales materials, distributors are primarily responsible for educating new distributors with respect to products, the Global Compensation Plan, and how to build a successful distributorship.

The sponsoring of new distributors creates multiple levels in the network marketing structure. Persons that a distributor sponsors are referred to as "downline" or "sponsored" distributors. If downline distributors also sponsor new distributors, they create additional levels in the structure, but their downline distributors remain in the same downline network as their original sponsoring distributor.

Sponsoring activities are not required of distributors. However, because of the financial incentives provided to those who succeed in building a distributor network that consumes and resells products, the Company believes that most of its distributors attempt, with varying degrees of effort and success, to sponsor additional distributors. Generally, distributors invite acquaintances to sales meetings in which they present the Company's products and explain the Global Compensation Plan. People are often attracted to become distributors after using the Company's products and becoming regular customers. Once a person becomes a distributor, he or she is able to purchase products directly from the Company at wholesale prices. The distributor is also entitled to sponsor other distributors in order to build a network of distributors and product users.

A potential distributor must enter into a standard distributor agreement which obligates the distributor to abide by the Company's policies and procedures. Additionally, in most countries except Japan, a new distributor is required to enter into a product purchase agreement with the Company's local subsidiary, which governs product purchases. In some markets, the Company requires distributors to purchase a starter kit, which includes the Company's policies and procedures, for the approximate cost of producing the starter kit.

**GLOBAL COMPENSATION PLAN.** The Company believes that one of its key competitive advantages is the Company's Global Compensation Plan. Distributors receive higher levels of commissions as they advance under the Global Compensation Plan. The Global Compensation Plan is seamlessly integrated across all markets in which distributors sell products, allowing distributors to receive commissions for global product sales, rather than merely local product sales. The Company has also enhanced the Global Compensation Plan to allow distributors to develop a seamless global network of downline distributors across any or all of the product divisions. Management believes the Company is the first major network marketing company to allow distributors to be fully compensated for global sales of downline-sponsored distributors across separately branded product divisions.

The Company's distributors benefit significantly from receiving commissions at the same rate for sales in foreign countries as for sales in their respective home countries and across product divisions. In addition, distributors are not required to establish new distributorships or requalify for higher levels of commissions within each new country in which they begin to operate, which is frequently the case under the compensation plans of many of the Company's competitors. Under the Global Compensation Plan, distributors are paid consolidated monthly commissions in the distributor's home country, in local currency, for product sales in that distributor's global downline distributor network across all product divisions.

HIGH LEVEL OF DISTRIBUTOR INCENTIVES. Based upon management's knowledge of competitors' distributor compensation plans, management believes that the Global Compensation Plan is among the most financially rewarding plans offered to distributors by network marketing companies. Currently, there are two fundamental ways in which distributors can earn money:

- \* Through retail markups on personal care and nutritional products sold wholesale (recommend range of 43% to 60%), and
- \* Through a series of commissions on product sales.

Commissions on personal care and nutritional products can result in commissions aggregating up to 58% of a product's wholesale price. On a global basis, commissions have averaged approximately 39 to 42% of revenue from commissionable sales over the last eight years.

Each of the Company's products carries a specified number of sales volume points. Commissions are based on total personal and group sales volume points per month. Sales volume points are essentially based upon a product's wholesale cost, net of any point-of-sale taxes. As a distributor's retail business expands and as he or she successfully sponsors other distributors into the business who in turn expand their own businesses, he or she receives a higher percentage of commissions.

Once a distributor becomes an executive-level distributor, the distributor can begin to take full advantage of the benefits of commission payments on personal and group sales volume. To achieve executive status, a distributor must achieve specified personal and group sales volumes for a required period of time. To maintain executive status, a distributor must generally also maintain specified personal and group sales volumes. An executive's commissions can increase substantially as downline distributors achieve executive status. In determining commissions, the number of levels of downline distributors included in an executive's group increases as the number of executive distributorships directly below the executive increases.

On a monthly basis, the Company evaluates distributor requests for exceptions to the terms and conditions of the Global Compensation Plan. While the general policy is to discourage exceptions, the Company believes that the flexibility to grant such exceptions is critical in retaining distributor loyalty and dedication. In each market, distributor services personnel evaluate each such instance and make appropriate recommendations to the Company.

As of the dates indicated below, the Company had the following number of executive distributors:

Region	1995	1996	1997	1998	1999
North Asia	4,017	14,844	16,654	17,311	14,601
Southeast Asia	4,129	6,199	5,642	5,091	3,419
Other Markets(1)	27	436	393	379	2,985
Total	8,173	21,479	22,689	22,781	21,005

(1) Upon the termination of the Nu Skin USA distribution license in March 1999, the Company added 2,757 executive level distributors in the United States.



**DISTRIBUTOR SUPPORT.** The Company is committed to providing high-level support services tailored to the needs of its distributors in each market. The Company attempts to meet the needs and build the loyalty of distributors by providing personalized distributor services, a support staff that assists distributors as they build networks of downline distributors and a liberal product return policy. Because many distributors have only a limited number of hours each week to concentrate on their business, the Company believes that maximizing a distributor's efforts by providing effective distributor support has been and will continue to be important to the Company's success.

Through training meetings, annual conventions, distributor focus groups, regular telephone conference calls and other personal contacts with distributors, the Company seeks to understand and satisfy the needs of its distributors. The Company provides walk-in, telephonic and computerized product fulfillment and tracking services that result in user-friendly, timely product distribution. Several walk-in centers maintain meeting rooms which distributors may utilize in training and sponsoring activities. In addition, the Company is committed to evaluating new ideas in technology and services that it can provide to distributors, such as automatic product reordering. The Company currently utilizes voicemail, teleconferencing, fax and Internet services to provide Company and product information and ordering and to handle group and personal sales volume inquiries.

**RULES AFFECTING DISTRIBUTORS.** The Company's standard distributor agreement, policies and procedures and compensation plan contained in every starter and/or introductory kit outline the scope of permissible distributor marketing activities. The distributor rules and guidelines are designed to provide distributors with maximum flexibility and opportunity within the bounds of governmental regulations regarding network marketing and prudent business policies and procedures. Distributors are independent contractors and are expressly prohibited from representing themselves as agents or employees. The Company requires distributors to present products and business opportunities ethically and professionally. Distributors further agree that their presentations to customers must be consistent with, and limited to, the product claims and representations made in literature distributed by the Company. Under most regulations governing nutritional supplements, no medical claims may be made regarding the products, nor may distributors prescribe any particular product as suitable for any specific ailment. Even though sponsoring activities can be conducted in many countries, distributors may not conduct marketing activities outside of countries in which the Company currently conducts business and further may not export for sale products from one country to another.

Distributors must represent to the Company that their receipt of commissions is based on retail sales and substantial personal sales efforts. Exhibiting commission statements or checks is prohibited. The Company must produce or pre-approve all sales aids used by distributors such as videotapes, audiotapes, brochures, promotional clothing and other miscellaneous items.

Distributors may not use any form of media advertising to promote products. Products may be promoted only by personal contact or by literature produced or approved by the Company. Generic business opportunity advertisements, without using the Company's name, may be placed in accordance with required guidelines in some countries. The Company's logos and names may not be permanently displayed at any location. Distributors may not use the Company's trademarks or other intellectual property without the Company's consent.

Products generally may not be sold, and the Company's business opportunities may not be promoted, in traditional retail environments. Pharmanex has made an exception to this rule and has allowed its products to be sold in independently owned pharmacies and drug stores meeting specified requirements. Additionally, distributors may not sell at conventions, trade shows, flea markets, swap meets and similar events. Distributors who own or are employed by a service-related business such as a doctor's office, hair salon or health club, may make products available to regular customers as long as products are not displayed visibly to the general public in such a way as to attract the general public into the establishment to purchase products.

Generally, a distributor can receive commission bonuses on nutritional and personal care products only if, on a monthly basis, the distributor:

- \* Achieves at least 100 points, which is approximately \$100, in personal sales volume,
- \* Documents retail sales to at least five retail customers,
- \* Sells and/or consumes at least 80% of personal sales volume, and
- \* Is not in default of any material policies or procedures.

The Company systematically reviews alleged reports of distributor misbehavior. If the Company determines that a distributor has violated any of the distributor policies or procedures, the Company may terminate the distributor's rights completely. Alternatively, the Company may impose sanctions such as warnings, probation, withdrawal or denial of an award, suspension of privileges of a distributorship, fines or penalties, withholding commissions until specified conditions are satisfied or other appropriate injunctive relief. A distributor may voluntarily terminate his/her distributorship at any time.

**PAYMENT.** Distributors generally pay for products prior to shipment. Accordingly, the Company carries minimal accounts receivable. Distributors typically pay for products in cash, by wire transfer and by credit card. Cash, which represents a significant portion of all payments, is received by order takers in the distribution centers when orders are personally picked up by a distributor.

**SALES AIDS.** The Company provides an assortment of sales aids to facilitate the sales of its products. In dollar terms, the largest sales aid is the Company's starter kit which includes materials such as product brochures, training materials and order forms. Sales aids include videotapes, audiotapes, brochures, promotional clothing and other miscellaneous items to help create consumer awareness of the Company and its products. Sales aids are priced at the Company's approximate cost, and distributors do not receive commissions on purchases of sales aids.

**PRODUCT GUARANTEES.** The Company believes that it is among the most consumer-protective companies in the direct selling industry. For 30 days from the date of purchase, the Company's product return policy allows a retail purchaser to return any product to the distributor through whom the product was purchased for a full refund. After 30 days from the date of purchase, the return privilege is in the discretion of the distributor. Because distributors may return unused and resalable products to the Company for a refund of 90% of the purchase price for one year, they are encouraged to provide consumer refunds beyond 30 days. In addition, the Company's product return policy is an important tool used by distributors in developing a retail customer base. The Company's experience with actual product returns has averaged less than 5% of annual revenue through 1999. Because many of Big Planet's products and services are provided directly to consumers by third-party vendors, the same 30-day return privilege does not apply to products purchased by consumers from such vendors unless such vendors otherwise agree.

#### COMPETITION

**PERSONAL CARE AND NUTRITIONAL PRODUCTS.** The markets for personal care and nutritional products are large and intensely competitive. The Company competes directly with numerous companies that manufacture and market personal care and nutritional products in each of the Company's product categories and product lines. The Company competes with other companies in the personal care and nutritional products industry by emphasizing the innovation, value and premium-quality of its products and the convenience of the Company's distribution system. Many of the Company's competitors have much greater name recognition and financial resources than the Company. Moreover, large pharmaceutical companies are increasingly entering into the nutritional supplement market. In addition, personal care and nutritional products can be purchased in a wide variety of channels of distribution. While the Company believes that consumers appreciate the convenience of ordering products from home through a sales person or through a catalog, the buying habits of many consumers accustomed to purchasing products through traditional retail channels are difficult to change. The Company's product offerings in each product category are also relatively small compared to the wide variety of products offered by many other personal care and nutritional product companies. There cannot be any assurance that the

Company's personal care and nutrition business and results of operations will not be harmed by market conditions and competition in the future.

TECHNOLOGY, INTERNET, AND TELECOMMUNICATIONS PRODUCTS AND SERVICES. The markets for technology, Internet and telecommunications products and services are similarly large and intensely competitive. In addition, the Internet services and e-commerce markets are new and rapidly evolving. The Company expects the competition to intensify further in these markets in the future. Barriers to entry for e-commerce are relatively low as current and new competitors can launch new Web sites at relatively low costs. Big Planet's online shopping services also compete with other channels of distribution, including catalogue sales and traditional retail sales. Big Planet currently or potentially competes with other companies for its Internet and telecommunications services and products, including:

- \* Established, large online services providers such as America Online and Microsoft Network,
- \* Local, regional and national Internet service providers such as MindSpring and Earthlink,
- \* National telecommunications companies such as AT&T Corporation, MCI WorldCom, Inc. and Sprint Corporation, and
- \* Numerous e-commerce Web sites such as Amazon.com and Buy.com.

Many of Big Planet's competitors have much greater name recognition and financial resources than the Company. In addition, the Company understands that some e-commerce vendors have elected to sell products for little or no gross margins and to generate revenue through the sale of advertising. Big Planet would have a difficult time competing based on price with such vendors because its distribution system results in a commission payment based on such sales. Big Planet may be at a disadvantage because it relies upon services and products provided by third parties and must rely on its ability to acquire quality and reliable services from vendors at a price that allows its distributors to sell services at competitive rates and still generate attractive commissions. Big Planet attempts to compete with other companies in this market through offering convenient access to a wide variety of technology, Internet and telecommunications services and products at competitive prices with a high level of customer service. There can be no assurance that Big Planet's business and results of operations will not be harmed by the intense competition in the technology, Internet and telecommunications market.

NETWORK MARKETING COMPANIES. The Company also competes with other direct selling organizations, some of which have a longer operating history and higher visibility, name recognition and financial resources. The leading network marketing company in the Company's existing markets is Amway Corporation and its affiliates. The Company competes for new distributors on the strength of its multiple business opportunities, product offerings, Global Compensation Plan, management strength and appeal of the Company's international operations. The Company anticipates the entry of many more direct selling organizations into the marketplace as this distribution channel expands over the next several years and as existing competitors expand into new markets. In order to successfully compete in this market and attract and retain distributors, the Company must maintain the attractiveness of its business opportunities to its distributors. There can be no assurance that the Company will be able to successfully meet the challenges posed by this increased competition.

#### INTELLECTUAL PROPERTY

The Company's major trademarks are registered in the United States and in many other countries, and the Company considers its trademark protection to be very important to its business. The major trademarks include the following: Nu Skin, Interior Design Nutritionals, IDN, Pharmanex, Big Planet, and LIFEPAK. The Company generally registers its important trademarks in the United States and each market where the Company operates or has plans to operate. In addition, a number of the Company's products are based on proprietary technologies and formulations.

## GOVERNMENT REGULATION

**DIRECT SELLING ACTIVITIES.** Direct selling activities are regulated by various federal, state and local governmental agencies in the United States and foreign countries. These laws and regulations are generally intended to prevent fraudulent or deceptive schemes, often referred to as "pyramid," "money games" or "chain sales" schemes, that promise quick rewards for little or no effort, require high entry costs, use high pressure recruiting methods and/or do not involve legitimate products. The laws and regulations in the Company's current markets often:

- \* Impose cancellation/product return, inventory buy-backs and cooling-off rights for consumers and distributors,
- \* Require the Company or its distributors to register with governmental agencies,
- \* Impose reporting requirements, and/or
- \* Impose upon the Company requirements, such as requiring distributors to maintain levels of retail sales to qualify to receive commissions, to ensure that distributors are being compensated for sales of products and not for recruiting new distributors.

The extent and provisions of these laws, however, vary from country to country and can impose significant restrictions and limitations on the Company's business operations. For example, in South Korea, the Company cannot pay more than 35% of its revenue to its distributors in any given month. In Germany, the German Commercial Code prohibits using direct salespersons to promote multi-level marketing arrangements by making the inducement to purchase products for resale illegal. Accordingly, the Company, through its German subsidiary, sells products to consumers through a "commercial agent" rather than a distributor. As a result, in Germany the Company is subject to potential tax and social insurance liability as well as agency laws governing the termination of commercial agents. The European Commission is also currently monitoring the direct sales industry which could lead to European Union level regulation in the Company's markets in Europe.

Based on the Company's research conducted in opening existing markets, the nature and scope of inquiries from government regulatory authorities, and the Company's history of operations in such markets to date, the Company believes that its method of distribution is in compliance in all material respects with the laws and regulations relating to direct selling activities of the countries in which the Company currently operates. The PRC currently has laws in place that prohibit the Company from conducting business in such market using the Company's existing business model. The PRC recently announced its intention to lift this temporary ban in 2003. There can be no assurance, however, that the Company will be allowed to conduct business in new markets or continue to conduct business in each of its existing markets. See "Risk Factors - -- Laws and regulations may prohibit or severely restrict our direct sales efforts and cause our sales and profitability to decline" for additional discussion of the regulatory environment for network marketing.

**REGULATION OF PERSONAL CARE AND NUTRITIONAL PRODUCTS.** The Company's personal care and nutritional products and related promotional and marketing activities are subject to extensive governmental regulation by numerous domestic and foreign governmental agencies and authorities. These include the Food and Drug Administration (the "FDA"), the Federal Trade Commission (the "FTC"), the Consumer Product Safety Commission, and the United States Department of Agriculture in the United States, State Attorneys General and other state regulatory agencies, and the Ministry of Health and Welfare in Japan.

The Company's markets have varied regulations concerning product formulation, labeling, packaging and importation. These laws and regulations often require the Company to, among other things:

- \* Reformulate products for a specific market to meet the specific product formulation laws of such country,

- \* Conform product labeling to the regulations in each country, and
- \* Register or qualify products with the applicable government authority or obtain necessary approvals or file necessary notifications for the marketing of such products.

For example, in Japan, the Ministry of Health and Welfare requires the Company to have an import business license and to register each personal care product imported into Japan. The Company must also reformulate many products to satisfy other Ministry of Health and Welfare regulations. In Taiwan, all "medicated" cosmetic and pharmaceutical products require registration. These regulations can limit the Company's ability to import products into the Company's markets and can delay introductions of new products into markets as the Company goes through the registration and approval process for such products. The sale of cosmetic products is regulated in the European Union member states under the European Union Cosmetics Directive, which requires a uniform application for foreign companies making personal care product sales.

Nutritional supplements are strictly regulated in the Company's markets. These markets have varied regulations that apply to and distinguish nutritional health supplements from "drugs" or "pharmaceutical products." For example, the Company's products are regulated by the FDA of the United States under the Federal Food, Drug and Cosmetic Act. The Federal Food, Drug and Cosmetic Act has been amended several times with respect to nutritional supplements, most recently by the Nutrition Labeling and Education Act and the Dietary Supplement Health and Education Act. The Dietary Supplement Health and Education Act establishes rules for determining whether a product is a dietary supplement. Under this statute, dietary supplements are regulated more like foods than drugs, are not subject to the food additive provisions of the law, and are generally not required to obtain regulatory approval prior to being introduced to the market. None of this infringes, however, upon the FDA's power to remove an unsafe substance from the market. In the event a product, or an ingredient in a product, is classified as a drug or pharmaceutical product in any market, the Company will generally not be able to distribute such product in such market through the Company's distribution channel because of strict restrictions applicable to drug and pharmaceutical products. For example, certain of Pharmanex's nutritional products, such as BIOGINGKO 27/7 and St. John's Wort, may not be marketed through the direct sales channel in certain European markets, such as Germany and Austria, and CHOLESTIN cannot be marketed in South Korea. In addition, the FDA has recently appealed the decision of a federal district court that CHOLESTIN could be sold as a dietary supplement under the Dietary Supplement Health and Education Act. If the FDA succeeds in overturning the district court's decision, the Company will be unable to sell CHOLESTIN in its current form without first obtaining FDA approval.

Many of the Company's existing markets also regulate product claims and advertising. These laws regulate the types of claims and representations that can be made regarding the efficacy of products, particularly dietary supplements. Accordingly, these regulations can limit the ability of the Company and its distributors to inform consumers of the full benefits of the Company's products. This can make it difficult to adequately distinguish the Company's quality products from lower-price products of poor quality that do not offer the same level of benefits. In Japan, the Company and its distributors are severely restricted in making any claims concerning the health benefits of the Company's nutritional supplements. In the United States, the Company is unable to make any claim that any of the Company's nutritional supplements will diagnose, cure, mitigate, treat or prevent disease. The Dietary Supplement Health and Education Act, however, permits substantiated, truthful and non-misleading statements of nutritional support to be made in labeling, such as statements describing general well being resulting from consumption of a dietary ingredient or the role of a nutrient or dietary ingredient in affecting or maintaining a structure or a function of the body. The FDA recently issued final regulations concerning these issues. One of the strategic purposes of the Company's acquisition of Pharmanex was to obtain additional resources to enhance the Company's ability to comply with these requirements in the Company's markets.

The FTC similarly requires that product claims be substantiated. In 1994, Nu Skin International, Inc., a subsidiary of the Company ("Nu Skin International"), and three of its distributors entered into a consent decree with the FTC with respect to its investigation of product claims and distributor practices. As part of the settlement of this investigation, Nu Skin International paid approximately \$1.0 million to the FTC. In August

1997, Nu Skin International reached a settlement with the FTC with respect to product claims and its compliance with the 1994 consent decree, pursuant to which settlement Nu Skin International paid \$1.5 million to the FTC.

The Company and its vendors are also subject to laws and regulations governing the manufacturing of the Company's products. For example, in the United States the FDA regulations establish Good Manufacturing Practices for foods and drugs. The FDA has also proposed detailed Good Manufacturing Practices for nutritional supplements; however, no such regulations have yet been adopted.

To date, the Company has not experienced any difficulty maintaining its import licenses but has experienced complications regarding health and safety and food and drug regulations for nutritional products. Many of the Company's products have required reformulation to comply with local requirements. In addition, in Europe there is no uniform legislation governing the manufacture and sale of nutritional products. Complex legislation governing the manufacturing and sale of nutritional products in this market has inhibited the Company's ability to gain quick access to this market for the Company's nutritional supplements. These conditions could continue to delay sales of the Company's nutritional supplements in these markets, particularly Germany, which already has a large nutritional, herbal and dietary products industry. Currently, the Company is only marketing its core nutritional products in a limited number of countries in the European market.

**INTERNET/TELECOMMUNICATIONS REGULATION.** In the United States, Internet service providers are generally considered "enhanced service providers" and are exempt from federal and state regulations governing common carriers. Accordingly, Big Planet's provision of Internet access services is currently exempt from tariff, certification and rate regulation. Nevertheless, regulations governing disclosure of confidential information, copyright, excise tax and other requirements apply to Big Planet's provision of Internet access services. In addition, the applicability of certain existing laws to the Internet is uncertain. The majority of laws were adopted prior to the advent of the Internet and related technologies and do not clearly address unique issues associated with the Internet and related technologies. Additionally regulations directly or indirectly governing Internet service providers could be adopted in the future. Accordingly, there can be no assurance that operations will not be adversely affected by the adoption of any such laws or the application of existing laws to the Internet.

Big Planet's telecommunications products and services are subject to varying degrees of telecommunications regulation in each of the jurisdictions in the United States in which Big Planet operates. In the United States, domestic telecommunications service and international communications services in the United States are subject to the provisions of the Communications Act, as amended by the Telecommunications Act of 1996, and Federal Communications Commission (the "FCC") regulations and rules adopted thereunder, as well as the applicable laws and regulations of the various states. Big Planet currently offers long distance and cellular services through master agency relationships with Qwest Communications, AT&T Wireless and Encore Telecommunications. Under such relationships, Qwest, AT&T and Encore are the regulated provider of such services and Big Planet is not subject to the jurisdiction of state or federal telecommunications regulatory bodies in connection with the offering of such products and services. Big Planet is also currently providing enhanced voice and data communication services as a result of its recent transaction with I-Link. Although these services are currently not regulated by state or federal telecommunications agencies, the FCC is conducting an inquiry into the applicability of traditional telecommunications regulations to such services. Currently, the I-Link services can be considered "enhanced services" exempt from federal and state regulations governing common carriers. Notwithstanding the foregoing, Big Planet is currently authorized on both a federal and state level (in substantially all 50 states) to provide traditional long distance telecommunications service. To the extent Big Planet elects to become a reseller of long distance services or the provision of enhanced voice and data communication services becomes subject to regulations, Big Planet may become subject to rules and regulations which may impose material burdens on the Big Planet's operations or financial performance.

Big Planet is not currently providing Internet or telecommunications services in any foreign markets. In overseas markets, such services would be subject to the regulatory regimes in each of the countries in which it seeks to conduct business. Local regulations range from permissive to restrictive, depending upon the country. Many overseas telecommunications markets are undergoing dramatic changes as a result of privatization and deregulation. Despite recent trends toward deregulation, some countries do not currently permit competition in

the provision of public switched voice telecommunications services, which will limit Big Planet's and other similarly situated United States-based carriers' ability to provide telecommunications services in some markets. Some countries, including Japan, presently subject Internet access service to regulatory oversight under existing telecommunications laws in some circumstances.

**OTHER REGULATORY ISSUES.** As a United States entity operating through subsidiaries in foreign jurisdictions, the Company is subject to foreign exchange control and transfer pricing laws that regulate the flow of funds between the Company's subsidiaries and the Company for product purchases, management services and contractual obligations such as the payment of distributor commissions. The Company believes that it is operating in compliance with all applicable foreign exchange control and transfer pricing laws. However, there can be no assurance that the Company will continue to be found to be operating in compliance with foreign exchange control and transfer pricing laws, or that such laws will not be modified, which, as a result, may require changes in the Company's operating procedures.

As is the case with most companies that operate in the Company's product categories, the Company has from time to time received inquiries from government regulatory authorities regarding the nature of the Company's business and other issues such as compliance with local direct selling, customs, taxation, foreign exchange control, securities and other laws. Although to date none of these inquiries has resulted in a finding materially adverse to the Company, adverse publicity resulting from inquiries into the Company's operations by United States and state government agencies in the early 1990s, stemming in part from alleged inappropriate product and earnings claims by distributors, and in the mid 1990s resulting from adverse media attention in South Korea, harmed the Company's business and results of operations. The Company could face similar inquiries in the future, which, either as a result of findings adverse to the Company as a result of adverse publicity resulting from the instigation of such inquiries, could harm the Company's business and results of operations.

Based on the Company's experience and research and the nature and scope of inquiries from government regulatory authorities, the Company believes that it is in material compliance with all regulations applicable to the Company. Despite this belief, the Company could be found not to be in material compliance with existing regulations as a result of, among other things, the considerable interpretative and enforcement discretion given to regulators or misconduct by independent distributors.

Any assertion or determination that the Company or its distributors are not in compliance with existing laws or regulations could harm the Company's business or results of operations. In addition, in any country or jurisdiction, the adoption of new laws or regulations or changes in the interpretation of existing laws or regulations could generate negative publicity and/or harm the Company's business and results of operations. Government agencies and courts in any of the Company's markets could use their discretionary powers and authority to interpret and apply laws in a manner that would limit the Company's ability to operate or otherwise harm the Company's business. The Company cannot determine the effect, if any, that future governmental regulations or administrative orders may have on its business and results of operations. Governmental regulations in countries where the Company plans to commence or expand operations may prevent, delay or limit market entry of certain products or require the reformulation of such products. Regulatory action, whether or not it results in a final determination adverse to the Company, has the potential to create negative publicity, with detrimental effects on the motivation and recruitment of distributors and, consequently, on the Company's sales and earnings.

#### EMPLOYEES

As of December 31, 1999, the Company had approximately 2,800 full-time and part-time employees. None of the employees is represented by a union or other collective bargaining group. The Company believes its relationship with its employees is good, and does not currently foresee a shortage in qualified personnel needed to operate the Company's business.

## RISK FACTORS

There are certain significant risks that the Company faces, many of which are substantial in nature. The following risks and information should be considered in connection with the other information contained in this filing. The Securities and Exchange Commission (the "SEC") has issued regulations which require these risk factors to be presented in first person narrative and other "plain English" styles required by the SEC. The purpose of these requirements is to make the risk factors easier to understand and more clear.

### FAILURE TO SUCCESSFULLY IMPLEMENT THE DIVISIONAL STRATEGY COULD HARM OUR BUSINESS AND RESULTS OF OPERATIONS.

We have faced challenges in implementing our divisional strategy in 1999. The growth outlook for the year 2000 and beyond is based upon the success of this strategy of focusing on three divisions of products and opportunity. If we are unable to successfully integrate this strategy, or if the strategy does not generate increased distributor activity and productivity, then we may experience lower revenue, earnings and business synergies than we currently expect from such strategy. Some of the challenges include:

- \* Distributor uncertainty concerning the strategy, the implementation of the strategy and related changes to the distributor compensation plan,
- \* Longer than anticipated delays in obtaining incremental revenue growth and distributor growth from the implementation of the strategy,
- \* Unforeseen expenses or difficulties in the further implementation of the strategy, and
- \* Increasing strain on management to effectively manage a worldwide business that is growing in complexity and diversity across all three divisions and in all markets.

### IF THE NUMBER OR PRODUCTIVITY OF INDEPENDENT DISTRIBUTORS DOES NOT INCREASE, OUR REVENUE WILL NOT INCREASE.

To increase revenue, we must increase the number of and/or the productivity of our distributors. We can provide no assurances that distributor numbers will increase or remain constant or that productivity will increase. Over the past year, we have experienced a decline in the number of our distributors. This trend may continue. Distributors may terminate their services at any time, and, like most direct selling companies, there is high turnover among distributors from year to year. We cannot accurately predict how the number and productivity of distributors may fluctuate because we primarily rely upon existing distributors to sponsor and train new distributors and to motivate new and existing distributors. Operating results could be adversely affected if our existing and new business opportunities and products do not generate sufficient economic incentive or interest to retain existing distributors and attract new distributors. The number and productivity of distributors also depend on several additional factors, including:

- \* Adverse publicity regarding us, our products, our distribution channel or our competitors,
- \* The public's perception of our products and their ingredients,
- \* The public's perception of our distributors and direct selling businesses in general, and
- \* General economic and business conditions.

In addition, we may face "saturation" or maturity levels in a given country or market. This is of particular concern in Taiwan, where industry sources have estimated that up to 10% of the population is already involved in some form of direct selling. The maturity of certain of our markets could also affect our ability to attract and retain distributors in those markets.



ADVERSE ECONOMIC AND POLITICAL CONDITIONS IN SOME ASIAN MARKETS, PARTICULARLY JAPAN, COULD HARM OUR BUSINESS.

Economic and political conditions in most Asian markets have been poor in recent years and may not improve or may worsen. In 1998 and 1999 our revenue and net income decreased in part because of economic conditions in these markets and stagnant consumer confidence. Continued or worsening economic and political conditions in Asia, particularly in Japan given that market's significance to our operations, could further reduce our revenue and net income.

CURRENCY EXCHANGE RATE FLUCTUATIONS COULD LOWER OUR REPORTED REVENUE AND NET INCOME.

We recognize most of our revenue in non-United States markets using local currencies. We purchase inventory primarily in the United States and in U.S. dollars. In preparing our financial statements, we translate revenue and expenses in these countries from their local currencies into U.S. dollars using weighted average exchange rates. We had favorable exchange rate movement in 1999 that helped to partially offset the local currency decline in revenue in Japan. Given the uncertainty of exchange rate fluctuations, we cannot estimate the effect these fluctuations may have upon future business, product pricing, results of operations or financial condition. However, because nearly all revenue is realized in local currencies and the majority of cost of sales is denominated in U.S. dollars, gross profits will be positively affected by a weakening in the U.S. dollar and will be negatively affected by a strengthening of the U.S. dollar. Although we attempt to reduce exposure to exchange rate fluctuations by using foreign currency exchange contracts, we cannot be certain these contracts or any other hedging activity will effectively reduce exchange rate exposure.

GOVERNMENT INQUIRIES, INVESTIGATIONS AND ACTIONS COULD HARM OUR BUSINESS.

From time to time we receive formal and informal inquiries from various government regulatory authorities about our business and our compliance with local laws and regulations. Any assertion or determination that we or any of our distributors are not in compliance with existing laws or regulations could potentially harm our business. Even if governmental actions do not result in rulings or orders, they potentially could decrease distributor productivity and create negative publicity. Negative publicity could detrimentally affect our efforts to motivate and recruit new distributors and, consequently, reduce revenue and net income.

THE LOSS OF KEY HIGH-LEVEL DISTRIBUTORS COULD REDUCE OUR REVENUE.

Although we have approximately 500,000 distributors, approximately 300 distributors currently occupy the highest levels under the Global Compensation Plan. These distributors, together with their extensive networks of downline-sponsored distributors, account for substantially all of our revenue. As a result, the loss of a high-level distributor or a group of leading distributors in such distributor's network of downline distributors could significantly reduce our revenue.

LAWS AND REGULATIONS MAY PROHIBIT OR SEVERELY RESTRICT OUR DIRECT SALES EFFORTS AND CAUSE OUR SALES AND PROFITABILITY TO DECLINE.

Various government agencies throughout the world regulate direct sales practices, intending generally to prevent fraud. If we are unable to continue business in existing markets or commence operations in new markets because of such laws, our revenue and profitability will decline. The PRC and Singapore currently have laws that prohibit us from conducting business in such markets under our current distribution model. Other countries in which we currently do business could change their laws or regulations to negatively affect or prohibit completely direct sales efforts. Additionally, government agencies and courts in the countries where we operate may use their powers and discretion in interpreting and applying laws in a manner that limits our ability to operate or otherwise harms our business. Also, if any governmental authority brings a regulatory enforcement action against us that interrupts business, revenue and earnings would likely suffer. See "Government Regulation" for additional discussion of regulations and laws governing our direct sales practices.

#### CHALLENGES BY PRIVATE PARTIES COULD HARM OUR BUSINESS.

We are currently subject to litigation commenced by certain Canadian distributors in 1993 which involves claims under U.S. federal securities laws and state anti-pyramid laws. An adverse judicial decision in such lawsuit, a determination that our marketing system constitutes a security, or the initiation of additional lawsuits challenging the legality of our network marketing system would harm our business. In the United States, the network marketing industry and regulatory authorities have generally relied on the implementation of distributor rules and policies designed to promote retail sales, to protect consumers and to prevent inappropriate activities, such as inventory loading, to distinguish between legitimate network marketing distribution plans and unlawful pyramid schemes. We have adopted rules and policies based on those the FTC found acceptable in reviewing the legality of Amway Corporation's marketing system. We have also developed our rules and policies based on negotiations and discussions with the Attorney Generals' offices in several states and the FTC, and based on industry standards required by domestic and global direct sales associations. Legal and regulatory requirements concerning network marketing systems, however, involve a high level of subjectivity, are inherently fact based and are subject to judicial interpretation. For example, in a 1996 case, WEBSTER V. OMNITRITION, the Ninth Circuit Court of Appeals ruled that the existence of rules patterned after the rules reviewed by the FTC in the Amway case do not establish as a matter of law that a network marketing system is legal. The court indicated that a company may need to introduce evidence that the rules and policies are enforced and actually serve to deter inventory loading and encourage retail sales in order to demonstrate that a particular network marketing system is lawful. The Ninth Circuit also raised questions and issues concerning the effectiveness of the rules at issue in that case and referred the case back to the trial court. These issues have not been definitively addressed by either a regulatory body or court since WEBSTER V. OMNITRITION. Because of the foregoing, we can provide no assurance that we would not be harmed by the application or interpretation of statutes or regulations governing network marketing.

#### GOVERNMENT REGULATION OF PRODUCTS AND SERVICES MAY RESTRICT OR INHIBIT INTRODUCTION OF THESE PRODUCTS IN SOME MARKETS AND COULD HARM OUR BUSINESS.

We may be unable to introduce our products in some markets if we fail to obtain needed regulatory approvals, or if any product ingredients are prohibited. For example, the FDA is seeking to prohibit the marketing of our product CHOLESTIN as a dietary supplement in the United States. If the FDA prevails, this would adversely affect sales of CHOLESTIN in its current form. In addition, regulations in Germany and Austria currently prevent us from marketing certain products such as St. John's Wort and BIOGINKGO 27/7. In addition, some markets have restrictions on private competition and foreign ownership of telecommunications products and services. The Internet is an emerging technology and market and, as such, new laws and regulations could be adopted to regulate such market and services that could affect our business. Failure to introduce products or delays in introducing products could reduce revenue and decrease profitability. Regulators also may prohibit us from making therapeutic claims about products despite research and independent studies supporting such claims. These product claim restrictions could lower sales of some of our products. See "Government Regulation" for more information about government regulation of our products and services.

#### CHANGES IN TAX LAWS COULD HARM OUR BUSINESS.

We are subject to various domestic and foreign tax, foreign exchange, import duty and transfer price laws. These laws can be complex and subject to various interpretations. We are subject to various risks including:

- \* Changes in any such laws that result in higher taxes or duties, subject more of our income to taxation in higher tax-rate jurisdictions, subject our sales to point-of-sales or value-added taxes, or impose new or additional taxes.
- \* Any investigation or determination by regulatory authorities that we are not in compliance with such laws.

\* Inability to utilize foreign tax credits.

As we increase sales of our products and services over the Internet, we could become subject to more taxes in the future if such transactions become subject to greater taxation. In the United States, Congress passed the Internet Tax Freedom Act in 1998, which placed a three-year moratorium on state and local taxes on Internet access, unless such tax was already imposed prior to October 1, 1998, and on discriminatory taxes on electronic commerce. There is a possibility that Congress may not renew this legislation in 2001. If Congress chooses not to renew this legislation, U.S. state and local governments would be free to impose new taxes on electronically purchased goods. We may face similar situations in our foreign markets in the future.

LOSING SUPPLIERS OR RIGHTS TO SELL PRODUCTS COULD HARM OUR BUSINESS.

We currently acquire products and ingredients from a limited number of suppliers we consider to be among the best suppliers of products and ingredients. We also license the right to distribute some of our products from third parties. Losing any of these suppliers or licenses could restrict our ability to produce or distribute certain products and harm our sales as a result. We also obtain some of our botanical products from plants that can only be harvested once a year. As a result, problems growing a certain plant in a given year could limit our ability to produce a product with ingredients derived from that plant.

WE COULD BE SUBJECT TO PENALTIES FOR FAILING TO MEET MINIMUM PURCHASE REQUIREMENTS.

We have entered into several agreements that enable us to distribute CHOLESTIN and CORDYMAX CS-4, both well-publicized Pharmanex products, and certain products and services of Big Planet. These contracts contain minimum purchase commitments. If we fail to satisfy minimum purchase requirements under the Pharmanex license agreements or otherwise default on our obligations, we could be required to pay a penalty of up to approximately \$2.5 million in connection with the CHOLESTIN contract and up to approximately \$2.0 million in connection with the CORDYMAX CS-4 contract to terminate our obligations. If any of these licenses are terminated as a result, it could limit our ability to sell CHOLESTIN or CORDYMAX CS-4. If Big Planet does not satisfy the terms of its commitments under its minimum purchase agreements, the total aggregate termination penalties under such agreements could be approximately \$24.7 million. The largest of these commitments is for long distance telecommunications services. Big Planet is currently attempting to renegotiate the terms of this agreement.

OUR MARKETS ARE INTENSELY COMPETITIVE, AND MARKET CONDITIONS AND THE STRENGTHS OF COMPETITORS MAY HARM OUR BUSINESS.

The markets for personal care and nutritional products and technology, Internet and telecommunications services and products are intensely competitive. We also compete with other network marketing companies for distributors. Results of operations may be harmed by market conditions and competition in the future. Many competitors have much greater name recognition and financial resources than we have, which may give them a competitive advantage. Also, we currently do not have significant patent or other proprietary protection, and competitors may introduce products with the same natural ingredients and herbs as we use in our products. For example, CHOLESTIN, which is derived from the fermentation of red yeast on rice substrate, has received recent publicity. In response to this publicity, competitors have introduced competing red yeast products. Because of restrictions under regulatory requirements concerning claims about dietary supplements, we may have a difficult time differentiating our products from competitors' products. Accordingly, as a result of these competing products entering the nutritional market, sales of CHOLESTIN and other natural supplements could suffer. In addition the technology, Internet and telecommunications products and services market is very price sensitive.

IF WE FAIL TO KEEP PACE WITH INTERNET-RELATED AND OTHER TECHNOLOGICAL CHANGES, OUR BUSINESS MAY BE HARMED.

Direct selling companies are adapting their business models to integrate the Internet and other technological advances into their operations as more and more consumers purchase goods and services using the Internet instead of traditional retail and direct sales channels. The Internet and e-commerce markets are characterized by rapidly changing technology, evolving industry standards, and frequent new services and

enhancements to meet evolving customer demand. In 1999, we completed the acquisition of Big Planet which is postured to help us integrate the Internet into our business. Big Planet's and our other e-commerce initiatives' future success will depend on our ability to adapt to rapidly changing technologies, to adapt services to evolving industry standards and to continually improve the performance, features and reliability of our services. Failure to adapt to such changes could harm our business.

#### ADOPTION OF NEW INTERNET AND TECHNOLOGICAL ADVANCES COULD REQUIRE SUBSTANTIAL EXPENDITURES.

The widespread adoption of new Internet, networking or telecommunications technologies or other technological changes could require substantial expenditures to modify or adapt services or infrastructure. Big Planet incurred operating losses of approximately \$36 million in 1999 (\$13.7 million following the acquisition by us in July 1999), and we anticipate further operating losses over the next couple of years. We can provide no assurances that we will be able to integrate the Internet into our business in a profitable manner or that we will be able to operate Big Planet profitably or effectively market its products and services through a network marketing system.

#### SYSTEM FAILURES COULD HARM BUSINESS.

As Internet and other technology initiatives are integrated into our business, our success will depend on the efficient and uninterrupted operation of computer and communications hardware and software systems. These systems and operations are vulnerable to damage or interruption from fires, earthquakes, telecommunications failures and other events. They are also subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct. Despite any precautions, the occurrence of a natural disaster or other unanticipated problems could result in interruptions in services and reduce our revenue and profits.

#### BIG PLANET MAY BE LIABLE FOR INFORMATION DISSEMINATED THROUGH ITS INTERNET ACCESS SERVICE.

If Big Planet becomes liable for information provided by its users and carried on its Internet access service, Big Planet could be directly harmed and may be forced to implement new measures to reduce its exposure to this liability. The law relating to the liability of online services companies for information carried on or disseminated through their services is currently unsettled. Several private lawsuits currently are pending that seek to impose liability upon other online services companies. In addition, federal, state and foreign legislation has been proposed that imposes liability or prohibits the transmission over the Internet of different types of information.

#### OUR E-COMMERCE STRATEGIES AND BIG PLANET'S OPERATIONS WILL DEPEND ON THE DEVELOPMENT AND MAINTENANCE OF THE INTERNET INFRASTRUCTURE.

The success of Big Planet's service and our e-commerce strategies will depend largely on the development and maintenance of the Internet infrastructure. This includes maintenance of a reliable network backbone with the necessary speed, data capacity and security, as well as timely development of complementary products such as high speed modems, for providing reliable Internet access and services. Because global commerce and the online exchange of information is new and evolving, we cannot predict whether the Internet will prove to be a viable commercial marketplace in the long term. The Internet has experienced, and is likely to continue to experience, significant growth in the number of users and amount of traffic. If the Internet continues to experience an increased number of users, increased frequency of use or increased bandwidth requirements, the Internet infrastructure may be unable to support the demands placed on it. In addition, the performance of the Internet may be harmed by increased users or bandwidth requirements.

THE HOLDERS OF OUR CLASS B COMMON STOCK CONTROL OVER 90% OF THE COMBINED VOTING POWER, AND THIRD PARTIES WILL BE UNABLE TO GAIN CONTROL OF OUR COMPANY THROUGH PURCHASES OF CLASS A COMMON STOCK.

The ten original stockholders of our company together with their family members and affiliates have the ability to control the election of the board of directors and, as a result, future direction and operations, without the supporting vote of any other stockholder. These stockholders together with their family members and affiliates are able to control decisions about business opportunities, declaring dividends and issuing additional shares of Class A common stock or other securities. These stockholders own all outstanding shares of Class B Common Stock, which have ten-to-one voting privileges over shares of Class A Common Stock. Currently, these stockholders and their affiliates collectively own shares that represent more than 90% of the combined voting power of the outstanding shares of both classes of common stock. As long as these stockholders are majority stockholders, third parties will not be able to obtain control of our company through open-market purchases of shares of Class A Common Stock.

PRODUCT LIABILITY CLAIMS EXCEEDING PRODUCT LIABILITY INSURANCE COVERAGE COULD HARM OUR BUSINESS.

We may be required to pay for losses or injuries caused by our products. If product liability insurance coverage fails to cover fully future product liability claims, we could be required to pay substantial monetary damages, which could harm business. We currently maintain an insurance policy covering product liability claims with a \$1.0 million per claim and \$1.0 million annual aggregate limit and an umbrella policy of \$40 million.

SHARES ELIGIBLE FOR FUTURE SALE COULD AFFECT THE MARKET PRICE OF OUR CLASS A COMMON STOCK.

If our stockholders sell a substantial number of shares of Class A Common Stock in the public market, the market price of our Class A Common Stock could fall. Several of our principal stockholders hold a large number of shares of the outstanding Class A Common Stock and the Class B Common Stock that is convertible into Class A Common Stock. Our original stockholders, who own approximately 80% of the outstanding shares, have been subject to an agreement which has limited their ability to sell shares on the open market since our initial public offering in 1996. These restrictions will end on March 26, 2000, and these original stockholders will be free to sell their shares on the open market subject to the volume limitations imposed by Rule 144. A decision by one or more of these stockholders to sell their shares could lower the market price of the Class A Common Stock.

NOTE REGARDING FORWARD-LOOKING STATEMENTS. Certain statements made in this filing under the caption "Business" are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In addition, when used in this Report the words or phrases "will likely result," "expects," "intends," "will continue," "is anticipated," "estimates," "projects," "management believes," "the Company believes" and similar expressions are intended to identify "forward-looking statements" within the meaning of the Exchange Act.

Forward-looking statements include plans and objectives of management for future operations, including plans and objectives relating to our products and our future economic performance in each country in which we operate and our financial results. These forward-looking statements involve risks and uncertainties and are based on certain assumptions that may not be realized. Actual results and outcomes may differ materially from those discussed or anticipated. The forward-looking statements and associated risks set forth herein relate to, among other things:

- \* Our efforts to shift to a strategic, product-based divisional operating structure.
- \* Our development efforts with respect to new personal care products and nutritional products through our research and development resources and capabilities.

- \* Our expectation that we will renew our contract with our primary supplier and that we could source from other suppliers without great difficulty or significant increases in costs of goods.
- \* Our belief that the Pharmanex acquisition has helped position us to penetrate further the growing nutritional market and that Pharmanex's research and development activities provide us with a competitive advantage.
- \* Our belief that we are able to perform more quality research and development work due to lower costs.
- \* Our belief that technology, Internet and telecommunications products provide a compelling business opportunity and will allow us to reach new segments of the market.
- \* Big Planet's efforts to evaluate options for an IPHONE-like device in Japan and other Internet devices for its markets and its efforts to establish additional strategic relationships to expand Big Planet's product offering.
- \* The planned introduction of Internet services in Japan through the proposed relationship with Nifty Corporation.
- \* Upgrading of our technological resources to support distributors, including using the Internet in distributing products.
- \* Our compliance with applicable laws and regulations, including obtaining necessary product registrations and approvals.

All forward-looking statements are subject to known and unknown risks and uncertainties, including those discussed in the above-referenced Risk Factors, that could cause actual results to differ materially from historical results and those presently anticipated or projected. We wish to caution you not to place undue reliance on any such forward-looking statements, which speak only as of the date made. In light of the significant uncertainties inherent in forward-looking statements, the inclusion of any such statement should not be regarded as a representation by us or any other person that our objectives or plans will be achieved. We disclaim any obligation or intent to update any such factors or forward-looking statements to reflect future events or developments.

ITEM 2. PROPERTIES

The Company generally leases its warehouse, office, or distribution facilities in each geographic region in which the Company currently has operations. Nu Skin Enterprises believes that its existing and planned facilities are adequate for its current operations in each of its existing markets. The following table summarizes, as of March 10, 2000, Nu Skin Enterprises' major leased office and distribution facilities.

LOCATION	FUNCTION	APPROXIMATE SQUARE FEET
Provo, Utah*	Distribution center	198,000
Provo, Utah*	Corporate offices	125,000
San Francisco, California	Pharmanex corporate office	10,783
Redwood City, California	Laboratory	4,963
Los Angeles, California	Warehouse	30,000
Yokohama, Japan	Warehouse	40,000
Tokyo, Japan	Call center/distribution center	56,000
Tokyo, Japan	Central office/distribution center	28,000
Taipei, Taiwan	Central office/distribution center	35,000
Taoyuan, Taiwan	Warehouse/distribution center	46,000
Ontario, Canada	Office/warehouse	31,000
Venlo, Netherlands	Warehouse/offices	20,000

\*These facilities are leased from related parties.

In connection with the acquisition of Pharmanex, the Company acquired a production facility located in Huzhou, Zhejiang Province, China. The design and construction of this extraction and purification facility was completed in October 1994 and on-line production began in November 1994.

ITEM 3. LEGAL PROCEEDINGS

In February 1999, a federal district judge in Utah ruled that CHOLESTIN, one of Pharmanex's natural nutritional supplements, could be legally sold as a nutritional supplement under the Dietary Supplement Health and Education Act of 1994. The FDA had previously challenged the status of Cholestin as a dietary supplement, claiming it was a drug and could not be marketed without FDA approval. The FDA has since appealed to the Tenth Circuit Court of Appeals seeking to overturn the district court's decision. If the decision is overturned, the Company will not be able to sell CHOLESTIN in its current form without FDA approval.

In March 1993, a class action lawsuit entitled NATALIE CAPONE ON BEHALF OF HERSELF AND ALL OTHERS SIMILARLY SITUATED V. NU SKIN CANADA, INC., NU SKIN INTERNATIONAL, INC., BLAKE RONEY, ET AL., was filed against Nu Skin International and affiliated parties in federal district court in Utah alleging violations of the anti-fraud provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934, common law fraud and violations of the Utah Consumer Sales Practices Act. The plaintiffs in the case also seek injunctive relief as well as disgorgement of profits and restitution to the plaintiffs of earnings, profits and other compensation. In June 1997, the court denied NSI's motion for summary judgment but also denied the plaintiff's motion to certify a

similarly situated class of distributors. However, in May 1998 the court granted the plaintiff's motion to certify a similarly situated class of distributors based on more limited non-reliance claims under the Securities Act and the Utah Anti-Pyramid statute. The case has recently been assigned to a new judge and continues in discovery. The Company intends to continue to vigorously defend against this action.

In January 2000, a derivative lawsuit captioned KAREN KINDT, ON BEHALF OF NU SKIN ENTERPRISES, INC. V. BLAKE RONEY ET.AL was filed in the Court of Chancery in the State of Delaware in and for New Castle County against the Board of Directors alleging a breach of fiduciary duty and self-dealing in connection with the Company's acquisition of Nu Skin International in 1998, and the termination of the license agreements with Nu Skin USA and the acquisition of Big Planet in 1999. The Board of Directors has appointed a special litigation committee to investigate the validity of the complaint.

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

There were no matters submitted to a vote of the security holders during the fourth quarter of the fiscal year ended December 31, 1999.



PART II

ITEM 5. MARKET FOR REGISTRANTS COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The information required by Item 5 of Form 10-K is incorporated herein by reference from the information contained in the section captioned "Market for Registrant's Common Equity and Related Stockholder Matters" in the Company's 1999 Annual Report to Stockholders, sections of which are attached hereto as Exhibit 13.

ITEM 6. SELECTED FINANCIAL DATA

The information required by Item 6 of Form 10-K is incorporated herein by reference from the information contained in the section captioned "Selected Financial Data" in the Company's 1999 Annual Report to Stockholders, sections of which are attached hereto as Exhibit 13.

ITEM 7. MANagements DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by Item 7 of Form 10-K is incorporated herein by reference from the information contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's 1999 Annual Report to Stockholders, sections of which are attached hereto as Exhibit 13.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by Item 7A of Form 10-K is incorporated herein by reference from the information contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations-Currency Risk and Exchange Rate Information" and Note 16 to the Consolidated Financial Statements in the Company's 1999 Annual Report to Stockholders, sections of which are attached hereto as Exhibit 13.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by Item 8 of Form 10-K is incorporated herein by reference to the Consolidated Financial Statements and the related notes set forth in the Company's 1999 Annual Report to Stockholders, sections of which are attached hereto as Exhibit 13.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

The information required by Items 10, 11, 12, and 13 of Part III are hereby incorporated by reference to the Company's Definitive Proxy Statement filed or to be filed with the Securities and Exchange Commission not later than April 29, 2000.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

- (a) Documents filed as part of this Form 10-K:

1. Financial Statements (pursuant to Part II, Item 8)\*

Reports of Independent Accountants. \*\*

Consolidated Balance Sheets at December 31, 1998 and 1999

Consolidated Statements of Income for the years ended December 31, 1997, 1998, and 1999

Consolidated Statements of Stockholders' Equity for the years ended December 31, 1997, 1998, and 1999

Consolidated Statements of Cash Flows for the years ended December 31, 1997, 1998, and 1999

Notes to Consolidated Financial Statements

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\*Except as noted below, the foregoing are incorporated by reference to the Company's 1999 Annual Report to Stockholders, sections of which are attached hereto as Exhibit 13.

\*\*The report of Grant Thornton LLP is attached hereto as Exhibit 23.2 and incorporated herein by reference.

2. Financial Statement Schedules: Financial statement schedules have been omitted because they are not required or are not applicable, or because the required information is shown in the financial statements or notes thereto.

3. Exhibits: The following Exhibits are filed with this Form 10-K:

Exhibit Number -----	Exhibit Description -----
2.1	Stock Acquisition Agreement between Nu Skin Asia Pacific, Inc. and each of the persons on the signature pages thereof, dated February 27, 1998, incorporated by reference to Exhibit 2.1 of the Company's Annual Report on Form 10-K for the year ended December 31, 1997.
2.2	Restated Agreement and Plan of Reorganization and Merger by and between the Company, Sage Acquisition Corporation and Generation Health Holdings, Inc. dated as of October 16, 1998, incorporated by reference to Exhibit 2.1 to the Company's Amendment No.1 to Current Report on Form 8-K/A filed April 13, 1999.
2.3	Agreement and Plan of Merger dated as of May 3, 1999 by and among Nu Skin Enterprises, Inc., NSC Sub, Inc. NSG Sub, Inc., NSM Sub, Inc., NFB Sub, Inc., Nu Skin Canada, Inc., Nu Skin Guatemala, Inc., Nu Skin Guatemala, S.A., Nu Skin Mexico, Inc., Nu Skin Mexico, S.A. de C.V., Nu Family Benefits Insurance Brokerage, Inc. and certain stockholders, incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on June 25, 1999.

- 2.4 Agreement and Plan of Merger and Reorganization dated May 3, 1999 between and among the Company, Big Planet Holdings, Inc., Big Planet, Inc., Nu Skin USA, Inc., Richard W. King, Kevin V. Doman and Nathan W. Ricks, incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on July 28, 1999.
- 2.5 First Amendment to Agreement and Plan of Merger and Reorganization dated July 2, 1999 between and among the Company, Big Planet Holdings, Inc., Big Planet, Inc., Maple Hills Investment, Inc. (formerly Nu Skin USA, Inc.), Richard W. King, Kevin V. Doman and Nathan W. Ricks, incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K filed on July 28, 1999.
- 3.1 Amended and Restated Certificate of Incorporation of the Company incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (File No. 333-12073) (the "Form S-1").
- 3.2 Certificate of Amendment to the Amended and Restated Certificate of Incorporation incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998.
- 3.3 Certificate of Designation, Preferences and Relative Participating, Optional, and Other Special Rights of Preferred Stock and Qualification, Limitations and Restrictions Thereof, incorporated by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- 3.4 Amended and Restated Bylaws of the Company incorporated by reference to Exhibit 3.2 to the Company's Form S-1.
- 4.1 Specimen Form of Stock Certificate for Class a Common Stock incorporated by reference to Exhibit 4.1 to the Company's Form S-1.
- 4.2 Specimen Form of Stock Certificate for Class B Common Stock incorporated by reference to Exhibit 4.2 to the Company's Form S-1.
- 10.1 Form of Indemnification Agreement to be entered into by and among the Company and certain of its officers and directors incorporated by reference to Exhibit 10.1 to the Company's Form S-1.
- 10.2 Intentionally left blank.
- 10.3 Employment Contract, dated December 12, 1991, by and between Nu Skin Taiwan and John Chou incorporated by reference to Exhibit 10.3 to the Company's Form S-1.
- 10.4 Employment Agreement, dated May 1, 1993, by and between Nu Skin Japan and Takashi Bamba incorporated by reference to Exhibit 10.4 to the Company's Form S-1.
- 10.5 Form of Bonus Incentive Plan for Subsidiary Presidents incorporated by reference to Exhibit 10.18 to the Company's Form S-1.

- 10.6 Option Agreement by and between the Company and M. Truman Hunt incorporated by reference to Exhibit 10.19 to the Company's Form S-1.
- 10.7 Form of Amended and Restated Stockholders Agreement dated as of November 28, 1997, incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997.
- 10.8 Form of Management Services Agreement by and between NSIMG and each of Nu Skin USA, Inc. ("Nu Skin USA") and the other North American Affiliates, incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- 10.9 Form of Wholesale Distribution Agreement by and between NSI and each of Nu Skin USA and the other North American Affiliates, incorporated by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- 10.10 Form of Licensing and Sales Agreement by and between NSI and each of Nu Skin USA and the other North American Affiliates, incorporated by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- 10.11 Form of Trademark\Tradename Licensing Agreement by and between NSI and each of Nu Skin USA and the other North American Affiliates, incorporated by reference to Exhibit 10.36 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- 10.12 Tax Sharing and Indemnification Agreement dated December 31, 1997, by and among NSI, Nu Skin USA, and the shareholders of NSI and Nu Skin USA and their successors and assigns, incorporated by reference to Exhibit 10.37 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- 10.13 Assumption of Liabilities and Indemnification Agreement dated December 31, 1997, by and between NSI and Nu Skin USA, incorporated by reference to Exhibit 10.38 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- 10.14 Employee Benefits Allocation Agreement by and between NSI and Nu Skin USA, incorporated by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- 10.15 Form of Licensing Agreement between NSI and Big Planet, incorporated by reference to Exhibit 10.40 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- 10.16 Form of Management Services Agreement between NSI and Big Planet, incorporated by reference to Exhibit 10.41 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.

- 10.17 Warehouse Lease Agreement dated March 1996, between NSI and Aspen Investments, Ltd., incorporated by reference to Exhibit 10.42 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- 10.18 Lease Agreement dated January 27, 1995, by and between NSI and Scrub Oak, Ltd., incorporated by reference to Exhibit 10.43 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- 10.19 Sublease Agreement dated January 1, 1998, by and between NSI and Nu Skin USA, incorporated by reference to Exhibit 10.44 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- 10.20 Warehouse Lease Agreement (Annex) dated October 1, 1993, by and between NSI and Aspen Investments, Ltd., incorporated by reference to Exhibit 10.45 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- 10.21 Contribution and Distribution Agreement dated as of December 31, 1997, by and between NSI and Nu Skin USA incorporated by reference to Exhibit 10.46 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- 10.22 Form of the Company's Employee Incentive Bonus Plan, incorporated by reference to Exhibit 10.47 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- 10.23 Amendment in Total and Complete Restatement of Deferred Compensation Plan, incorporated by reference to Exhibit 10.48 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- 10.24 Form of Deferred Compensation Plan (New Form), incorporated by reference to Exhibit 10.49 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- 10.25 Amendment in Total and Complete Restatement of NSI Compensation Trust, incorporated by reference to Exhibit 10.50 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- 10.26 Employment Agreement by and between Pharmanex, Inc. and William McGlashan, Jr., incorporated by reference to Exhibit 10.51 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- 10.27 Asset Purchase Agreement by and among the Company, Nu Skin United States, Inc., and Nu Skin USA, dated as of March 8, 1999, incorporated by reference to Exhibit 10.52 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.

- 10.28 Termination Agreement by and between NSI and Nu Skin USA, dated as of March 8, 1999, incorporated by reference to Exhibit 10.53 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- 10.29 Indemnification Limitation Agreement by and among the Company, Nu Skin United States, Inc., NSI, Nu Skin USA, and the other parties who executed such agreement, incorporated by reference to Exhibit 10.54 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- 10.30 Amendment No. 1 to Amended and Restated Stockholders Agreement dated as of November 28, 1997, incorporated by reference to Exhibit 10.55 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- 10.31 Amendment No. 2 to Amended and Restated Stockholders Agreement.
- 10.32 Note and Pledge Agreement between the Company and William McGlashan Jr., incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999.
- 10.33 Amended and Restated Employment Agreement between Pharmanex and William McGlashan Jr., incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999.
- 10.34 First Amendment to Indemnification Limitation Agreement dated as of May 3, 1999 between Nu Skin Enterprises, Inc., Nu Skin USA, Inc., and the Stockholders of the acquired entities identified therein, incorporated by reference to exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 28, 1999.
- 10.35 Credit Agreement dated May 8, 1998 by and among Nu Skin Enterprises, Inc., Nu Skin Japan Co. Ltd., the Lenders named therein and ABN AMRO Bank N.V., as agent for the Lenders, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1998.
- 10.36 Amendment No. 1 to Credit Agreement dated June 30, 1998, incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999.
- 10.37 Amendment No. 2 to Credit Agreement dated February 22, 1999, incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999.
- 10.38 Amendment No. 3 to Credit Agreement dated May 10, 1999, incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999.

- 10.39 Second Amended and Restated Nu Skin Enterprises, Inc. 1996 Stock Incentive Plan (corrected version).
- 10.40 Mutual Release of Claims and Modification Agreement dated as of October 16, 1999 by and among Nu Skin Enterprises and the Stockholder Representatives on behalf of the former stockholders of Generations Health Holdings, Inc., incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-Q for the quarter ended September 30, 1999.
- 10.41 Services Agreement between Grant F. Pace and the Company.
- 10.42 Base Form of Stock Option Agreement.
- 10.43 Consulting Agreement by and between Max L. Pinegar and Nu Skin International, Inc.
- 10.44 Assignment of Leasehold Improvements by and between Big Planet, Inc. and Maple Hills Investment dated as of July 13, 1999.
- 13 1998 Annual Report to Stockholders (Only items incorporated by reference).
- 21.1 Subsidiaries of the Company.
- 23.1 Consent of PricewaterhouseCoopers LLP.
- 23.2 Consent and Report of Grant Thornton LLP.
- 27. Financial Data Schedule.

(b) The Company did not file any current reports on Form 8-K during the fourth quarter.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 23, 2000.

NU SKIN ENTERPRISES, INC.

By: /s/ Steven J. Lund  
Steven J. Lund, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 23, 2000.

SIGNATURE -----	CAPACITY IN WHICH SIGNED -----
/s/ Blake M. Roney Blake M. Roney	Chairman of the Board
/s/ Steven J. Lund Steven J. Lund	President, Chief Executive Officer, and Director (Principal Executive Officer)
/s/ Corey B. Lindley Corey B. Lindley	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Accounting Officer)
/s/ Sandra N. Tillotson Sandra N. Tillotson	Senior Vice President, Director
/s/ Keith R. Halls Keith R. Halls	Senior Vice President, Director
/s/ Brooke B. Roney Brooke B. Roney	Senior Vice President, Director
/s/ Daniel W. Campbell Daniel W. Campbell	Director
/s/ E. J. "Jake" Garn E. J. "Jake" Garn	Director
/s/ Paula Hawkins Paula Hawkins	Director
/s/ Andrew D. Lipman Andrew D. Lipman	Director
/s/ Max L. Pinegar Max L. Pinegar	Senior Vice President, Director



EXHIBIT INDEX

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10.20	Warehouse Lease Agreement (Annex) dated October 1, 1993, by and between NSI and Aspen Investments, Ltd., incorporated by reference to Exhibit 10.45 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
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Exhibit Number -----	Exhibit Description -----
10.29	Indemnification Limitation Agreement by and among the Company, Nu Skin United States, Inc., NSI, Nu Skin USA, and the other parties who executed such agreement, incorporated by reference to Exhibit 10.54 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
10.30	Amendment No. 1 to Amended and Restated Stockholders Agreement dated as of November 28, 1997, incorporated by reference to Exhibit 10.55 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
10.31	Amendment No. 2 to Amended and Restated Stockholders Agreement.
10.32	Note and Pledge Agreement by and between the Company and William McGlashan Jr., incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999.
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10.34	First Amendment to Indemnification Limitation Agreement dated as of May 3, 1999 between Nu Skin Enterprises, Inc., Nu Skin USA, Inc., and the Stockholders of the acquired entities identified therein, incorporated by reference to exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 28, 1999.
10.35	Credit Agreement dated May 8, 1998 by and among Nu Skin Enterprises, Inc., Nu Skin Japan Co. Ltd., the Lenders named therein and ABN AMRO Bank N.V., as agent for the Lenders, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1998.
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10.37	Amendment No. 2 to Credit Agreement dated February 22, 1999, incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999.
10.38	Amendment No. 3 to Credit Agreement dated May 10, 1999, incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999.
10.39	Second Amended and Restated Nu Skin Enterprises, Inc. 1996 Stock Incentive Plan (corrected version).
10.40	Mutual Release of Claims and Modification Agreement dated as of October 16, 1999 by and among Nu Skin Enterprises and the Stockholder Representatives on behalf of the former stockholders of Generations Health Holdings, Inc., incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-Q for the quarter ended September 30, 1999.

Exhibit Number	Exhibit Description
10.41	Services Agreement between the Company and Grant F. Pace.
10.42	Base Form of Stock Option Agreement.
10.43	Consulting Agreement between Max L. Pinegar and Nu Skin International, Inc.
10.44	Assignment of Leasehold Improvements by and between Big Planet, Inc. and Maple Hills Investment, Inc. dated as of July 13, 1999.
13	1998 Annual Report to Stockholders (Only items incorporated by reference).
21.1	Subsidiaries of the Company.
23.1	Consent of PricewaterhouseCoopers LLP.
23.2	Consent and Report of Grant Thornton LLP.
27.	Financial Data Schedule.

AMENDED AND RESTATED STOCKHOLDERS AGREEMENT

This Amendment No.2 to the Amended and Restated Stockholders Agreement (this "AMENDMENT") is entered into as of May 13, 1999 by and among the Stockholders who have executed the signature pages of this Amendment and Nu Skin Enterprises, Inc., a corporation organized under the laws of the State of Delaware (the "COMPANY"). This Amendment shall be binding upon each person who executes this Amendment notwithstanding the fact that any other Stockholders fail or refuse to execute this Amendment. The capitalized terms used in this Amendment and not otherwise defined herein shall have the meanings given such terms in the Amended and Restated Stockholders Agreement dated November 28, 1997, as previously amended by Amendment No. 1 to such agreement (hereinafter the "AMENDED AND RESTATED STOCKHOLDERS AGREEMENT").

RECITALS

A. WHEREAS, the Company is proposing to undertake the registration of shares for resale by the Stockholders and the former stockholders of Pharmanex, Inc. pursuant to an underwritten public offering (the "PROPOSED PUBLIC OFFERING"); and

B. WHEREAS, the Company is willing to continue to proceed with the Proposed Public Offering only if the Stockholders agree to extend certain resale restrictions set forth in the Amended and Restated Stockholders Agreement;

NOW, THEREFORE, in consideration of the premises and the mutual agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereto irrevocably agree as follows:

1. Section 2.2 Lock-up Agreement is hereby amended to lengthen the lock-up period for all Stockholders other than the trusts identified on Schedule B. Accordingly Section 2.2 is amended to read in its entirety as follows:

"2.2 Lock-up Agreement. Notwithstanding any provision of this Agreement to the contrary, except for Transfers pursuant to Sections 3 and 5, from and after the date hereof each Stockholder (other than the trusts identified on Schedule B) will not, without the prior written consent of the Company, jointly or individually, Transfer, offer, make any short sale of, contract to sell, lend, grant any option for the purchase of, or otherwise dispose of, directly or indirectly, any Shares owned of record or beneficially by such Stockholder until June 30, 2000 (the "INITIAL LOCK-UP PERIOD"); provided, however, that the Initial Lock-up Period shall be further extended until up to December 31, 2000 (the "EXTENDED LOCK-UP PERIOD") with respect to any Stockholder who, together with any of such Stockholder's Stockholder Controlled Entities, receives additional gross proceeds (the "ADDITIONAL SALE PROCEEDS") from the sale of shares in one or any combination of public offerings (excluding the sale of up to 9 million shares in the Proposed Public Offering, but including any shares in excess of 9 million shares sold in the Proposed Public Offering), private placements, or any Company share repurchases (with each Stockholder eligible to participate in any private placements or share repurchases at a level at least equal to that Stockholder's

percentage equity ownership interest in the Company immediately preceding the Company's initial public offering). The extent of the Extended Lock-up Period shall be determined by multiplying six months by a fraction (the "EXTENDED LOCK-UP FRACTION"). The numerator of the Extended Lock-up Fraction shall be equal to the actual Additional Sale Proceeds received by the Stockholder divided by \$120 million. The denominator of the Extended Lock-up Fraction shall be equal to the Stockholder's percentage ownership interest in the Company immediately preceding the Company's initial public offering. For example, if a Stockholder received Additional Sale Proceeds of \$5 million, and that Stockholder's percentage ownership interest prior to the initial public offering were 5%, then the Extended Lock-up Period would run for 5 months, calculated as follows:

$$\begin{array}{r} \$5 \text{ million} / \$120 \text{ million} \\ \text{-----} \\ 6 \text{ months} \quad \times \quad .05 = \quad 5 \text{ months} \end{array}$$

If any Stockholder elects not to participate in a liquidity event that generates Additional Sale Proceeds, then the lock-up period for that Stockholder shall expire on June 30, 2000. In the event Additional Sale Proceeds exceed \$120 million, then the Extended Lock-up Period shall be subject to an additional negotiated extension."

2. Section 2.3 Post Lock-up Selling Restrictions is hereby amended as follows:

(a) Section 2.3 is hereby amended to provide that the Restricted Resale Period for each Stockholder (other than the trusts identified on Schedule B to the Amended and Restated Stockholders Agreement) shall expire one year from the expiration of the Extended Lock-up Period with respect to that Stockholder and that the Restricted Resale Period for the trusts identified on Schedule B would expire on the earlier of December 31, 2001 or the date the Restricted Resale Period ends for any other Stockholder. Accordingly, the first sentence of Section 2.3 is amended to read in its entirety as follows:

"2.3 Post Lock-up Selling Restrictions. Except as otherwise provided herein, for a one year period following the expiration of the Initial

Lock-up Period or the Extended Lock-up Period, whichever is the last to expire as it applies to each Stockholder (the "Restricted Resale Period"), all sales of Shares in a public resale pursuant to Section 4(1) of the Securities Act or Rule 144 promulgated thereunder or pursuant to any other exempt transaction under the Securities Act, shall not exceed in any calendar quarter the Stockholder's specified Rule 144 Allotment (as defined below). Notwithstanding the foregoing, the Restricted Resale Period for the trusts identified on Schedule B would run from March 26, 1999 through the earlier to occur of (a) December 31, 2001, and (b) the date the Restricted Resale Period expires for any other stockholder."

(b) The Stockholders agree that the provisions of subparagraphs 2.3.1 through 2.3.6 apply to all public resales whether effected pursuant to Rule 144, Section 4(1) of the Securities Act or any other available exemption.

(c) Section 2.3.7 is hereby amended to read in its entirety as set forth below to clarify the terms of such subparagraph:

"2.3.7. Following the expiration of the Restricted Resale Period, each Stockholder agrees not to sell in public resales more shares in any calendar quarter than the greater of (a) one percent of the outstanding shares of Class A Common Stock as shown by the most recent report or statement published by the Company, and (b) the average reported weekly volume of trading in the Class A Common Stock determined in accordance with the provisions of Rule 144(e)."

(d) All other terms and conditions of the first paragraph of Section 2.3 of the Amended and Restated Stockholders Agreement and its subparagraphs (2.3.1 through 2.3.7) shall remain in full force and effect.

3. Effect of Amendment. This Amendment amends the Amended and Restated Stockholders Agreement only to the extent expressly provided herein. Pursuant to Section 12.5 of the Amended and Restated Stockholders Agreement, this Amendment shall be binding upon each of the Stockholders who elects to execute this Amendment even if one or more of the Stockholders fail or refuse to execute this Amendment. To the extent provisions of the Amended and Restated Stockholders Agreement are not expressly modified or amended by this Agreement, such unamended provisions shall continue in full force and effect and shall be construed together with the amendments set forth herein as the entire agreement of the parties hereto. The Amendment shall not apply to any Stockholder who does not execute this Amendment, but such Stockholder shall remain subject to and obligated under the terms of the Amended and Restated Stockholders Agreement, without giving effect to this Amendment, and this Amendment shall in no way be interpreted as limiting the obligations or restrictions in the Amended and Restated Stockholders Agreement with respect to any Stockholder who does not execute this Amendment Agreement. In the event a Proposed Public Offering is not completed by November 1, 1999, or if prior to such date the Company provides written notice to the Stockholders that it has elected not to proceed with the Proposed Public Offering, then the amendments set forth in Sections 1 and 2 hereof shall expire and no longer be of any force or effect from November 1, 1999 (if a secondary offering has not been completed by such date) or the date of such written notice (in the event the Company provides written notice it has elected not to proceed with such offering).

4. Liquidity Events. In consideration of the redemption of 20,000 shares of Class A Common Stock by the Company from each of Kirk Roney and Rick Roney at a purchase price of \$16.00 per share, each of Kirk Roney and Rick Roney agree to execute and be bound by the terms of the Amendment No. 1 to Amended and Restated Stockholders Agreement. Upon execution of such amendment, each of Kirk Roney and Rick Roney shall have the same right to participate in any private or public liquidity events as the other Stockholders. Each Stockholder hereby agrees that the right to participate in liquidity events shall be subject to the following terms.

4.1 The 9 million shares allocated to the Stockholders party to the Amended and Restated Stockholder Agreement in the Proposed Public Offering shall be allocated among the Stockholders, together with their respective Stockholder Controlled Entities, in accordance with the percentages set forth on Schedule A to the Amended and Restated Stockholders Agreement, including any additional shares that may be allocated as a result of the Pharmanex stockholders not selling their entire allotment, or as a result of the exercise of the over-allotment option by the underwriters. In the event a Stockholder, together with his or her respective Stockholder Controlled Entities, agrees at the request of the underwriters to sell less than his or her applicable percentage as set forth in Schedule A of the 9 million shares, he or she shall have the right to receive a larger and priority allocation of any additional shares in order to bring his or her percentage of the total shares allocated to him or her up to the percentage set forth in Schedule A to the Amended and Restated Stockholders Agreement.

4.2 Subject to agreeing to any terms and conditions the Company may impose with respect to any such private liquidity event as set forth in Section 4.3 below, a Stockholder, together with his or respective Stockholder Controlled Entities, shall have the right to participate in any Company sponsored private placements or share repurchases by the Company at a level at least equal to that



Stockholder's percentage equity ownership interest in the Company immediately preceding the Company's initial public offering.

4.3 The Company may require as a condition to the right to participate in any future liquidity event, that a Stockholder and his or her Stockholder Controlled Entities, agree to such terms and conditions as may be requested by the Company for all Stockholders, including any extensions of the Extended Lock-up Period and the Restricted Selling Periods; provided, however, that with respect to any liquidity event that occurs prior to June 30, 2000, the provisions of Section 2.2 and 2.3, as amended above, shall determine the length of any extension of the Extended Lock-up Period and Restricted Resale Period unless the Additional Sales Proceeds are in excess of \$120 million, in which event the Company may negotiate a further extension of such selling restrictions.

5. Counterparts. This Amendment may be executed by facsimile and by any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one agreement. Each counterpart may consist of a number of copies each signed by less than all, but together signed by all of the Parties hereto.

SIGNATURE PAGE OF AMENDMENT NO. 2  
TO AMENDED AND RESTATED STOCKHOLDERS AGREEMENT

IN WITNESS WHEREOF, this Amendment has been signed by duly authorized signatories of the Parties hereto and is binding upon the Parties hereto as of the date first above written.

NU SKIN ENTERPRISES, INC.,  
a Delaware Corporation

By: /s/

\_\_\_\_\_

Its: \_\_\_\_\_

/s/Blake M. Roney  
Blake M. Roney, individually

/s/Nancy L. Roney  
Nancy L. Roney, individually

THE ALL R'S TRUST

By: /s/L. S. McCullough

L. S. McCullough

Its: Trustee

THE B & N RONEY TRUST

By: /s/ L. S. McCullough

Its: Trustee

THE WFA TRUST

By: /s/ L. S. McCullough

Its: Trustee

SIGNATURE PAGE OF AMENDMENT NO. 2  
TO AMENDED AND RESTATED STOCKHOLDERS AGREEMENT

BNASIA, LTD.

By: /s/ Blake M. Roney  
Blake M. Roney  
Its: General Partner

By: /s/ Nancy L. Roney  
Nancy L. Roney  
Its: General Partner

THE BLAKE M. AND NANCY L. RONEY  
FOUNDATION

By: /s/ Blake M. Roney  
Blake M. Roney  
Its: Trustee

By: /s/ Nancy L. Roney  
Nancy L. Roney  
Its: Trustee

THE ONE FOUNDATION

By: /s/ Blake M. Roney  
Blake M. Roney  
Its: Trustee

By: /s/ Nancy L. Roney  
Nancy L. Roney  
Its: Trustee

By: /s/ Keith R. Halls  
Keith R. Halls  
Its: Trustee

SIGNATURE PAGE OF AMENDMENT NO. 2  
TO AMENDED AND RESTATED STOCKHOLDERS AGREEMENT

B & N RHINO COMPANY, L.C.

By: /s/ Craig F. McCullough  
Craig F. McCullough  
Its: Manager

By: /s/ Nedra D. Roney  
Nedra D. Roney, individually

By: /s/ Rick A. Roney  
Rick A. Roney, individually

By: /s/ Burke F. Roney  
Burke F. Roney, individually

By: /s/ Park R. Roney  
Park R. Roney, individually

THE MAR TRUST

By: /s/ Tom D. Branch  
Tom D. Branch  
Its: Trustee

THE NR TRUST

By: /s/ Tom D. Branch  
Tom D. Branch  
Its: Trustee

SIGNATURE PAGE OF AMENDMENT NO. 2  
TO AMENDED AND RESTATED STOCKHOLDERS AGREEMENT

THE ROSE FOUNDATION

By: /s/ Nedra D. Roney  
Nedra D. Roney  
Its: Trustee

By: /s/ Tom D. Branch  
Tom D. Branch  
Its: Trustee

THE NEDRA RONEY FIXED CHARITABLE TRUST

By: /s/ Tom D. Branch  
Tom D. Branch  
Its: Trustee

NR RHINO COMPANY, L.C.

By: /s/ Craig F. McCullough  
Craig F. McCullough  
Its: Manager

By: /s/ Sandra N. Tillotson  
Sandra N. Tillotson, individually

THE SNT TRUST

By: /s/ Lee M. Brower  
Lee M. Brower  
Its: Trustee

THE DVNM TRUST

By: /s/ Lee M. Brower  
Lee M. Brower  
Its: Trustee

SIGNATURE PAGE OF AMENDMENT NO. 2  
TO AMENDED AND RESTATED STOCKHOLDERS AGREEMENT

THE CWN TRUST

By: /s/ Lee M. Brower  
Lee M. Brower  
Its: Trustee

THE DPN TRUST

By: /s/ Craig S. Tillotson  
Craig S. Tillotson  
Its: Trustee

By: /s/ Lee M. Brower  
Lee M. Brower  
Its: Trustee

THE GNT TRUST

By: /s/ Craig S. Tillotson  
Craig S. Tillotson  
Its: Trustee

By: /s/ Lee M. Brower  
Lee M. Brower  
Its: Trustee

THE LMB TRUST

By: /s/ Lee M. Brower  
Lee M. Brower  
Its: Trustee

SIGNATURE PAGE OF AMENDMENT NO. 2  
TO AMENDED AND RESTATED STOCKHOLDERS AGREEMENT

THE SANDRA N. TILLOTSON FOUNDATION

By: /s/ Sandra N. Tillotson  
Sandra N. Tillotson  
Its: Trustee

By: /s/ Lee M. Brower  
Lee M. Brower  
Its: Trustee

THE SANDRA N. TILLOTSON FIXED CHARITABLE TRUST

By: /s/ Sandra N. Tillotson  
Sandra N. Tillotson  
Its: Trustee

By: /s/ L. S. McCullough  
L. S. McCullough  
Its: Independent Trustee

SNT RHINO COMPANY, L.C.

By: /s/ Craig S. Tillotson  
Craig S. Tillotson  
Its: Manager

/s/ Steven J. Lund  
Steven J. Lund, individually

/s/ Kalleen Lund  
Kalleen Lund, individually

SKASIA, LTD.

By: /s/ Steven J. Lund  
Steven J. Lund  
Its: General Partner

SIGNATURE PAGE OF AMENDMENT NO. 2  
TO AMENDED AND RESTATED STOCKHOLDERS AGREEMENT

By: /s/ Kalleen Lund  
Kalleen Lund  
Its: General Partner

THE S AND K LUND TRUST

By: /s/ Blake M. Roney  
Blake M. Roney  
Its: Trustee

THE STEVEN J. AND KALLEEN LUND  
FOUNDATION

By: /s/ Steven J. Lund  
Steven J. Lund  
Its: Trustee

By: /s/ Kalleen Lund  
Kalleen Lund  
Its: Trustee

THE STEVEN AND KALLEEN LUND FIXED  
CHARITABLE TRUST

By: /s/Steven J. Lund  
Steven J. Lund  
Its: Trustee

By: /s/ Kalleen Lund  
Kalleen Lund  
Its: Trustee

By: /s/ L. S. McCullough  
L. S. McCullough  
Its: Independent Trustee

S & K RHINO COMPANY, L.C.

By: /s/ Craig F. McCullough  
Craig F. McCullough  
Its: Manager



SIGNATURE PAGE OF AMENDMENT NO. 2  
TO AMENDED AND RESTATED STOCKHOLDERS AGREEMENT

/s/ Brooke B. Roney  
Brooke B. Roney, individually

/s/ Denice R. Roney  
Denice R. Roney, individually

BDASIA, LTD.

By: /s/ Brooke B. Roney  
Brooke B. Roney  
Its: General Partner

By: /s/ Denice R. Roney  
Denice R. Roney  
Its: General Partner

THE B AND D RONEY TRUST

By: /s/ Blake M. Roney  
Blake M. Roney  
Its: Trustee

THE BROOKE BRENNAN AND DENICE RENEE  
RONEY FOUNDATION

By: /s/ Brooke B. Roney  
Brooke B. Roney  
Its: Trustee

By: /s/ Denice R. Roney  
Denice R. Roney  
Its: Trustee

/s/ Kirk V. Roney  
Kirk V. Roney, individually

SIGNATURE PAGE OF AMENDMENT NO. 2  
TO AMENDED AND RESTATED STOCKHOLDERS AGREEMENT

/s/ Melanie K. Roney  
Melanie K. Roney, individually

KMASIA, LTD.

By: /s/ Kirk V. Roney  
Kirk V. Roney  
Its: General Partner

By: /s/ Melanie K. Roney  
Melanie K. Roney  
Its: General Partner

THE K AND M RONEY TRUST

By: /s/ Rick A. Roney  
Rick A. Roney  
Its: Trustee

THE KIRK V. AND MELANIE K. RONEY  
FOUNDATION

By: /s/ Kirk V. Roney  
Kirk V. Roney  
Its: Trustee

By: /s/ Melanie K. Roney  
Melanie K. Roney  
Its: Trustee

THE KIRK AND MELANIE RONEY FIXED  
CHARITABLE TRUST

By: /s/ Kirk V. Roney  
Kirk V. Roney  
Its: Trustee

SIGNATURE PAGE OF AMENDMENT NO. 2  
TO AMENDED AND RESTATED STOCKHOLDERS AGREEMENT

By: /s/ Melanie K. Roney  
Melanie K. Roney  
Its: Trustee

By: /s/ L. S. McCullough  
L. S. McCullough  
Its: Trustee

K & M RHINO COMPANY, L.C.

By: /s/ Craig F. McCullough  
Craig F. McCullough  
Its: Manager

/s/ Keith R. Halls  
Keith R. Halls, individually

/s/ Anna Lisa Massaro Halls  
Anna Lisa Massaro Halls, individually

KAASIA, LTD.

By: /s/ Keith R. Halls  
Keith R. Halls  
Its: General Partner

By: /s/ Anna Lisa Halls  
Anna Lisa Halls  
Its: General Partner

THE K AND A HALLS TRUST

By: /s/ Michael Lee Halls  
Michael Lee Halls  
Its: Trustee

SIGNATURE PAGE OF AMENDMENT NO. 2  
TO AMENDED AND RESTATED STOCKHOLDERS AGREEMENT

By: /s/ Dennis Morgan  
Dennis Morgan  
Its: Trustee

THE HALLS FAMILY TRUST

By: /s/ Micahel Lee Halls  
Michael Lee Halls  
Its: Trustee

By: /s/ Dennis Morgan  
Dennis Morgan  
Its: Trustee

THE KEITH AND ANNA LISA HALLS FIXED  
CHARITABLE TRUST

By: /s/ Keith R. Halls  
Keith R. Halls  
Its: Trustee

By: /s/ Anna Lisa Halls  
Anna Lisa Halls  
Its: Trustee

By: /s/ L. S. McCullough  
L. S. McCullough  
Its: Independent Trustee

THE KEITH RAY AND ANNA LISA MASSARO  
HALLS FOUNDATION

By: /s/ Keith R. Halls  
Keith R. Halls  
Its: Trustee

SIGNATURE PAGE OF AMENDMENT NO. 2  
TO AMENDED AND RESTATED STOCKHOLDERS AGREEMENT

By: /s/ Anna Lisa Halls  
Anna Lisa Halls  
Its: Trustee

K & A RHINO COMPANY, L.C.

By: /s/ Craig F. McCullough  
Craig F. McCullough  
Its: Manager

/s/ Craig S. Tillotson  
Craig S. Tillotson, individually

THE CST TRUST

By: /s/ Robert L. Stayner  
Robert L. Stayner  
Its: Trustee

THE JS TRUST

By: /s/ Lee M. Brower  
Lee M. Brower  
Its: Trustee

THE JT TRUST

By: /s/ Lee M. Brower  
Lee M. Brower  
Its: Trustee

THE CB TRUST

By: /s/ Lee M. Brower  
Lee M. Brower  
Its: Trustee

SIGNATURE PAGE OF AMENDMENT NO. 2  
TO AMENDED AND RESTATED STOCKHOLDERS AGREEMENT

THE CM TRUST

By: /s/ Lee M. Brower  
Lee M. Brower  
Its: Trustee

THE BCT TRUST

By: /s/ Lee M. Brower  
Lee M. Brower  
Its: Trustee

THE ST TRUST

By: /s/ Lee M. Brower  
Lee M. Brower  
Its: Trustee

THE NJR TRUST

By: /s/ Lee M. Brower  
Lee M. Brower  
Its: Trustee

THE RLS TRUST

By: /s/ Lee M. Brower  
Lee M. Brower  
Its: Trustee

THE RBZ TRUST

By: /s/ Lee M. Brower  
Lee M. Brower  
Its: Trustee

SIGNATURE PAGE OF AMENDMENT NO. 2  
TO AMENDED AND RESTATED STOCKHOLDERS AGREEMENT

THE LB TRUST

By: /s/ Lee M. Brower  
Lee M. Brower  
Its: Trustee

THE CRAIG S. TILLOTSON FOUNDATION

By: /s/ Craig S. Tillotson  
Craig S. Tillotson  
Its: Trustee

By: /s/ Lee M. Brower  
Lee M. Brower  
Its: Trustee

THE CRAIG S. TILLOTSON FIXED CHARITABLE  
TRUST

By: /s/ Craig S. Tillotson  
Craig S. Tillotson  
Its: Trustee

By: /s/ Lee M. Brower  
Lee M. Brower  
Its: Independent Trustee

CST RHINO COMPANY, L.C.

By: /s/ Sandra N. Tillotson  
Sandra N. Tillotson  
Its: Manager

/s/ R. Craig Bryson  
R. Craig Bryson, individually

/s/ Kathleen D. Bryson  
Kathleen D. Bryson, individually

SIGNATURE PAGE OF AMENDMENT NO. 2  
TO AMENDED AND RESTATED STOCKHOLDERS AGREEMENT

RCKASIA, LTD.

By: /s/ R. Craig Bryson  
R. Craig Bryson  
Its: General Partner

By: /s/ Kathleen D. Bryson  
Kathleen D. Bryson  
Its: General Partner

THE C AND K TRUST

By: /s/ Steven J. Lund  
Steven J. Lund  
Its: Trustee

THE BRYSON FOUNDATION

By: /s/ R. Craig Bryson  
R. Craig Bryson  
Its: Trustee

By: /s/ Kathleen D. Bryson  
Kathleen D. Bryson  
Its: Trustee

THE BRYSON FIXED CHARITABLE TRUST

By: /s/ R. Craig Bryson  
R. Craig Bryson  
Its: Trustee

By: /s/ Kathleen D. Bryson  
Kathleen D. Bryson  
Its: Trustee

By: /s/ Robert L. Stayner  
Robert L. Stayner  
Its: Independent Trustee



SIGNATURE PAGE OF AMENDMENT NO.2  
TO AMENDED AND RESTATED STOCKHOLDERS AGREEMENT

CKB RHINO COMPANY, L.C.

By: /s/ Keith R. Halls  
Keith R. Halls  
Its: Manager

THE RICK AND KIMBERLY RONEY VARIABLE  
CHARITABLE REMAINDER UNITRUST

By: /s/ James Blaylock  
James Blaylock  
Its: Trustee

THE RICK AND KIMBERLY RONEY FIXED  
CHARITABLE UNITRUST

By: /s/ Rick A. Roney  
Rick A. Roney  
Its: Trustee

By: /s/ Kimberly Roney  
Kimberly Roney  
Its: Trustee

By: /s/ L. S. McCullough  
L.S. McCullough  
Its: Independent Trustee

SECOND  
AMENDED AND RESTATED  
NU SKIN ENTERPRISES, INC.  
1996 STOCK INCENTIVE PLAN

TABLE OF CONTENTS

	PAGE
1. PURPOSE .....	1
2. DEFINITIONS .....	1
3. ADMINISTRATION .....	4
4. SHARES SUBJECT TO THE PLAN .....	5
5. PARTICIPANTS .....	5
6. AWARDS UNDER THE PLAN .....	5
7. STOCK OPTIONS .....	5
8. STOCK APPRECIATION RIGHTS .....	8
9. CONTINGENT STOCK AWARDS .....	10
10. RESTRICTED STOCK AWARDS .....	11
11. GENERAL RESTRICTIONS .....	12
12. RIGHTS OF A SHAREHOLDER .....	12
13. RIGHTS TO TERMINATE EMPLOYMENT .....	13
14. WITHHOLDING OF TAXES .....	13
15. NON-ASSIGNABILITY .....	13
16. NON-UNIFORM DETERMINATIONS .....	13
17. ADJUSTMENTS .....	13
18. AMENDMENT .....	14
19. EFFECT ON OTHER PLAN .....	15
20. DURATION OF PLAN .....	15
21. FUNDING OF THE PLAN .....	15
22. PLAN STATUS .....	15
23. GOVERNING LAW .....	16

SECOND

AMENDED AND RESTATED

NU SKIN ENTERPRISES, INC.

1996 STOCK INCENTIVE PLAN

1. PURPOSE

1.1 The purpose of the Second Amended and Restated Nu Skin Enterprises, Inc. 1996 Stock Incentive Plan (the "Plan") is to provide incentives to specified individuals whose performance, contributions and skills add to the value of Nu Skin Enterprises, Inc. (the "Company") and its affiliated companies. The Company also believes that the Plan will facilitate attracting, retaining and motivating employees, directors and consultants of high caliber and potential. This Second Amended and Restated Nu Skin Enterprises, Inc. 1996 Stock Incentive Plan amends and restates the Amended and Restated Nu Skin Asia Pacific, Inc. 1996 Stock Incentive Plan dated December 9, 1996 and includes amendments previously adopted by the Board of Directors on February 11, 1999.

1.2 Plan participants shall include those officers, directors, employees and consultants of the Company and subsidiaries who, in the opinion of the Committee, are making or are in a position to make substantial contributions to the Company by their ability and efforts.

2. DEFINITIONS

2.1 For purposes of the Plan, the following terms shall have the following meanings, unless the context clearly indicates to the contrary.

- (a) "Award" means a grant of Restricted Stock, Contingent Stock, an Option, or an SAR.
- (b) "Award Agreement" means the agreement approved by the Committee evidencing an Award to a Grantee.
- (c) "Board" means the Company's Board of Directors.
- (d) "Code" means the Internal Revenue Code of 1986, as amended.
- (e) "Committee" means the members of the Board until the Compensation Committee of the Board is appointed, and after the Compensation Committee is appointed means the members of the Compensation Committee of the Board, who are "outside directors" (within the meaning of Section 162(m) of the Code and any regulations or rulings promulgated thereunder) to the extent required for purposes of compliance with such

Code Section, and "disinterested persons" (within the meaning of Rule 16b-3 of the Exchange Act), to the extent required for compliance with such Rule.

- (f) "Company" means Nu Skin Enterprises, Inc.
- (g) "Consultant" means any individual who provides services to the Company as an independent contractor and not as an Employee or Director.
- (h) "Contingent Stock" means stock which will be issued to a Grantee upon the attainment of certain conditions pursuant to Section 9 hereof.
- (i) "Director(s)" means a member or the members of the Board.
- (j) "Employee" means any individual who is an employee of the Company, a Parent or Subsidiary.
- (k) "Exchange Act" means the Securities Exchange Act of 1934, as amended.
- (l) "Fair Market Value" of a Share means on, or with respect to, any given date:
  - (i) If the Shares are listed on a national stock exchange, the closing market price of such Shares as reported on the composite tape for issues listed on such exchange on such date or, if no trade shall have been reported for such date, on the next preceding date on which there were trades reported; provided, that if no such quotation shall have been made within the ten business days preceding such date, Fair Market Value shall be determined under (iii) below.
  - (ii) If the Shares are not listed on a national stock exchange but are traded on the over-the-counter market, the mean between the closing dealer bid and asked price of such Shares as reported by the National Association of Securities Dealers through their Automated Quotation System for such date, or if no quotations shall have been made on such date, on the next preceding date on which there were quotations; provided, that, if such quotations shall have been made within the ten business days preceding such date, Fair Market Value shall be determined under (iii) below.
  - (iii) If (i) and (ii) do not apply, the Fair Market Value of a Share shall be determined without regard to any control premium or discount for lack of control (except as otherwise required by Section 422 of the Code) by the Committee in good faith consistent with the valuation of the Company as provided by a third party appraiser for

other corporate purposes before adjustments or any discounts applied due to lack of marketability. The Committee may rely upon the most recent valuation (if it is based on a date within 3 months of the valuation date) and there shall be no requirement to cause a more recent valuation to be made (except as may be required for purposes of Section 422 of the Code). If no such valuation exists, the Committee may engage a third party appraiser to prepare the valuation.

- (m) "Grantee" means an Employee, Director of the Company, a Parent or any Subsidiary or Consultant who has received an Award.
- (n) "Incentive Stock Option" shall have the same meaning as given to the term by Section 422 of the Code and any regulations or rulings promulgated thereunder.
- (o) "Non-qualified Stock Option" means any Option granted pursuant to Section 7 which when awarded by the Committee was not intended to be, or does not qualify as, an Incentive Stock Option.
- (p) "Option" means the right to purchase from the Company a stated number of Shares at a specified Option Price. The Option may be granted to an Employee, Director or Consultant subject to the terms of this Plan, and such other conditions and restrictions as the Committee deems appropriate. Each Option shall be designated by the Committee to be either an Incentive Stock Option or a Non-qualified Stock Option. Only Employees may be granted Incentive Stock Options.
- (q) "Option Agreement" means the Award Agreement pursuant to which an Option is granted under Section 7.
- (r) "Option Price" means the purchase price per Share under an Option, as described in Section 7.
- (s) "Parent" means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if, at the time of the granting of an Option, each of the corporations (other than the Company) owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain within the meaning of Section 424(e) of the Code and any regulations or rulings promulgated thereunder.

- (t) "Plan" means Amended and Restated Nu Skin Asia Pacific, Inc. 1996 Stock Incentive Plan, as evidenced herein and as amended from time to time.
- (u) "Restricted Stock" means Shares issued, subject to restrictions, to a Grantee pursuant to Section 10.
- (v) "SAR" means a stock appreciation right which provides a Grantee a potential right to a payment based on the appreciation in the fair market value of a Share granted pursuant to Section 8.
- (w) "SEC" means the U.S. Securities and Exchange Commission.
- (x) "Section 16 Person" means a person who is an "insider" within the meaning of Section 16(b) of the Exchange Act with respect to transactions involving equity securities of the Company, including the Shares.
- (y) "Share" means one share of the Company's Class A common stock, \$.001 par value.
- (z) "Subsidiary" means any corporation in an unbroken chain of corporations beginning with the Company if, at the time of the granting of the Option, each of the corporations (other than the last corporation) in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain, within the meaning of Section 424(f) of the Code and any regulations or rulings promulgated thereunder.

### 3. ADMINISTRATION

3.1 The Plan shall be administered by the Committee. The Committee shall have full and final authority in its discretion to:

- (a) conclusively interpret the provisions of the Plan and to decide all questions of fact arising in its application;
- (b) determine the individuals to whom Awards shall be made under the Plan;
- (c) determine the type of Award to be made to such individuals and the amount, size and terms of each Award;
- (d) determine the time when Awards will be granted to such individuals; and

(e) make all other determinations necessary or advisable for the administration of the Plan.

4. SHARES SUBJECT TO THE PLAN

4.1 The Shares subject to Awards under the Plan shall not exceed in the aggregate 8,000,000 Shares.

4.2 Shares may be authorized and unissued Shares or treasury Shares.

4.3 Except as provided herein, any Shares subject to an Award, which Award for any reason expires or is terminated unexercised as to such Shares shall again be available under the Plan.

5. PARTICIPANTS

5.1 Awards permitted pursuant to this Plan which are Incentive Stock Options may only be made to Employees (including Directors who are also Employees). All other Awards permitted pursuant to the Plan may only be made to Employees, Directors or Consultants.

6. AWARDS UNDER THE PLAN

6.1 Awards under the Plan may be in the form of Options (both Non-qualified Stock Options and Incentive Stock Options), Contingent Stock, Restricted Stock, and SARs and any combination of the above.

6.2 The maximum number of Awards that may be awarded to any one Employee, Director or Consultant during the life of the Plan shall be 10% of the total Shares reserved for issuance under the Plan.

7. STOCK OPTIONS

7.1 The Committee in its sole discretion shall designate whether an Option is to be an Incentive Stock Option or a Non-qualified Stock Option. The Committee may grant both Incentive Stock Options and Non-qualified Stock Options to the same individual. However, where both an Incentive Stock Option and a Non-qualified Stock Option are awarded at one time, such Options shall be deemed to have been awarded in separate grants, shall be clearly identified, and in no event will the exercise of one such Option affect the right to exercise the other such Option except to the extent so provided in the Award Agreement as determined by the Committee.

7.2 Options granted pursuant to the Plan shall be authorized by the Committee under terms and conditions approved by the Committee, not inconsistent with this Plan or Exchange Act Rule 16b-3(c), and shall be evidenced by Option Agreements in such form as the Committee shall

from time to time approve, which Option Agreements shall contain or shall be subject to the following terms and conditions, whether or not such terms and conditions are specifically included therein:

- (a) The Option Price of an Incentive Stock Option shall not be less than 100% of the Fair Market Value of a Share on the day the Option is granted, as determined by the Committee. The Option Price of a Non-qualified Stock Option shall be such price as determined by the Committee in its discretion, which price may be more or less than the Fair Market Value of a Share on the day the Option is granted. Notwithstanding the immediately preceding sentence, the Award Agreement for a Non-qualified Stock Option at the Committee's sole discretion, may, but need not, provide for a reduction of the Option Price by dividends paid on a Share during the period the Option is outstanding and unexercised, but in no event shall the Option Price be less than the par value of such Share.
- (b) Each Option Agreement shall state the period or periods of time, as determined by the Committee, within which the Option may be exercised by the Grantee, in whole or in part, provided such period shall not commence earlier than six months after the date of the grant of the Option and not later than ten years after the date of the grant of the Option. The Committee shall have the power to permit in its discretion an acceleration of previously determined exercise terms, subject to the terms of this Plan, to the extent permitted by Exchange Act Rule 16b-3(c), and under such circumstances and upon such terms and conditions as deemed appropriate and which are not inconsistent with Exchange Act Rule 16b-3(c)(1).
- (c) An Option may be exercised, in whole or in part, by giving written notice of exercise to the Company specifying the number of Shares to be purchased. Shares purchased upon exercise of an Option shall be paid for in full at the time of purchase in the form of cash unless the Committee has adopted rules authorizing a different method of exercise as set forth below that have not been rescinded and that apply to the Options being exercised. The Committee shall have the authority, as it may determine to be appropriate from time to time, to adopt rules governing the exercise of Options that may provide for payment to be made (i) in Shares already owned by the Grantee having a Fair Market Value equal to the purchase price, (ii) by delivery (on a form prescribed by the Committee) of an irrevocable direction to a securities broker approved by the Committee to sell Shares and to deliver all or part of the sales proceeds to the Company in payment of all or part of the purchase price and any withholding taxes, (iii) by the delivery (on a form prescribed by the Committee) of an irrevocable direction to pledge Shares to a securities broker or lender



approved by the Committee as security for a loan and to deliver all or part of the loan proceeds to the Company in payment of all or part of the purchase price and any withholding taxes, or (iv) such other method or form of consideration as may be determined to be appropriate by the Committee consistent with applicable laws, rules and regulations, including a true cashless or net exercise procedure. The adoption of such rules by the Committee shall not provide any Grantee with any vested right to exercise Options pursuant to the methods or form of consideration set forth in such rules. The Committee may rescind any rule governing the exercise of Options at any time, and upon such rescission, no Grantee shall have any further rights to exercise Options pursuant to the methods or form of consideration set forth in such rule. In addition, the Committee shall have the right to provide in any rule adopted pursuant hereto that (i) such rule shall only apply to designated Options or grants of Options, (ii) such rule shall apply to all Options generally, or (iii) prior Committee approval, which may be granted or withheld in its sole discretion, shall be required with respect to such exercise method or form of consideration. The Committee shall have no obligation to make the rules applicable to all Grantees or to all Options. The Committee shall have no obligation to adopt rules providing for any of the above methods of exercise or forms of consideration.

- (d) Notwithstanding anything herein to the contrary, the aggregate Fair Market Value (determined as of the time the Option is granted) of Incentive Stock Options for any Employee which may become first exercisable in any calendar year shall not exceed \$100,000.
- (e) Notwithstanding anything herein to the contrary, no Incentive Stock Option shall be granted to any individual if, at the time the Option is to be granted, the individual owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company unless at the time such Option is granted the Option Price is at least 110% of the Fair Market Value of the stock subject to the Option and such Option by its terms is not exercisable after the expiration of five years from the date such Option is granted.
- (f) Each Option Agreement for an Incentive Stock Option shall contain such other terms, conditions and provisions as the Committee may determine to be necessary or desirable in order to qualify such Option as an incentive stock option within the meaning of Section 422 of the Code, or any amendment thereof, substitute therefor, or regulation thereunder. Subject to the limitations of Section 18, and without limiting any provisions hereof,

the Committee shall have the power without further approval to amend the terms of any Option for Grantees.

7.3 If any Option is not granted, exercised, or held pursuant to the provisions of the Plan or Section 422 of the Code applicable to an Incentive Stock Option, it will be considered to be a Non-qualified Stock Option to the extent that any or all of the grant is in conflict with such provisions.

7.4 An Option may be terminated (subject to any shorter periods set forth in an individual Option Agreement by the Committee, in its sole discretion) as follows:

- (a) During the period of continuous employment or service as a Consultant with the Company or Subsidiary, an Option will be terminated only if it has been fully exercised or it has expired by its terms.
- (b) In the event of termination of employment as an Employee or service as a Director or Consultant for any reason, the Option will terminate upon the earlier of (i) the full exercise of the Option, (ii) the expiration of the Option by its terms, or (iii) except as provided in Section 7.4(c), no more than one year (three months for Incentive Stock Options) following the date of employment termination (or termination of service as a Director or Consultant) for Non-qualified Stock Options. For purposes of the Plan, a leave of absence approved by the Company shall not be deemed to be termination of employment except with respect to an Incentive Stock Option as required to comply with Section 422 of the Code and the regulations issued thereunder.
- (c) If a Grantee's employment as an Employee, or service as a Director or Consultant, terminates by reason of death or disability prior to the termination of an Option, such Option may be exercised to the extent that the Grantee shall have been entitled to exercise it at the time of death or disability, as the case may be, by the Grantee, the estate of the Grantee or the person or persons to whom the Option may have been transferred by will or by the laws of descent and distribution for the period set forth in the Option Agreement, but no more than three years following the date of such death or disability, provided, however, with respect to an Incentive Stock Option, such right must be exercised, if at all, within one year after the date of such death or disability.

## 8 STOCK APPRECIATION RIGHTS

8.1 SARs shall be evidenced by Award Agreements for SARs in such form, and not inconsistent with this Plan or Exchange Act Rule 16b-3(c)(1), as the Committee shall approve from

time to time, which Award Agreements shall contain in substance the following terms and conditions as discussed in Sections 8.2 through 8.4.

8.2 An SAR may be, but is not required to be, granted in connection with an Option. An SAR shall entitle the Grantee, subject to such terms and conditions determined by the Committee, to receive, upon surrender of the SAR, all or a portion of the excess of (i) the Fair Market Value of a specified number of Shares at the time of the surrender, as determined by the Committee, over (ii) 100% of the Fair Market Value of such Shares at the time the SAR was granted less any dividends paid on such Shares while the SAR was outstanding but unexercised.

8.3 SARs shall be granted for a period of not less than one year nor more than ten years, and shall be exercisable in whole or in part, at such time or times and subject to such other terms and conditions as shall be prescribed by the Committee at the time of grant, subject to the following:

- (a) No SAR shall be exercisable, in whole or in part, during the one year period starting with the date of grant; and
- (b) SARs will be exercisable only during a Grantee's employment by, or service as a Consultant for, the Company or a Subsidiary, except that in the discretion of the Committee an SAR may be made exercisable for up to three months after the Grantee's employment, or service as a Director or Consultant, is terminated for any reason other than death, retirement or disability. In the event that a Grantee's employment as an Employee, or service as a Director or Consultant, is terminated as a result of death, retirement or disability without having fully exercised such Grantee's SARs, the Grantee or such Grantee's beneficiary may have the right to exercise the SARs during their term within a period of 6 months after the date of such termination to the extent that the right was exercisable at the date of such termination, or during such other period and subject to such terms as may be determined by the Committee. Subject to the limitations of Section 18, the Committee in its sole discretion may reserve the right to accelerate previously determined exercised terms, within the terms of the Plan, under such circumstances and upon such terms and conditions as it deems appropriate.
- (c) The Committee shall establish such additional terms and conditions, without limiting the foregoing, as it determines to be necessary or desirable to avoid "short-swing" trading liability in connection with an SAR within the meaning of Section 16(b) of the Exchange Act.
- (d) The Committee, in its sole discretion, may establish different time periods than specified above for any individual or group of individual Awards.

8.4 Upon exercise of an SAR, payment shall be made within ninety days in the form of common stock of the Company (at Fair Market Value on the date of exercise), cash, or a combination thereof, as the Committee may determine.

#### 9. CONTINGENT STOCK AWARDS

9.1 Contingent Stock Awards under the Plan shall be evidenced by Award Agreements for Contingent Stock in such form and not inconsistent with this Plan as the Committee shall approve from time to time, which Award Agreements shall contain in substance the terms and conditions described in Sections 9.2 through 9.5.

9.2 The Committee shall determine the number of Shares subject to a Contingent Stock Award to be granted to an Employee, Director or Consultant based on the past or expected impact the Employee, Director or Consultant has had or can have on the financial well-being of the Company and other factors deemed by the Committee to be appropriate.

9.3 Contingent Stock Awards made pursuant to this Plan shall be subject to such terms, conditions, and restrictions, including without limitation, substantial risks of forfeiture and/or attainment of performance objectives, and for such period or periods as shall be set forth in the Award Agreement as determined by the Committee at the time of grant. The Committee shall have the power to permit, in its discretion, an acceleration of the expiration of the applicable restriction period with respect to any part or all of the Award to any Grantee. The Committee shall have the power to make a Contingent Stock Award that is not subject to vesting or any other contingencies in recognition of an Employee's, Director's or Consultant's prior service and financial impact on the Company. During the restriction period, the Grantee shall not have the rights of a shareholder.

9.4 The Award Agreement for the Contingent Stock Award shall specify the terms and conditions upon which any restrictions on the right to receive Shares representing Contingent Stock Awards under the Plan shall lapse, as determined by the Committee. Upon the lapse of such restrictions, Shares shall be issued to the Grantee or such Grantee's legal representative.

9.5 In the event of a Grantee's termination of employment as an Employee, or service as a Director or Consultant, whichever is applicable, for any reason prior to the lapse of restrictions applicable to a Contingent Stock Award made to such Grantee and unless otherwise provided for herein by this Plan or as provided for in the Award Agreement for Contingent Stock, all rights to Shares as to which there still remain unlapsed restrictions shall be forfeited by such Grantee to the Company without payment or any consideration by the Company, and neither the Grantee nor any successors, heirs, assigns or personal representatives of such Grantees shall thereafter have any further rights or interest in such Shares.

## 10. RESTRICTED STOCK AWARDS

10.1 Restricted Stock Awards under the Plan shall be evidenced by Award Agreements for Restricted Stock in such form, and not inconsistent with this Plan, as the Committee shall approve from time to time, which Award Agreements shall contain in substance the terms and conditions described in Sections 10.2 through 10.6.

10.2 The Committee shall determine the number of Shares subject to a Restricted Stock Award to be granted to an Employee, Director or Consultant based on the past or expected impact the Employee, Director or Consultant has had or can have on the financial well-being of the Company and other factors deemed by the Committee to be appropriate.

10.3 Restricted Stock Awards made pursuant to this Plan shall be subject to such terms, conditions, and restrictions, including without limitation, substantial risks of forfeiture and/or attainment of performance objectives, and for such period or periods as set forth in the Award Agreement as determined by the Committee at the time of grant. The Committee shall have the power to permit, in its discretion, an acceleration of the expiration of the applicable restriction period with respect to any part or all of the Award to any Grantee. Upon issuance of a Restricted Stock Award, Shares will be issued in the name of the Grantee. During the restriction period, Grantee shall have the rights of a shareholder for all such Shares of Restricted Stock, including the right to vote and the right to receive dividends thereon as paid.

10.4 Each certificate evidencing stock subject to Restricted Stock Awards shall bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Shares. Any attempt to dispose of Shares of Restricted Stock in contravention of such terms, conditions and restrictions shall be ineffective. The Committee may adopt rules which provide that the certificates evidencing such Shares may be held in custody by a bank or other institution, or that the Company may itself hold such Shares in custody, until the restrictions thereon shall have lapsed and may require as a condition of any Award that the Grantee shall have delivered a stock power endorsed in blank relating to the Shares of Restricted Stock covered by such Award.

10.5 The Award Agreement for Restricted Stock shall specify the terms and conditions upon which any restrictions on the right to receive shares representing Restricted Stock awarded under the Plan shall lapse as determined by the Committee. Upon the lapse of such restrictions, Shares which have not been delivered to the Grantee or such Grantee's legal representative shall be delivered to such Grantee or such Grantee's legal representative.

10.6 In the event of a Grantee's termination of employment as an Employee, or service as a Director or Consultant, whichever is applicable, for any reason prior to the lapse of restrictions applicable to a Restricted Stock Award made to such Grantee and unless otherwise provided for herein by this Plan or as provided for in the Award Agreement for Restricted Stock, all rights to Shares as to which there remain unlapsed restrictions shall be forfeited by such Grantee to the Company without payment or any consideration by the Company, and neither the Grantee nor any successors, heirs, assigns or personal representatives of such Grantee shall thereafter have any further rights or interest in such Shares.

## 11. GENERAL RESTRICTIONS

11.1 The Plan and each Award under the Plan shall be subject to the requirement that, if at any time the Committee shall determine that (i) the listing, registration or qualification of the Shares subject or related thereto upon any securities exchange or under any state or federal law, (ii) the consent or approval of any government regulatory body, or (iii) an agreement by the Grantee of an Award with respect to the disposition of Shares, is necessary or desirable as a condition of, or in connection with the Plan or the granting of such Award or the issue or purchase of Shares thereunder, the Plan will not be effective and/or the Award may not be consummated in whole or in part unless such listing, registration, qualification, consent, approval or agreement shall have been effected or obtained free of any conditions not acceptable to the Committee.

11.2 The authority of the Committee under Section 3 to include "forfeiture provisions" in Award Agreements is hereby confirmed. The Committee may provide in any Award Agreement for the forfeiture of the Awards governed by such Award Agreement and the benefits derived therefrom, in the event the Grantee takes actions or engages in conduct that is harmful or contrary to, or not in the best interests of, the Company. Such forfeiture may include, without limitation, (a) the cancellation of unexercised Options and/or SARs and the forfeiture or repayment to the Company of any gain realized from the exercise of any Options and/or SARs, and (b) forfeiture, or repayment of the value, of any shares of stock granted as Restricted Stock or Contingent Stock or the forfeiture or repayment to the Company of any proceeds received from the sale thereof. The Committee shall have broad discretion in defining what actions and conduct constitute forfeiture events which may include, without limitation, (i) conduct related to the Grantee's employment for which either criminal or civil penalties may be sought, (ii) the commission of an act of fraud or intentional misrepresentation, (iii) embezzlement or misappropriation or conversion of assets or opportunities of the Company, (iv) accepting employment with or serving as a consultant, adviser or in any other capacity to, or having any ownership interest in, a person or entity that is in competition with or acting against the interest of the Company, or any solicitation of employees or distributors, (v) disclosing or misusing any confidential or proprietary information of the Company in violation of the Key Employee Covenants, or any other non-disclosure agreement with the Company or other duty of confidentiality or the Company's insider trading policy, or (vi) any other actions or conduct of Grantee that the Committee determines in good faith are harmful or contrary to, or not in the best interests of, the Company. The Committee shall have broad discretion and authority to determine the scope, duration and terms of any such forfeiture provisions. The Committee, or its duly appointed agent, may waive any or all of the restrictions authorized under this subsection whenever it (or its duly appointed agent) determines in its sole discretion that such action is in the best interests of the Company. For purposes of this Section 11 references to the Company refers collectively to the Company and all of its Subsidiaries.

## 12. RIGHTS OF A SHAREHOLDER

12.1 The Grantee of any Award under the Plan shall have no rights as a shareholder with respect thereto unless and until certificates for Shares of common stock are issued to such Grantee, except for the rights provided in Section 10 as it pertains to Restricted Stock Awards.

### 13. RIGHTS TO TERMINATE EMPLOYMENT

13.1 Nothing in the Plan or in any agreement entered into pursuant to the Plan shall confer upon any Grantee the right to continue in the employment as an Employee, or service as a Director or Consultant, of the Company or a Subsidiary or affect any right which the Company or its Subsidiary may have to terminate the employment, or service as a Director or Consultant, of such Grantee.

### 14. WITHHOLDING OF TAXES

14.1 Whenever the Company proposes, or is required, to issue or transfer Shares under the Plan, the Company shall have the right to require the Grantee to remit to the Company an amount, or a number of shares, sufficient to satisfy any federal, state and/or local withholding tax requirements prior to the delivery of any certificate or certificates for such Shares. Whenever under the Plan payments are to be made in cash, such payments shall be net of an amount sufficient to satisfy any federal, state and/or local withholding tax requirements.

### 15. NON-ASSIGNABILITY

15.1 No Award or benefit under the Plan shall be assignable or transferable by the Grantee thereof except by will or by the laws of descent and distribution. During the life of the Grantee, such Award shall be exercisable only by such person or by such person's guardian or legal representative.

### 16. NON-UNIFORM DETERMINATIONS

16.1 The Committee's determination under the Plan (including, without limitation, determinations of the persons to receive Awards, the form, amount and timing of such Awards, the terms and conditions of such Awards and the Award Agreements evidencing same, and the establishment of values and performance targets) need not be uniform and may be made by the Committee selectively among persons who receive, or are eligible to receive, Awards under the Plan, whether or not such persons are similarly situated.

### 17. ADJUSTMENTS

17.1 If the Class A Common Stock of the Company is subdivided or combined into a greater or smaller number of shares or if the Company shall issue any shares of Class A Common Stock as a stock dividend on its outstanding Class A Common Stock, the number of shares deliverable upon the exercise or vesting of any Awards granted hereunder shall be appropriately increased or decreased proportionately, and appropriate adjustments shall be made in the purchase price per share to reflect such subdivision, combination or stock dividend.

17.2 In the event of a consolidation of the Company, a merger in which the Company is not the surviving entity, or the sale of all or substantially all of the Company assets, the exercisability of any or all outstanding Awards shall automatically be accelerated so that such Awards would be exercisable or vested in full immediately prior to the effective date of such consolidation, merger or asset sale. However, no such acceleration shall occur if and to the extent any outstanding Awards are, in connection with such consolidation, merger, or asset sale, either to be assumed by the successor corporation (or parent thereof or to be replaced with a comparable Award to purchase shares of the capital stock of the successor corporation (or a parent thereof). The determination of such Award comparability shall be made by the Committee, and such determination shall be final, binding and conclusive. Immediately following any such consolidation, merger or asset sale, the Awards, to the extent not previously exercised or vested, shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof) in connection with such consolidation, merger or asset sale. If any outstanding Award hereunder is assumed in connection with any such consolidation, merger or asset sale, then such Award shall be appropriately adjusted, immediately after such consolidation, merger or asset sale, to apply to the number and class of securities which would have been issuable to the Grantee upon consummation of such consolidation, merger, or asset sale if the Awards had been exercised or vested immediately prior to any such transaction, and appropriate adjustment shall also be made to the exercise price for such Awards, as applicable, provided the aggregate exercise price shall remain the same. This Plan shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, or sell or transfer any part of its business or assets.

17.3 In the event of a recapitalization or reorganization of the Company (other than a consolidation, merger or asset sale described in Section 17.2 above) pursuant to which securities of the Company or of another entity are issued with respect to the outstanding shares of the Company's Class A Common Stock, a Grantee, upon exercising an Award or an Award becoming vested, shall be entitled to receive for the purchase price paid upon such exercise the securities the Grantee would have received if the Grantee had exercised the Award or the Award had vested prior to such recapitalization or reorganization.

#### 18. AMENDMENT

18.1 The Plan may be amended by the Board, without Shareholder approval, at any time in any respect, unless Shareholder approval of the amendment in question is required under Delaware law, the Code, any exemption from Section 16 of the Exchange Act (including without limitation SEC Rule 16b-3) for which the Company intends Section 16 Persons to qualify, any national securities exchange system on which the Shares are then listed or reported, by any regulatory body having jurisdiction with respect to the Plan, or any other applicable laws, rules or regulations.

18.2 The termination or modification or amendment of the Plan shall not, without the consent of a Grantee, affect a Grantee's rights under an Award previously granted. Notwithstanding the foregoing, however, the Company reserves the right to terminate the Plan



in whole or in part, at any time and for any reason, provided that appropriate compensation, as determined in the sole and absolute discretion of the Committee, is made to Grantees with respect to Awards previously granted.

#### 19. EFFECT ON OTHER PLAN

19.1 Participation in this Plan shall not affect a Grantee's eligibility to participate in any other benefit or incentive plan of the Company, and any Awards made pursuant to this Plan shall not be used in determining the benefits provided under any other plan of the Company unless specifically provided.

#### 20. DURATION OF PLAN

20.1 The Plan shall remain in effect until all Awards under the Plan have been satisfied by the issuance of Shares or the payment of cash, but no Awards shall be granted more than ten years after the date the Plan is adopted by the Company. The Second Amended and Restated 1996 Stock Incentive Plan amends and restates the Amended and Restated 1996 Stock Incentive Plan, as previously amended, effective as of March 31, 1999 subject to shareholders approval.

#### 21. FUNDING OF THE PLAN

21.1 This Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any Award under this Plan, and payment of Awards shall be on the same basis as the claims of the Company's general creditors. In no event shall interest be paid or accrued on any Award including unpaid installments of Awards.

#### 22. PLAN STATUS

22.1 This Plan is intended to satisfy the requirements of a 16b-3 plan under the Exchange Act.

22.2 This Plan is intended to qualify as a plan under Rule 701 issued pursuant to The Securities Act of 1933, as amended.

23. GOVERNING LAW

23.1 The laws of the State of Delaware shall govern, control and determine all questions arising with respect to the Plan and the interpretation and validity of its respective provisions.

NU SKIN ENTERPRISES, INC.

By: /s/ Steven J. Lund  
Its: President

ATTEST:

/s/ Keith R. Halls  
Its Secretary

SERVICE AGREEMENT

This Service Agreement (the "Agreement") is entered into as of the \_\_\_ day of \_\_\_\_\_, 1997 by and between Nu Skin Asia Pacific, Inc., a corporation organized and existing under the laws of the State of Delaware, U.S.A., with its principal office located at 75 West Center Street, Provo, Utah 84601, or its successor (hereinafter referred to as "NSAP"), and Mr. Grant F. Pace, a U.S. citizen residing at #3 Dapdap Street, Makati, Philippines (hereinafter referred to as "Pace").

WITNESSETH:

WHEREAS, Pace wishes to provide certain services to NSAP as Vice President, Southeast Asia and Greater China, upon the terms and conditions set forth hereinafter;

WHEREAS, NSAP wishes to obtain the services of Pace as Vice President, Southeast Asia and Greater China;

NOW, THEREFORE, in consideration of the mutual promises, undertakings and covenants set forth hereinafter, the parties hereto mutually agree as follows:

1. Appointment - NSAP hereby agrees to appoint Pace as Vice President, Southeast Asia and Greater China, and Pace hereby agrees to such appointment to perform the functions and carry out the duties and responsibilities as the Vice President, Southeast Asia and Greater China on the terms and conditions set forth hereinafter.

The duties and responsibilities of Pace's positions will include but are not limited to the Position Specifications attached hereto as Exhibit A. Pace will be notified verbally or in writing of changes or additions in his responsibilities during the course of this Agreement.

In the event Pace is asked to assume responsibilities with NSAP that differ materially from those set forth on Exhibit A hereto, the terms of this Agreement may be renegotiated at the election of either party.

The parties agree that if Pace is asked to assume a role with NSAP or another Nu Skin affiliate outside the scope of his role as Vice President, Southeast Asia and Greater China, then this Agreement will be terminated and renegotiated.

2. Direction - Pace will be subject to and act in accordance with the directions, rules, regulations and instructions issued from time to time by the Board of Directors and the President, Chief Executive Officer, and Chief Operating Officer of NSAP.

3. Compensation - Pace will receive the following compensation and benefits for services rendered to NSAP. No other compensation or benefit, direct or indirect, other than allowances specifically mentioned in this Agreement, will be paid to or received by Pace.

- a. Base Salary: Pace will receive a gross annual salary of US\$200,000 divided into twenty-six (26) equal bi-weekly installments, effective September 22, 1997.

- b. Foreign Service Supplement. Pace will receive a foreign service supplement of US\$100,000 divided into twelve (12) equal monthly or bi-weekly installments, effective September 22, 1997. The foreign service supplement will be paid simultaneously with payment of the base salary.

- c. Adjustments to Base Salary and Foreign Service Supplement. The base salary and foreign service supplement will be increased by no less than twelve percent (12%) per year for calendar years 1999, 2000 and 2001. The increases will be effective on January 1 of each year. Thereafter, the base salary and foreign service supplement will be reviewed and adjusted annually by the NSAP Board of Directors.

- d. Incentive Bonus: Pace will be eligible to participate in a Bonus Incentive Plan (based on profitability, cost efficiencies, sales, etc.), as such plan may be employed by NSAP from time to time (the "Bonus Plan"). The extent of the incentive bonus and the factors and measurements used to determine the incentive bonus will be determined from time to time by the Board of Directors of NSAP and will be based upon the performance of those operations which Pace oversees, the attainment of specified goals within each such operation, and the attainment of specified bonus levels for the country general managers supervised by Pace under the general manager Long-Term Incentive Bonus Plan. The Bonus Plan will enable Pace to qualify for annual cash bonuses of up to 50% of his then applicable combined base salary and foreign service supplement, with no deferred bonuses.

- e. Signing Bonus. Upon execution of this Agreement, NSAP will pay to Pace the sum of \$55,250 in lieu of any other bonus payments for calendar year 1997.

- f. Stock Grant. NSAP hereby agrees to make a stock bonus award of that number of shares of NSAP Class A Common Stock as has a fair market value (as quoted on the New York Stock Exchange) of \$50,000 per year for three years, with the shares being awarded on September 22, 1998, 1999 and 2000.

g. Stock Option Plan. Pace shall be eligible to participate in a Stock Option Plan implemented for key employees of NSAP. The initial stock option shall be to

acquire 19,000 shares of Class A Common Stock at a purchase price of \$20.875/share, which option shall vest over a four-year period. Although it is intended that a similar option grant shall be made annually, additional stock option grants shall be made in the discretion of the NSAP Board of Directors.

- h. International Assignment Policy for Expatriates. Pace will participate in NSAP's standard benefits available under its International Assignment Policy for Expatriates ("IAPE"). The standard IAPE shall be modified for Pace, however, in accordance with the terms set forth on Exhibit B hereto, which shall supersede NSAP's standard IAPE.
  - i. Employee Benefit Plans. As an employee of NSAP, Pace will be entitled to participate in any employee benefit plans made available to NSAP employees generally, including health, dental, life and disability insurance, and 401(k) profit sharing plans. Pace acknowledges, however, that as an expatriate employee, his right to participate in such plans may be limited. The benefits made available to Pace under the IAPE are intended to offset any limitation on Pace's ability to participate in any other standard employee benefit plan.
  - j. Severance. In the event Pace's employment hereunder is terminated "without cause," as defined in Section 8b. below, he shall be entitled to the severance benefits set forth in Section 8c. below.
4. Service Hours - Pace's regular service hours are 40 hours per week Monday through Friday. It is understood that in light of his positions, he will likely be required to provide services or engage in travel that will extend well beyond normal service hours. It is further agreed that Pace's remuneration has been set with this fact in mind and that Pace has no right to ask for additional compensation for such extra services.
5. Confidentiality - Without the written approval of NSAP, Pace will not copy, use or disclose to others (or cause any copying, use or disclosure), for Pace's own benefit or otherwise, any information, knowledge or data that Pace receives or develops during his period of employment which is proprietary to NSAP or any of their affiliates or which is confidential, including information contained in formulas, business plans, financial data, vendor lists, product and marketing plans, distributor lists and other trade secrets or information that any of NSAP or its affiliates has generated or which is has received in confidence from others. The confidentiality obligation set forth herein shall survive termination of this Agreement and shall therefore be applicable to Pace after termination of his employment. In addition to this provision, Pace agrees to execute and become bound by the terms of any Confidentiality Agreement used by NSAP with its employees generally. A copy of the current form of Confidentiality Agreement is attached hereto as Exhibit C.

3

6. Non-Competition - Pace hereby agrees that he will not, during the term of this Agreement, and until the earlier of (i) one year immediately after the termination of this Agreement, or (ii) the date as of which NSAP ceases to pay to Pace, either as an employee or an independent contractor, a sum equal to the monthly base salary and foreign service supplement payable to Pace hereunder (unless Pace is terminated "for cause," as defined in Section 8b below, in which case only the one-year period set forth in clause (i) above shall apply) directly or indirectly, by any means or device whatsoever, for himself or on behalf of or in conjunction with any person, partnership, or corporation, do any one or more of the following:
- a. provide services to, or be affiliated with any enterprise which provides services or products similar to NSA's services or products through multi-level marketing channels;
  - b. divert, take away, or attempt to take away any NSAP or other Nu Skin distributors, employees with whom NSAP or another Nu Skin affiliate has a non-competition agreement, or accounts which Pace may have become aware of through information furnished to or generated by Pace in connection with his employment or by any employee or agent or former employee or agent of NSAP or its affiliates; or
  - c. compete with NSAP or render services for a competitor of NSAP involved in multi-level marketing.

This non-competition provision shall not relate to those companies specifically identified on Exhibit D hereto within the scope of activities described for each company. Pace acknowledges that the one-year period during which he cannot be involved in any activities which compete directly or indirectly with NSAP after termination of this Agreement is a justifiable and acceptable period of time in light of the significance of the scope of Pace's employment hereunder, and that the terms of this Agreement and the remuneration and benefits payable to Pace hereunder are sufficient consideration for such agreement. Should NSAP elect to enforce this non-competition provision following termination, it shall inform Pace of such election within thirty days of termination of Pace's employment.

7. Assignment of Work Product. Pace agrees to promptly disclose to NSAP, and hereby assigns to NSAP, free from any obligation to Pace, all right, title and interest in and to any and all ideas, concepts, processes, improvements, and inventions made, conceived or disclosed or developed by Pace during the term of this Agreement which relate to the business of NSAP or resulting from or suggested by any work Pace may do for NSAP. Pace shall

have the right to retain the copyright to any books, articles or publications unrelated to NSAP's business of multi-level marketing generally.

4

8. Term of Agreement

- a. This Agreement will be effective as of September 22, 1997, and continue in full force and effect until August 31, 2000 (with annual renewals thereafter prior to the expiration of the previous term of the Agreement) or until terminated as set forth in section 8b below.
- b. NSAP may terminate this Agreement for any reason at any time by giving Pace 60 days advance notice. The Agreement may be terminated without notice by NSAP "for cause" if Pace (1) breaches his duties as set forth in this Agreement, or (2) has been negligent or dishonest in the discharge of his duties, or (3) has become incapable of carrying out his duties for any reason, or (4) is subject to any event or activity outside the scope of his employment, which event or activity is not in keeping with the image and values of NSAP. The decision as to whether to terminate Pace for cause will be made in the sole discretion of the NSAP Board of Directors.
- c. In the event NSAP terminates this Agreement for cause, it will be liable only for compensating Pace through the date of his termination, unless termination for cause is the result of an accident or illness that has rendered Pace incapable of carrying out his duties (i.e., Pace will not be eligible to receive any contractual severance benefits nor the payments that might otherwise be payable to him hereunder during the one-year non-competition period). In the event NSAP terminates this Agreement without cause, NSAP will be liable only for compensating Pace for remuneration specified in Section 3a and 3b above, with additional monthly payments equal to the value of the IAPE benefits received by Pace (the "Additional Severance Payment") for a period of six months following the date of termination, provided that NSAP may elect to continue to pay Pace the sums due under Sections 3a and 3b above along with the Additional Severance Payment to enforce the one-year non-competition provision set forth in Section 6 above. The Additional Severance Payment is intended to replace the IAPE and other employee benefits generally. Therefore, Pace shall not be entitled to any of the IAPE or other employee benefits after termination.
- d. This Agreement shall be automatically terminated in the event Pace accepts employment with a Nu Skin affiliate other than NSAP. The terms of employment with the Nu Skin affiliate shall be negotiated and confirmed in a replacement Service Agreement.

9. Tax Returns - Filing annual income tax returns with the relevant tax authorities, and with any other authorities to which Pace may be subject, shall be handled in the manner set forth in NSAP's IAPE, as clarified in the attached Exhibit B.

5

10. Entire Agreement - This Agreement contains the entire agreement between the parties relating to the subject matter hereof. No modification, alteration or amendment of this Agreement and no waiver of any provision hereof may be made unless such modification, alteration, amendment, or waiver is set forth in writing signed by the parties hereto.
11. Governing Law - This Agreement will be construed in accordance with and governed by the laws of Utah. Any action brought hereunder shall be brought in an appropriate state or federal court located within the State of Utah, to which both parties hereto consent to jurisdiction.
12. Prevailing Language - This Agreement may be executed in counterparts, in the English language, each of which will be deemed an original but which, taken together, will constitute one and the same instrument.

[This space intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto and/or their duly authorized representatives have executed this Agreement as of the date first above written.

Nu Skin Asia Pacific, Inc.

Grant F. Pace

By /s/  
Name:  
Title:

(Signature)



EXHIBIT A

DUTIES AND RESPONSIBILITIES AS VICE PRESIDENT, SOUTHEAST ASIA AND GREATER CHINA:

1. Report to and assist the NSAP Chief Operating Officer and other appropriate personnel in developing the strategic and operational plans for Taiwan, Hong Kong, Thailand, the Philippines, the People's Republic of China, Indonesia, Malaysia, Singapore and Vietnam which, with other country plans, forms the basis of the NSAP operational strategy.
2. Develop and implement the operating and capital budget necessary to support the NSAP strategic plan in the region.
3. Oversee and support local GMs in their efforts to train, motivate, support, encourage and monitor the activities of all distributors working within the local markets. Focus on developing relationships with distributor leaders operating in the local country to engender confidence in the company's commitment to their success. Plan distributor activities and training including event time-line calendars, list of participants, activities, courtesy calls, open-houses, press conferences, etc.
4. Proactively manage the development and introduction of appropriate products, sales aids, and distributor incentive programs for local distributors.
5. Direct the design and implementation of quality assurance and performance measurement standards for the region.
6. Design and implement methods and strategies for improving market share and profitability.
7. Ensure that the strategic plan is implemented in the region in an efficient and effective manner which will maximize a return on investment.
8. Ensure that all aspects of local operations comply with appropriate government regulations and all aspects of licensing, wholesale distribution and other intercompany agreements.
9. Conduct quality assurance and personal performance appraisals as needed.
10. Meet with government and senior business or DSA officials and with the press as needed with a view to maintaining healthy and favorable relationships with regulators, the business community and the press.
11. Keep COO informed at all time of trends.
12. Oversee the hiring, training and performance of all GMs in the region.

13. Follow established Nu Skin and regional policies and procedures in ensuring that an efficient, profitable and service-oriented company is being operated.
14. Assist the General Managers and Regional Controller in the development of operating budgets for the region annually.
15. Ensure that each country within the Greater China Region is following corporate policies and procedures. Where unclear, work with NSAP to develop necessary policies and procedures.
16. Approve all non-capital and non-asset/liability expenditures for each country within the region that exceed the approved budget by less than 10%. For those expenses exceeding 10% of the approved amount, seek COO or CFO approval.
17. For corporate and regional cash flow concerns, approve all capital and asset/liability expenditures, which may or may not have been previously budgeted within the region up to US\$20,000, insuring that all corporate assets are properly managed and proper turnover and profitability ratios are maintained.
18. Ensure that the local operations are properly complying with all relevant government regulations.
19. Report status, in a timely manner, of all relevant matters for each country entity, the regional office and any trends, concerns, changes in regulations or operations which might affect Nu Skin operations, competitors, or significant others within the region to NSAP headquarters.
20. Conduct personal performance appraisals on at least an annual basis with all general managers in the region and relevant regional staff in connection with NSAP corporate.

EXHIBIT B

ADDENDUM TO SERVICE AGREEMENT WITH GRANT F. PACE

Modifications to the Nu Skin "International Assignment  
Policy for Expatriates (IAPE)"

By mutual agreement, the following take precedent over the provisions in the IAPE and will govern in tone as well as in enumerated specifics. [Numbered section headings are from relevant IAPE sections. References in brackets refer to changes, modifications, or enhancements of IAPE policies.]

I. INTRODUCTION

Long Term Assignment: The full IAPE (as modified herein) will be available for the duration of your time abroad. (We recognize that your appointment overseas is open ended and is expected to be of an extended duration, possibly beyond 5 years, and that this differs from IAPE Introduction, page 2.)

5. SHIPMENT AND STORAGE OF HOUSEHOLD GOODS

Storage of Household Goods: Nu Skin will continue storage of your household goods for so long as you remain overseas. Should you choose to remove these from storage, Nu Skin will reimburse you the cost of their removal and transportation to Salt Lake/Provo, or arrange for their shipment to Salt Lake/Provo at Nu Skin expense. (Nu Skin understands and accepts that some of the items stored and shipped may be among those listed on IAPE page 6 but will not include a car.)

Shipment of Goods: Nu Skin agrees to ship, at a time convenient to you, one container to the Philippines for which Nu Skin will cover the cost of shipping, handling, and insurance charges. You will use your best efforts to arrange for duty free importation of these goods. (Nu Skin understands and accepts that some of the items shipped may be among those listed on IAPE page 6 but that in no event will it include a car.) This benefit will not foreclose the possibility of a later shipment as provided on IAPE page 9 to address needs arising out of an extended stay abroad or relocation to another place of assignment (e.g. Latin America).

9. HOME COUNTRY HOUSING

Home Management Program: Nu Skin will pay the usual fees of a home management service (PPH) for rental and other management of your home in Boston, with a stop loss provision in the event the home remains unrented for more than 2 months. Please arrange to have PPH invoices sent directly to Nu Skin for payment. As a result of direct payment by Nu Skin, there will be no Property Management Fee reimbursement to your paycheck. (This differs from some items on IAPE pages 12, 13, 16.)

Home Sale Assistance: In addition to the Home Management Program, you may elect at any time for Nu Skin assistance in selling your home through reimbursement of customary seller's closing costs, excluding Realtor's fees. [This differs from IAPE page 13.] Nu Skin

will pay no repurchase expenses should you wish to buy a replacement home. However, consistent with IAPE policy, we encourage you to retain a home in the U.S. and will apply the Home Management Program to a replacement home.

10. PHYSICAL EXAMINATIONS/MEDICAL EXPENSES

Annual Physical Examinations: In view of the extended nature of your stay abroad, Nu Skin will reimburse reasonable expenses (beyond medical insurance coverage) for you and each member of your family to have complete physical and dental examinations annually, during your annual home leave if feasible. [This is consistent with, but a modification of IAPE page 13.]

12. INTERNATIONAL SALARY

International Salary (U.S. plus Asian Salary): The agreed Asian salary (international service premium) will be included with your U.S. base salary for the purpose of determining pension, life insurance or other employee benefits. (Page 2, 14, 15.) The international service premium will be discontinued upon your repatriation to the U.S., but will instead be replaced through a renegotiated base U.S. salary together with other matters related to your compensation. [This differs from IAPE pages 15 & 24.]

13. GOODS AND SERVICES (G&S) DIFFERENTIAL

Goods and Services Differential: This will be such percentage as determined by ORC, but will be paid on 100% of your International Salary (U.S. plus Asian salary). [This differs from IAPE page 16.]

Method of Pay: You will be paid out of Hong Kong, in U.S. dollars (or its equivalent in any other currency you may direct) to Citibank or such other bank as you may direct. [This is an enlargement of IAPE page 17.]

14. HOUSING DIFFERENTIAL

Housing: Nu Skin will pay directly all rental and related fees (home owner association dues, etc.) At #3 Dapdap Street, Makati, Philippines, including utilities and air conditioning maintenance, (and other repairs or maintenance not covered by the landlord in the Lease Agreement.) Utilities include charges/expenses for electricity, gas, telephone (except non-business related long distance calls), water and sewage, garbage removal, water treatment, yard maintenance, and pest control (as necessary). [Nu Skin acknowledges that this differs from and is an enlargement upon IAPE pages 18-22, and that the rental paid is beyond the policies of Runzheimer.] We understand that in the Philippines rent is generally paid two years in advance, and that Nu Skin will be expected to reimburse Sara Lee Philippines Inc. for the remaining period of your home lease. A hypothetical housing deduction will be calculated by Runzheimer and withheld from your base pay.

Home Appliances: We understand that many appliances in the home at #3 Dapdap were purchased for you by Sara Lee (or previously Avon). Nu Skin agrees to purchase these from Sara Lee at a fair value recognizing the years of use, or to replace them. Please provide a schedule of these items recommending purchase from Sara Lee or elsewhere.

15. INCOME TAX POLICIES

Tax Equalization: A hypothetical tax will be calculated as provided on IAPE page 23, except that Nu Skin will assess you no state tax (zero) and withhold no state tax. Assumptions used in the calculation of the hypothetical tax will be shared with you and will include 7 dependents, and at your request the payment of a full 10% tithing and 2% fast offering as charitable contributions to the LDS church. Actual tax liability will be paid by Nu Skin as calculated by an outside accounting firm acceptable to Nu Skin and me, which will prepare and file foreign and Federal U.S. returns at Nu Skin expense. Nu Skin will also protect you from incremental taxes on any non-U.S. NSAP income or benefits that results from expatriation.

Medicare and FICA: These will be withheld during the expatriate assignment, except that Nu Skin will consider legal alternative structures which would permit both Nu Skin and you to avoid this withholding.

16. INCENTIVE PREMIUMS AND ALLOWANCES

Mobility Premium: Because you are already resident in the Philippines, no mobility premium will be paid, however, a premium will be paid in the event you are relocated to another assignment.

Hardship Allowance: This is to clarify that the hardship allowance calculated by Runzheimer will be paid on the full international salary (U.S. plus Asian) and will be net of taxes.

17. TRAVEL EXPENSES

Travel Expenses: Travel for all trips will be at business class fare, except for the Christmas trip home of college students which will be economy class fare. [This is a modification from the economy class fare referred to on Pages 4 & 25 of the IAPE.] Business travel for Nu Skin in Asia is also at business class fare and is pre-approved with your employment. Travel outside the region should be cleared with the Chief of International Operations in Provo.

19. RELOCATION ALLOWANCE

Relocation Allowance: The relocation allowance specified in this section, IAPE page 26 will not be paid since you are already settled in your home. However, Nu Skin will cover any ancillary expenses arising out of your settlement with Sara Lee as adjustments are made in appliances, furnishings, etc.

20. EDUCATION ASSISTANCE

Dependent Education: Nu Skin will pay for the elementary and secondary education of your children at the International School Manila, and will reimburse tuition, lab fees, textbooks, uniforms, supplies, and other miscellaneous educational related items. Nu Skin will also pay directly or reimburse all school related transportation expenses.

College Student Christmas Trip: Dependent children attending school outside the host country will be entitled to travel home for Christmas at Nu Skin expense at economy class fare.

Should the family gather elsewhere for Christmas, the equivalent amount in airfare may be applied to travel expenses elsewhere. [This is a modification of the IAPE page 28.]

21. PROVISION OF AN AUTOMOBILE

Automobile: Nu Skin will lease (or purchase if lease is not available) an automobile for my position (e.g. Mercedes, BMW, Toyota Crown, etc.) for business related purposes. The replacement period for the car will be 3 years, although you may opt to defer replacement for an additional year. Nu Skin will also pay directly for insurance, gasoline, oil and all maintenance. Accordingly, the concept of "transportation allowance" will not be applied. [This is a modification of IAPE pages 28, 29.]

Driver: Instead of a "Driver Allowance" (which will not be paid to you), a driver of your choosing will be employed by Nu Skin in the Philippines and assigned to you as your personal driver.

22. CLUB MEMBERSHIPS

Club Memberships: In recognition of your position as a senior executive of Nu Skin, Nu Skin will pay the entrance fees and monthly subscriptions/dues to one club of your choosing. As an alternative, you may elect to submit for direct payment all reasonable fees, dues, usage charges, and purchases at any club or clubs to which you belong in the Philippines, not to exceed an annual average of \$1500 per month (adjusted annually for local inflation). Business use of any such clubs should of course be charged to the correct Nu Skin budget.

25. HOME LEAVE AND VACATION

Home Leave: Home leave will be provided annually for all family members, the first of which you will be entitled to beginning in June 1998. Home leave travel will be at business class airfare round trip from Manila to Boston, which fare may if you choose, be used for travel related expenses elsewhere and at other times. (This is a modification of IAPE pages 30-33.)

Vacation: By virtue of your seniority and position, you are formally entitled to 20 working days vacation (inclusive of home leave), plus travel time. Nu Skin understands, however, that the demands and pressures of your assignment may necessitate other "time off" from time to time. This should be handled informally with the Chief of International Operations.

34. RETURN SHIPMENT OF GOODS

Return Shipment of Goods: Upon conclusion of your assignment abroad for whatever reason, (whether voluntary or involuntary), Nu Skin will ship all of your household goods and personal belongings back to the U.S., or other location of your choosing. The only exception to this benefit is if you should voluntarily leave Nu Skin to work with another company, in which case you should expect that your new employer would relocate your household goods to the U.S. Since you are now already resident in the Philippines, the weight and space limitations of the IAPE will not apply.



EXHIBIT D

PRE-EXISTING RELATIONSHIPS AND IDEAS

The following are pre-existing ideas, concepts, and relationships that belong to Grant F. Pace:

1. All products or concepts or sales opportunities arising out of the laboratories of independent contractors of Cooke Pharma Inc. or any affiliates or related companies.
2. All products or concepts in conjunction with or related to the Solex product of Bayer A.G. laboratories wherever located, or any related insect termination products.
3. All relationships or products opportunities arising from or in relationship with Cutco International, or Vector Marketing, as long as no such products or opportunities compete directly with Nu Skin in Nu Skin's product categories or in multi-level marketing generally.

Nothing herein shall relieve Pace of his fiduciary duties of loyalty as an officer of Nu Skin Asia Pacific.



NU SKIN ENTERPRISES, INC.  
 SECOND AMENDED AND RESTATED 1996 STOCK INCENTIVE PLAN  
 NONQUALIFIED STOCK OPTION AGREEMENT

This Nonqualified Stock Option Agreement (the "Agreement") is made effective as of September \_\_, 1999 (the "Effective Date"), to \_\_\_\_\_ (the "Optionee") under the Nu Skin Enterprises, Inc. Second Amended and Restated 1996 Stock Incentive Plan (the "Plan") by Nu Skin Enterprises, Inc., a Delaware corporation ("Nu Skin Enterprises"), under authority of the Plan Committee (the "Committee"). Capitalized terms used herein without definition and defined in the Plan have the same meanings as provided in the Plan. For purposes of this Agreement, the term "Company" shall refer collectively to Nu Skin Enterprises and all of its Subsidiaries. The term "Key Employee Covenants" shall mean the Key Employee Covenants executed by the Optionee as they may be amended or replaced from time to time.

1. GRANT. Pursuant to Section 7 of the Plan, the Committee has granted to Optionee \_\_\_\_\_ (\_\_\_\_\_) options (the "Options") as of the Effective Date as an incentive to work to increase the value of the Company for its stockholders. Each Option shall entitle the Optionee to purchase, on the terms and conditions of this Agreement and the Plan, one fully paid and non-assessable share of Class A Common Stock, par value \$ .001 per share (the "Class A Common Stock"), of Nu Skin Enterprises at the option price of \$\_\_\_\_ per share. The Options are subject to all the terms and conditions of the Plan and this Agreement.

2. NATURE OF OPTION. The Options are intended to constitute Non-qualified Stock Options and the provisions of the Options shall be interpreted consistent therewith.

3. TERMS AND EXERCISE PERIOD.

(a) Options awarded under this Agreement may not be exercised at any time until such Options are vested as provided in Section 4 of this Agreement.

(b) Except as otherwise provided in Section 5 and Section 6 of this Agreement, the Options granted hereunder shall terminate on the earlier of (i) the tenth anniversary of the date of this Agreement, or (ii) the date such Options are fully exercised.

4. VESTING. Options granted hereunder shall vest according to the following schedule:

ANNUAL ANNIVERSARY OF EFFECTIVE DATE -----	VESTED PERCENTAGE -----
1	25%
2	50%
3	75%
4	100%

5. TERMINATION OF SERVICE.

(a) In the event the employment of the Optionee is terminated for any reason, all Options that are not vested at the time of termination of employment shall be terminated and forfeited immediately upon termination of employment.

(b) Subject to Section 6 below, in the event the employment of the Optionee is terminated for any reason other than the death or disability of the Optionee, then any Options granted hereunder that are vested but unexercised at the time of termination of employment shall terminate immediately upon the earliest to occur of the following: (i) the full exercise of the Options, (ii) the expiration of the Options by their terms, or (iii) ninety days following the date of termination of such employment of the Optionee.

(c) Subject to Section 6 below, in the event the of the Optionee is terminated as a result of death or disability prior to the termination of the Options, then any Options granted hereunder that are vested but unexercised at the time of death or disability shall terminate immediately upon the earliest to occur of the following: (i) the full exercise of the Options, (ii) the expiration of the Options by their terms, or (iii) one year following the date of death or disability of Optionee. The Options may be exercised, to the extent vested and unexercised at the time of death or disability, as the case may be, by the Optionee, the estate of the Optionee, or the person or persons to whom the Options may have been transferred by will or by the laws of descent and distribution for the period set forth in this Section 5(c).

6. FORFEITURE. If at anytime during the term of these Options a Forfeiture Event (as defined below) shall occur or be discovered, then all outstanding Options shall immediately terminate in full. If at anytime during the Optionee's employment or at any time following Optionee's termination of employment until the later of (i) the twelve-month anniversary of the date Optionee's employment is terminated for any reason, or (ii) the six-month anniversary of the date Optionee exercises Optionee's last remaining Options, a Forfeiture Event occurs, then the Optionee shall pay to the Company an amount equal to the "Option Gain" on any Options exercised during the 12 month period preceding such Forfeiture

Event and any Options exercised following such Forfeiture Event. For purposes hereof, "Option Gain" shall mean the Fair Market Value of a share of the Class A Common Stock on the date of exercise over the Option Price, multiplied by the number of shares purchased upon exercise of the Options. "Forfeiture Event" means the following: (i) conduct related to the Optionee's employment for which either criminal or civil penalties may be sought, (ii) the commission of an act of fraud or intentional misrepresentation, (iii) embezzlement or misappropriation or conversion of assets or opportunities of the Company, (iv) any breach of the non-competition or non-solicitation provisions of the Key Employee Covenants, (v) disclosing or misusing any confidential or proprietary information of the Company in violation of the Key Employee Covenants, or any other non-disclosure agreement with the Company or other duty of confidentiality or the Company's insider trading policy, (vi) any other material breach of the Key Employee Covenants, or (vii) any other actions of Optionee that the Committee determines in good faith are harmful to the interests of the Company. The Committee, in its sole discretion, may waive at any time in writing this forfeiture provision and release the Optionee from liability hereunder. In addition, the Committee may, in its sole discretion, elect to purchase any shares acquired upon exercise of the Option for the exercise price paid by the Optionee, in lieu of enforcing payment of the Option Gain with respect to any shares which have not been sold or otherwise transferred by the Optionee.

7. STOCK CERTIFICATES. Within a reasonable time after the exercise of an Option, and the satisfaction of the Optionee's obligations hereunder, the Company shall cause to be delivered to the person entitled thereto a certificate for the shares purchased pursuant to the exercise of such Option.

8. TRANSFERABILITY OF OPTIONS. This Agreement and the Options granted hereunder shall not be transferable otherwise than by will or by the laws of descent and distribution, and shall be exercised, during the lifetime of the Optionee, only by the Optionee.

9. EXERCISE OF OPTIONS. Options shall become exercisable at such time, as may be provided herein and shall be exercisable by written notice of such exercise, in the form prescribed by the Committee, to the person designated by the Committee at the corporate offices of Nu Skin Enterprises. The notice shall specify the number of Options that are being exercised. The Option Price

shall be payable on the exercise of the Options and shall be paid in cash, in shares of Class A Common Stock, including shares of Class A Common Stock acquired pursuant to the Plan, part in cash and part in shares, or such other manner as may be approved by the Committee consistent with the terms of the Plan as it may be amended from time to time. Shares of Class A Common Stock transferred in payment of the Option Price shall be valued as of the date of transfer based on the Fair Market Value of the Company's Class A Common Stock which for purposes hereof, shall be considered to be the average closing price of the Company's Class A Common Stock as reported on the New York Stock Exchange for the ten (10) trading days just prior to the date of exercise. Only shares of the Company's Class A Common Stock which have been held for at least six (6) months may be used to exercise the Option.

10. NO RIGHTS AS SHAREHOLDER. This Agreement shall not entitle the Optionee to any rights as a stockholder of the Company until the date of the issuance of a stock certificate to the Optionee for shares pursuant to the exercise of Options covered hereby.

11. GOVERNING PLAN DOCUMENT. This Agreement incorporates by reference all of the terms and conditions of the Plan as presently existing and as hereafter amended. The Optionee expressly acknowledges and agrees that the terms and provisions of this Agreement are subject in all respects to the provisions of the Plan. The Optionee also hereby expressly acknowledges, agrees and represents as follows:

(a) Acknowledges receipt of a copy of the Plan and represents that the Optionee is familiar with the provisions of the Plan, and that the Optionee enters into this Agreement subject to all of the provisions of the Plan.

(b) Recognizes that the Committee has been granted complete authority to administer the Plan in its sole discretion, and agrees to accept all decisions related to the Plan and all interpretations of the Plan made by the Committee as final and conclusive upon the Optionee and upon all persons at any time claiming any interest through the Optionee in any Option granted hereunder.

(c) Acknowledges and understands that the establishment of the Plan and the existence of this Agreement are not sufficient, in and of themselves, to exempt the Optionee from the requirements of Section 16(b) of the Exchange Act and any rules or regulations promulgated thereunder, and that the Optionee (to the extent Section 16(b) applies to Optionee) shall not be exempt from such requirements pursuant to Rule 16b-3 unless and until the Optionee shall comply with all applicable requirements of Rule 16b-3, including without limitation, the possible requirement that the Optionee must not sell or otherwise dispose of any share of Class A Common Stock acquired upon exercise of an Option unless and until a period of at least six months shall have elapsed between the date upon which such Option was granted to the Optionee and the date upon which the Optionee desires to sell or otherwise dispose of any share of Class A Common Stock acquired upon exercise of such Option.

(d) Acknowledges and understands that the Optionee's use of Class A Common Stock owned by the Optionee to pay the Option Price of an Option could have substantial adverse tax consequences to the Optionee, and that the Company recommends that the Optionee consult with a knowledgeable tax advisor before paying the Option Price of any Option with Class A Common Stock.

(e) Represents that Optionee has received and carefully read a copy of the Prospectus (as defined below) together with the Company's most recent Annual Report to Stockholders. Optionee hereby acknowledges that he or she is aware of the risks associated with the Options and that there can be no assurance the price of the Class A Common Stock will not decrease in the future or that the Options will ever have any value. Optionee hereby acknowledges no representations or statements have been made to Optionee concerning the value or potential value of the Class A Common Stock. Optionee acknowledges that Optionee has relied only on information contained in the Prospectus and that Optionee has received no representations, written or oral, from the Company or its employees, attorneys

or agents, other than those contained in the Prospectus or this Agreement. The Prospectus means those materials bearing a legend that such materials constitute a prospectus under the Securities Act of 1933, and the documents incorporated by reference therein. Optionee acknowledges that the Company has made no representations concerning the tax and other effects of this Option and the exercise thereof, and Optionee represents that Optionee has consulted with Optionee's own tax and other advisors concerning the tax and other effects of the Option and the exercise thereof.

12. REPRESENTATIONS AND WARRANTIES. As a condition to the exercise of any Option granted pursuant to the Plan, the Company may require the person exercising such Option to make any representations and warranties to the Company that legal counsel to the Company may determine to be required or advisable under any applicable law or regulation, including without limitation, representations and warranties that the shares of Class A Common Stock being acquired through the exercise of such Option are being acquired only for investment and without any present intention or view to sell or distribute any such shares.

13. NO EMPLOYMENT OR SERVICE CONTRACT. Nothing in this Agreement or in the Plan shall confer upon Optionee any right to continue in the employment or service of the Company for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company, which rights are hereby expressly reserved, to terminate Optionee's employment or service at any time for any reason, with or without cause except as may otherwise be provided pursuant to a separate written employment agreement.

14. WITHHOLDING OF TAXES. The Optionee authorizes the Company to withhold, in accordance with applicable laws and regulations, from any compensation or other payment payable to the Optionee, all federal, state and other taxes attributable to taxable income realized by the Optionee as a result of the grant or exercise of any Options. As a condition to the exercise of any Option, Optionee shall remit to the Company the amount of cash necessary to pay any withholding taxes associated therewith or make other arrangements acceptable to the Company, in the Company's sole discretion, for the payment of any withholding taxes.

15. EFFECTIVE DATE OF GRANT. Each Option granted pursuant to this Agreement shall be effective as of the date first written above.

16. COMPLIANCE WITH LAW AND REGULATIONS. The obligations of the Company hereunder are subject to all applicable federal and state laws and to the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Class A Common Stock is then listed and any other government or regulatory agency.

17. SECTION REFERENCES. The references to Plan sections shall be to the sections as in existence on the date hereof unless an amendment to the Plan specifically provides otherwise.

18. QUESTIONS. All questions regarding this Agreement shall be addressed to M. Truman Hunt.

IN WITNESS WHEREOF, these parties hereby execute this Agreement to be effective as of the Effective Date.

NU SKIN ENTERPRISES, INC., a Delaware corporation

By: \_\_\_\_\_  
Its: Steven J. Lund, President and CEO

\_\_\_\_\_  
Optionee

\_\_\_\_\_  
Optionee's Address

## CONSULTING AGREEMENT

This Agreement is made as of January 1, 1999 by and between Nu Skin International, Inc., a Utah corporation ("Company"), having its principal place of business at 75 West Center Street, Provo, Utah 84601 and Max L. Pinegar ("Consultant"), having an address at 1675 North 200 West, Orem, Utah 84057. Company and Consultant are sometimes hereinafter referred to as "Party" or "Parties."

### RECITALS

- A. Company is engaged in the business or marketing and selling nutritional and personal care products; and
- B. Consultant is in the business of corporate consulting.
- C. Consultant and Company desire to enter into this Agreement subject to the terms and conditions contained herein.

### AGREEMENT

Now therefore, in consideration of the mutual promises and covenants herein contained, the Parties hereto agree as follows:

#### 1 TERM

- 1.1 This Agreement will commence on January 1, 1999 and will remain in effect until either Party terminates this Agreement by giving the other Party thirty (30) days prior written notice.

#### 2 CONSULTING SERVICES

- 2.1 Company hereby retains Consultant and Consultant hereby agrees to consult with Company regarding general corporate matters.
- 2.2 Consultant shall report to a member of senior management ("Company Representative") designated by the President of the Company.
- 2.3 Consultant shall use those efforts which a skilled, competent, experienced and prudent professional would use to perform and complete the requirements of this Agreement in a timely manner conforming to the standard and quality generally accepted within the profession throughout his industry. In addition, Consultant will supply and use all his own tools, materials and supplies, as well as hire, train, and pay any necessary assistants to complete the Project.
- 2.4 The Company and the Consultant agree that the Consultant will provide 15 days of service per calendar quarter (an average of 5 days per month), the types of services to be performed will be agreed upon between the Company and Consultant.
- 2.5 The Company and the Consultant agree to meet at the beginning of each quarter to review the services rendered during the previous quarter and to identify services to be rendered during the following quarter.

#### 3 MANNER OF PAYMENT

- 3.1 Consultant will be paid an annual retainer of Twenty Four Thousand and No/100 Dollars (\$24,000.00), due and payable by January 31 of each year so long as this Agreement shall remain in effect. Consultant shall submit an invoice for such retainer no later than January 10 of each year.

1

- 3.2 In addition, Consultant will be paid the sum of Three Thousand and No/100 Dollars (\$3,000.00) per month for his efforts pursuant to this Agreement. Payment shall be made within thirty (30) days of receipt of Consultant's invoice.

#### 4 INDEPENDENT CONTRACTOR

- 4.1 Both Company and Consultant agree that Consultant is an independent contractor. Accordingly, Consultant shall be responsible for payment of all his own taxes including federal, state and local taxes arising out of his activities in accordance with this Agreement, including federal and state income tax, social security tax, unemployment insurance taxes, and any other taxes or business license fees as may be required.

#### 5 NONDISCLOSURE

- 5.1 Consultant agrees that, except as directed by the Company, Consultant will not at any time, during or after the term of this Agreement, use or disclose any "Confidential Information" or any other information designated as confidential or proprietary by the Company to any person whatsoever, or, except as authorized in writing by the Company, permit any person whatsoever to examine or make copies of any reports or any documents prepared by or that come into Consultant's possession or control by reason of services hereunder or otherwise. Confidential information shall include any formula(e), revisions of formula(e), processes and methods as well as business plans, financial data,

product development plans, marketing plans and strategies, distributor lists, manufacturing techniques and methods, research data and similar information of Company's that are valuable, special unique and proprietary assets of Company.

5.2 The obligations set forth 5.1 of this Agreement shall not apply to any information that Consultant (i) already possess without obligation of confidentiality; (ii) develops independently, or (iii) rightfully receives without obligation of confidentiality from a third Party. No obligation of confidentiality applies to any Confidential Information that is, or becomes, publicly available without breach of this Agreement.

5.3 Consultant hereby acknowledges that unauthorized disclosure or use of Confidential Information will cause substantial and irreparable injury to Company, that money damages will not adequately compensate for such injury and that Company, therefore, is entitled to immediate injunctive and other equitable relief for breach of obligations of confidentiality as set forth in this Agreement.

5.4 Consultant will, upon termination or expiration of this Agreement, return to the Company all Confidential Information or information or data related directly or indirectly thereto, including any copies or reproductions thereof, in Consultant's possession or control.

## 6 CONFLICT OF INTEREST

6.1 Consultant hereby discloses all activities or interests that suggest a potential conflict with the best interest of Company. Exhibit A, attached hereto and incorporated herein by this reference, is a list of Consultant's interests which might conflict with or appear to conflict with his responsibilities to Company.

## 7 WORKPRODUCT

7.1 The Company will own the rights to all workproduct, processes, studies, flow charts, diagrams, devices, programs, inventions, original works of authorship, and other tangible

or intangible material developed by Consultant as a result of services hereunder during the term hereof. Any workproduct generated by Consultant will be deemed a work made for hire. If any of such workproduct will be deemed other than a work made for hire, Consultant hereby agrees to execute and deliver such documents and instruments as Company may deem necessary or appropriate to transfer to the Company any right, title, or interest, including copyrights, Consultants has in any such work.

8 GENERAL

8.1 Company may assign this Agreement without limitation, however Consultant may not assign this Agreement without Company's prior written consent. The failure of either Party to insist upon the performance of any term or condition of this Agreement or to exercise any right hereunder on one or more occasions shall not constitute a waiver or relinquishment of its right to demand future performance of such term or condition, or to exercise such right in the future. If any term of this Agreement is held by a court of competent jurisdiction to be invalid or unenforceable, then this Agreement, including all of the remaining terms, will remain in full force and effect as if such invalid or unenforceable term had never been included. All notices and other communications required or permitted to be given under this Agreement shall be transmitted in writing to the address first listed by Certified United States Mail, postage prepaid, return receipt requested, by guaranteed overnight delivery, by electronic mail, or by facsimile. The laws of the State of Utah shall govern this Agreement. This Agreement embodies the entire agreement between the Parties. No changes, modifications or amendments to any terms and conditions in this Agreement are valid or binding unless agreed to by the Parties in writing by their authorized representatives.

In witness whereof, the Parties to this Agreement have caused it to be executed on the date first above written.

This agreement is executed as of the date above written.

NU SKIN INTERNATIONAL, INC.

/s/ M. Truman Hunt  
By: M. Truman Hunt  
Its: Vice President

CONSULTANT

/s/ Max L. Pinegar  
Max L. Pinegar



EXHIBIT A - POSSIBLE CONFLICTS OF INTEREST

The Consultant has served in the past as a member of the Board of Directors and will now serve as an outside member of the Board of Directors.

If any additional "Conflict of Interest" develops the Consultant shall immediately report such conflict to the Company.

ASSIGNMENT OF LEASEHOLD IMPROVEMENTS

This Assignment of Leasehold Improvements (the "ASSIGNMENT") is made and entered into effective as of July 13, 1999, by and between Maple Hills Investment, Inc., a Delaware corporation formerly known as Nu Skin USA, Inc. ("NU SKIN USA"), and Big Planet, Inc., a Utah corporation ("BIG PLANET"). Nu Skin USA and Big Planet are sometimes referred to herein collectively as the "PARTIES" and individually as a "PARTY." All capitalized terms used but not otherwise defined herein shall be deemed to have the meanings ascribed to them in the Asset Purchase Agreement (as that term is defined in Recital A below).

RECITALS

A. WHEREAS, Nu Skin Enterprises, Inc., a Delaware corporation ("NU SKIN ENTERPRISES"), Nu Skin USA, and Nu Skin United States, Inc., a Delaware corporation, entered into an Asset Purchase Agreement dated effective as of March 8, 1999 (the "ASSET PURCHASE AGREEMENT");

B. WHEREAS, pursuant to the Asset Purchase Agreement, Nu Skin Enterprises purchased the Non-Securities Acquired Assets and the Class A Shares (which assets are collectively defined in the Asset Purchase Agreement as the "Acquired Assets"), but did not purchase the Excluded Assets (as that term is defined in the Asset Purchase Agreement and as the same are listed on Exhibit "A" attached to the Asset Purchase Agreement);

C. WHEREAS, included among the Excluded Assets are certain leasehold improvements relating to Big Planet's operations center located at 366 East 1130 South (the "LEASEHOLD IMPROVEMENTS"), which Leasehold Improvements were funded by Nu Skin USA for the benefit of Big Planet;

D. WHEREAS, pursuant to an Agreement and Plan of Merger and Reorganization entered into as of May 3, 1999 between and among Nu Skin Enterprises, Big Planet Holdings, Inc., a Delaware corporation and wholly-owned subsidiary of Nu Skin Enterprises, Big Planet, Nu Skin USA, Richard W. King, an individual, Kevin V. Doman, an individual, and Nathan W. Ricks, an individual, as amended by First Amendment to Agreement and Plan of Merger and Reorganization dated as of July 9, 1999, it is contemplated that Big Planet will be merged with and into Big Planet Holdings, Inc. and become a wholly-owned subsidiary of Nu Skin Enterprises to be operated under the name "Big Planet, Inc.;" and

E. WHEREAS, Nu Skin USA now desires to sell the Leaseholder Improvements to Big Planet on the terms and conditions and for the consideration set forth in this Assignment.

NOW, THEREFORE, in consideration of the premises and the mutual promises herein made, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows.

1. CONTRIBUTION OF LEASEHOLD IMPROVEMENTS. Nu Skin USA hereby sells to Big Planet all of its right, title, and interest in, to, and under the Leasehold Improvements in exchange for the Purchase Price (as that term is defined in Section 2 below).

2. PURCHASE PRICE. Big Planet shall deliver to Nu Skin USA cash in the amount of Three Million Two Hundred Thousand Dollars (\$3,200,000) in exchange for, and as the total consideration for, the Leasehold Improvements (the "PURCHASE PRICE"), which Purchase Price shall be delivered either in cash or paid by wire transfer, at Big Planet's option, upon the execution of this Assignment by the parties.

3. REPRESENTATIONS AND WARRANTIES OF NU SKIN USA. Nu Skin USA hereby represents and warrants to Big Planet, as of the date of this Assignment, as follows:

3.1 Description. Attached hereto as Schedule 3.1 is a true and complete description of the Leasehold Improvements and the current net book value of the Leasehold Improvements (as shown on Nu Skin USA's most recently prepared financial statements) as of the date of this Assignment.

3.2 Title. Nu Skin USA owns the Leasehold Improvements free and clear of any liens or encumbrances, and Nu Skin USA has not assigned, transferred, conveyed, mortgaged, deeded in trust, or in any other way encumbered the Leasehold Improvements or any interest therein in any manner whatsoever.

3.3 No Disputes. There are no disputes related to the Leasehold Improvements or the ownership thereof.

4. GOVERNING LAW; JURISDICTION AND VENUE. This Assignment shall be governed by and construed in accordance with the laws of the State of Utah applicable to contracts entered into and to be performed entirely within such State, and no action involving this Assignment may be brought except in the state and federal courts residing in Salt Lake City, Salt Lake County, Utah.

5. MISCELLANEOUS. The above Recitals and all Schedules attached hereto are deemed to be incorporated herein by reference and to be made a part hereof. Each of the parties shall take all actions necessary after the execution of this Assignment to consummate the assignment of the Leasehold Improvements to Big Planet as contemplated herein.

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IN WITNESS WHEREOF, the parties have executed this Assignment of Leasehold Improvements effective as of the date first set forth above.

MAPLE HILLS INVESTMENT, INC.

By: /s/ Steven J. Lund  
Its: President

BIG PLANET, INC.

By: /s/ Richard W. King  
Its: President

ATTACHED SCHEDULE:

SCHEDULE 3.1 -- DESCRIPTION OF LEASEHOLD IMPROVEMENTS

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").

	Year Ended December 31,				
	1995	1996	1997	1998	1999(2)
	(U.S. dollars in thousands, except per share data)				
<b>Income Statement Data:</b>					
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
<b>Operating expenses:</b>					
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
<b>Weighted average common shares outstanding (000s):</b>					
Basic	78,660	79,194	83,331	84,894	87,081
Diluted	82,459	83,001	87,312	87,018	87,893

	As of December 31,				
	1995	1996	1997	1998	1999(2)
	(U.S. dollars in thousands)				
<b>Balance Sheet Data:</b>					
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

	As of December 31,				
	1995	1996	1997	1998	1999
<b>Other Operating Data (3):</b>					
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 in 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.

Region -----	Year Ended December 31,		
	1997	1998	1999
	----- (U.S. dollars in millions)		
North Asia	\$ 673.6	\$ 665.5	\$ 619.3
Southeast Asia	225.3	159.7	140.1
Other Markets	54.5	88.3	134.9
	\$ 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.

RESULTS OF OPERATIONS

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

	Year Ended December 31,		
	1997	1998	1999
	(U.S. dollars in millions)		
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	1998	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 expense 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, 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 long-term 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 long-term basis. Management currently believes existing cash balances together with future cash flows from operations will be adequate to fund cash needs relating to the implementation of the Company's strategic plans.

#### 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.

	As of December 31, 1997		As of December 31, 1998		As of December 31, 1999 (1)	
	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
Total	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.

	1998				1999			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(U.S. dollars in millions, except per share amounts)							
Revenue	\$ 227.9	\$ 209.1	\$ 217.9	\$ 258.7	\$ 233.8	\$ 211.3	\$ 220.1	\$ 229.1
Gross profit	182.2	151.5	164.9	204.9	192.8	175.3	182.5	192.0
Operating income	51.0	29.6	37.4	38.3	47.1	32.4	30.4	19.9
Net income	33.7	22.0	25.5	22.8	30.8	22.0	21.1	12.8
Net income per share:								
Basic	0.41	0.26	0.30	0.26	0.35	0.25	0.25	0.15
Diluted	0.39	0.25	0.30	0.26	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:

	1997				1998				1999			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Japan	121.4	119.1	118.1	125.6	128.2	135.9	139.5	119.3	116.8	120.8	112.4	104.1
Taiwan	27.5	27.7	28.4	31.0	32.8	33.6	34.5	32.6	32.6	32.7	32.0	31.7
Hong Kong	7.7	7.7	7.7	7.7	7.7	7.8	7.8	7.8	7.8	7.8	7.8	7.8
South Korea	863.9	889.6	894.8	1,097.0	1,585.7	1,392.6	1,327.0	1,278.9	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: (i) the Company's belief that existing cash and cash flow from operations will be adequate to fund cash needs; (ii) management's belief that the Company's divisional strategy is beginning to generate signs of growth particularly in the United States; (iii) management's belief that the divisional strategy will take more time to develop; (iv) 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; (v) the Company's plan to implement forward contracts and other hedging strategies to manage foreign currency risks; and (vi) 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:

- (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.
- (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.

Nu Skin Enterprises, Inc.  
Consolidated Balance Sheets  
(U.S. dollars in thousands, except share amounts)

	December 31,	
	----- 1998 -----	----- 1999 -----
<b>ASSETS</b>		
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
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
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 shares 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.

Nu Skin Enterprises, Inc.  
Consolidated Statements of Income  
(U.S. dollars in thousands, except per share amounts)

	Year Ended December 31,		
	1997	1998	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.

Nu Skin Enterprises, Inc.  
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.

Nu Skin Enterprises, Inc.  
Consolidated Statements of Cash Flows  
(U.S. dollars in thousands)

	Year Ended December 31,		
	1997	1998	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.

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.

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

Nu Skin Enterprises, Inc.  
Notes to Consolidated Financial Statements

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.

#### 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.

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.

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.

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.

Nu Skin Enterprises, Inc.  
Notes to Consolidated Financial Statements

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.

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. (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.

#### 8. PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following (U.S. dollars in thousands):

	December 31,	
	1998	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.

9. OTHER ASSETS

Other assets consist of the following (U.S. dollars in thousands):

	December 31,	
	----- 1998	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.

10. ACCRUED EXPENSES

Accrued expenses consist of the following (U.S. dollars in thousands):

	December 31,	
	----- 1998	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
	=====	=====

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

Nu Skin Enterprises, Inc.  
Notes to Consolidated Financial Statements

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
	=====

#### 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.

#### 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 been forfeited.

#### 1996 STOCK INCENTIVE PLAN

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

In 1996, the Company granted stock awards to certain employees for an aggregate of 109,000 shares of Class A common stock and in 1997 the Company granted additional stock awards to certain employees and directors in the amount of 55,459 shares of Class A common stock. The Company has recorded deferred compensation expense of

Nu Skin Enterprises, Inc.  
Notes to Consolidated Financial Statements

\$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	1998	1999
Basic weighted average common shares 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.

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.

Nu Skin Enterprises, Inc.  
Notes to Consolidated Financial Statements

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	1998	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%
	=====	=====	=====

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.

#### 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.

#### 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

Nu Skin Enterprises, Inc.  
Notes to Consolidated Financial Statements

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).

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):

	Year Ended December 31,		
	1997	1998	1999
Revenue			
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

	Year Ended December 31,		
	1997	1998	1999
Operating Income			
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

	December 31,	
	1998	1999
Total Assets		
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

Nu Skin Enterprises, Inc.  
Notes to Consolidated Financial Statements

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.

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.

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.

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.

EXHIBIT 21

Subsidiaries of Registrant

Nu Family Benefits Insurance Brokerage, Inc., a Utah corporation

Nu Skin Argentina, Inc., a Utah corporation with an Argentine branch

Nu Skin Asia Investment, Inc., a Delaware corporation

Nu Skin Australia, Inc., a Utah corporation

Nu Skin Belgium, NV, a Belgium corporation

Big Planet, Inc., a Delaware corporation

Nu Skin Brazil, Ltda., a Brazilian corporation

Nu Skin Canada, Inc., a Utah corporation

Cedar Meadows LLC, a Utah limited liability company

Nu Skin Chile, S.A., a Chilean corporation

Cygnus Resources, Inc., a Delaware corporation

Nu Skin Europe, Inc., a Delaware corporation

Nu Skin France, SARL, a French corporation

Nu Skin Germany, GmbH, a German corporation

Nu Skin Guatemala, S.A., a Guatemalan corporation domesticated in the State of Delaware

Nu Skin Hong Kong, Inc., a Utah corporation

Nu Skin International, Inc., a Utah corporation, also doing business as NSE Network Management Company and Pharmanex Manufacturing Company

Nu Skin International Management Group, Inc., a Utah corporation

Nu Skin Italy, Srl, an Italy corporation

Nu Skin Japan Company Limited, a Japanese corporation

NSE Korea, Ltd., a Korean corporation domesticated in the State of Delaware

Nu Skin Mexico, S.A. de C.V., a Mexico corporation domesticated in the State of Delaware

Nu Skin Netherlands, B.V., a Netherlands corporation

Nu Skin New Zealand, Inc., a Utah corporation

Pharmanex, Inc., a Delaware corporation

Pharmanex Japan, Ltd., a Japanese corporation

Nu Skin Philippines, Inc., a Delaware corporation with a Philippines branch

Nu Skin Poland Sp. z o.o., a Poland corporation

Sage Acquisition Corporation, a Delaware corporation

Nu Skin Scandinavia A.S., a Denmark corporation

Shanghai Harmony, Daily Use and Health Products Co., Ltd., a Chinese corporation

Nu Skin Spain, S.L., a Spain corporation

Nu Skin Taiwan, Inc., a Utah corporation

Nu Skin Personal Care (Thailand), Ltd., a Thailand corporation domesticated in the State of Delaware

Nu Skin U.K., Ltd., a United Kingdom corporation

Nu Skin United States, Inc., a Delaware corporation

Zhejiang Cinogen Pharmaceutical Co., Ltd., a Sino-American joint venture



CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-12073) and in the Registration Statements on Form S-8 (Nos. 333-48611, 333-68407, and 333-95033) of our report dated March 3, 2000 relating to the financial statements, which appears in the 1999 Annual Report to Stockholders of Nu Skin Enterprises, Inc., which is incorporated by reference in the Annual Report on Form 10-K of Nu Skin Enterprises, Inc. for the year ended December 31, 1999.

/s/ PricewaterhouseCoopers LLP  
PricewaterhouseCoopers LLP  
Salt Lake City, Utah  
March 22, 2000

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-12073) and in the Registration Statements on Form S-8 (Nos. 333-48611, 333-68407 and 333-95033) of our report dated April 1, 1998, which appears in the Annual Report on Form 10-K of Nu Skin Enterprises, Inc. for the year ended December 31, 1999.

/s/ Grant Thornton LLP

Provo, Utah  
March 22, 2000

REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors  
Nu Skin Acquired Entities

We have audited the accompanying combined balance sheet of Nu Skin Acquired Entities (collectively, the Entities), as of December 31, 1997, and the related combined statement of earnings, shareholders' equity (deficit), and cash flows for the year ended December 31, 1997. These financial statements are the responsibility of the Entities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nu Skin Acquired Entities, as of December 31, 1997, and the combined results of their operations and their combined cash flows for the year ended December 31, 1997, in conformity with generally accepted accounting principles.

/s/ Grant Thornton LLP

Provo, Utah  
April 1, 1998

This schedule contains summary financial information extracted from the financial statements as of and for the year ended December 31, 1999 and is qualified in its entirety by reference to such financial statements.

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	12-Mos
Dec-31-1999	Dec-31-1999
	110,162
	0
	18,160
	0
	85,751
282,885	124,657
66,709	643,215
208,324	89,419
0	0
	87
643,215	309,292
	894,249
894,249	151,681
	764,402
	0
	0
	0
	128,436
	41,742
86,694	0
	0
	0
	86,694
	1.00
	.99